

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 21, 2007

1:04 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Anna Fairclough

**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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 04/19/07 (H) Heard & Held  
 04/19/07 (H) MINUTE(RES)  
 04/20/07 (H) RES AT 1:00 PM BARNES 124  
 04/20/07 (H) Heard & Held  
 04/20/07 (H) MINUTE(RES)  
 04/21/07 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

GEORGE BERRY

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 177.

MIKE LITTLEFIELD, Business Agent  
Teamsters Local 959  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 177.

PETER CAPTAIN, SR., Vice President  
Tanana Chiefs Conference  
Fairbanks, Alaska

**POSITION STATEMENT:** Related that the Tanana Chiefs Conference supports the project labor agreement (PLA) in AGIA.

JOHN CORBETT  
Laborers Local 942  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of the PLA within HB 177.

SAMANTHA FONOTI  
Laborers Local 942  
Fairbanks, Alaska

**POSITION STATEMENT:** Stated her agreement with the testimony of Mr. Corbett regarding HB 177.

ERIC FONTENOT  
Laborers Local 942  
Fairbanks, Alaska

**POSITION STATEMENT:** During hearing of HB 177, emphasized the importance of constructing a gasline.

DIRK TAYLOR  
Laborers Local 942  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 177.

JACOB HOWDESHELL  
Laborers Local 942  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 177.

EMALY SPENCER  
Laborers Local 942  
Fairbanks, Alaska

**POSITION STATEMENT:** During hearing of HB 177, testified in support of Governor Palin's [proposal].

ROBERT PURCELL  
Laborers Local 942

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of the PLA in HB 177.

BRYAN LINT

Laborers Local 942

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of the PLA in AGIA.

JERRY WALKER

Fairbanks, Alaska

**POSITION STATEMENT:** During hearing of HB 177, expressed concerns.

JAY QUAKENBUSH, President

Fairbanks Building and Construction Trades Council

Fairbanks, Alaska

**POSITION STATEMENT:** During hearing of HB 177, testified in support of the PLA.

DANIEL FIRMIN

Laborers Local 942

Fairbanks, Alaska

**POSITION STATEMENT:** During hearing of HB 177, agreed with [the PLA amendment].

GERALD KW BROWN

Fairbanks, Alaska

**POSITION STATEMENT:** Urged passage of HB 177.

JERRY MEHLBERG

Valdez, Alaska

**POSITION STATEMENT:** During hearing of HB 177, said that he has developed a long-range concept that will better use the \$500 million incentive.

JERRY MCCUTCHEON

Anchorage, Alaska

**POSITION STATEMENT:** During hearing of HB 177, testified that there won't be a gasline.

PAUL LAIRD, General Manager

Alaska Support Industry Alliance

Anchorage, Alaska

**POSITION STATEMENT:** Testified that HB 177 may be the last and best chance to make a North Slope gas project a reality, but only if it's fixed before passage.

PAUL KENDALL

Anchorage, Alaska

**POSITION STATEMENT:** During hearing on HB 177, encouraged the committee to thoroughly discuss the critical details of the plan.

AVES THOMPSON, Executive Director

Alaska Trucking Association (ATA)

Anchorage, Alaska

**POSITION STATEMENT:** During hearing of HB 177, expressed concerns.

MAYNARD TAPP

Anchorage, Alaska

**POSITION STATEMENT:** During hearing of HB 177, testified that the [state] should do the deal now.

ERIC DOMPELING, Vice President

Alaska Support Industry Alliance

Anchorage, Alaska

**POSITION STATEMENT:** Testified that HB 177 must acknowledge the interests of not only Alaskans, but those of the project developer, the transporter and the North Slope producers and shippers.

KEVIN KNOX

Laborers Local 942, Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 177 and the PLA amendment.

TAMMIE WILSON

Fairbanks, Alaska

**POSITION STATEMENT:** Thanked the committee for including the PLA in HB 177.

JOSEPH BOYLE

Local 942

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of the PLA included in HB 177.

RON MCPHETERS, President

Laborers Local 341

Palmer, Alaska

**POSITION STATEMENT:** Urged the committee to leave the PLA language in HB 177.

MEG LUM, Apprentice  
Laborers Local 341  
Chugiak, Alaska

**POSITION STATEMENT:** Encouraged the committee to enforce the PLA in HB 177.

TIM SHARP, Business Manager  
Alaska District Council of Laborers  
Fairbanks, Alaska

**POSITION STATEMENT:** During hearing of HB 177, testified on the PLA.

LISA PEGER  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 177.

DAVE MCCLURE, Executive Director  
Bristol Bay Housing Authority;  
Chairman, Board of Southwest Alaska Vocational Education Center  
Dillingham, Alaska

**POSITION STATEMENT:** Testified in support of CSHB 177(O&G), specifically the PLA provision.

ANDY ANDERSON, Deputy Director  
Bristol Bay Housing Authority  
Dillingham, Alaska

**POSITION STATEMENT:** During hearing of HB 177, testified in support of an equitable PLA.

DAVID VAN TUYL, Manager  
Gas Commercialization  
BP Exploration (Alaska) Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** Expressed concerns with CSHB 177(O&G).

WENDY KING, Director of External Strategies  
ANS Gas Development Team  
ConocoPhillips Alaska, Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** During hearing of HB 177, answered questions.

BILL MCMAHAN, Commercial Manager  
Alaska Gas Development Group  
ExxonMobil Corporation  
Houston, Texas

**POSITION STATEMENT:** During hearing of HB 177, answered questions.

**ACTION NARRATIVE**

**CO-CHAIR CARL GATTO** called the House Resources Standing Committee meeting to order at [1:04:12 PM](#). Representatives Gatto, Johnson, Seaton, Roses, Edgmon, Kawasaki, Kohring, and Wilson were present at the call to order. Representative Guttenberg arrived as the meeting was in progress. Representative Fairclough was also in attendance.

HB 177-NATURAL GAS PIPELINE PROJECT

[1:04:30 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." [CSHB 177(O&G) was before the committee.]

[1:05:52 PM](#)

GEORGE BERRY said that recently he read that Governor Palin enjoys an 83 percent approval rating, which he opined means that her form of government is that which the people desire. Mr. Berry said that the Alaska Gasline Inducement Act (AGIA) is most welcome to him for it clearly and definitively places a gasline proposal on the table for a fair and open assessment by citizens as well as legislators. He noted that recently an Anchorage Daily Newspaper article by former Governor Wally Hickel discussed the state's rights in relation to the oil and gas leaseholders. Mr. Berry stressed that his message today is that representatives need to use the state's leverage at its highest level. The AGIA legislation is the best way to get the gas players to the table. He then recalled recent testimony from BG Gas, a worldwide gas transmission producer, that related that third party owners of a gas transmission line is more common than producer ownership. He opined that the third party pipeline owner is more interested in production and throughput versus producers who don't generally hold those same ideals. In regard to changes and amendments to HB 177, a project labor

agreement would be a very positive amendment as it will ensure local hire of Alaskan residents.

1:09:21 PM

MR. BERRY, in conclusion, stated his support of AGIA and requested that the committee move it forward this session.

1:09:39 PM

MIKE LITTLEFIELD, Business Agent, Teamsters Local 959, paraphrased from the following written testimony:

Teamsters Local 959 represents 5000 active and/or retired members throughout the state of Alaska. Many of our members worked untold hours some years ago, to construct the oil pipeline. We still have members working on the North Slope or in Slope-related jobs within the oil industry.

For over thirty years we have discussed construction of a gas pipeline here in Alaska. Many of our members planned on going from their oil construction jobs to gas-related jobs; however, to date, the majority have given up on that idea.

The previous administration negotiated a deal with the oil producers, which was brought to the legislative body last year. As all of you are aware, that effort failed.

Before you this afternoon is HB 177, the Alaska Gasline Inducement Act or AGIA, presented by Governor Palin and her new administration. Teamsters Local 959 would like to go on record thanking Governor Palin and her team for the hard work put in thus far on AGIA, which we believe may be the necessary framework for construction of a gas pipeline in Alaska.

Some say AGIA is a huge risk, destroying an opportunity for an Alaska gas line. Some say the bill favors the pipeline builders rather than the gas owners. Some even say the state should not tell bidders what to bid. Those of us representing workers believe that AGIA may well be the vehicle needed to move the gas pipeline project closer to reality.

In our view, AGIA is a tool for Governor Palin to use while doing her job in leading our state, just as our members need tools to perform their jobs on day-to-day basis. The governor and her staff have presented a very aggressive schedule that contains quantifiable results.

The previous committee and the governor should be applauded for including a commitment to negotiate a project labor agreement in HB 177 as well. We do not believe any pipeline company would disagree that a project labor agreement (or PLA) is not justifiable on a construction project of such magnitude. With a PLA in place, we will be able to define the training needs of workers, legally require local hire through hiring halls, and define wages, hours and working conditions to assure stability during the construction of this project. We thank Governor Palin and her staff for their efforts in this area. Additionally, we request the committee include a definition of Project Labor Agreement, that would support the language included in the CS for SB 104 Judiciary Committee.

As you continue your committee work on the AGIA legislation, please remember the gas pipeline is vital to the future economic growth of this state. Here is a window of opportunity for us to move forward. Such opportunity will not last forever. Give Governor Palin the tools she needs to perform her job on behalf of all Alaskans. Support the passage of HB 177.

[1:13:28 PM](#)

CO-CHAIR GATTO announced that he expects this legislation to reach the House Finance Committee this week and the goal is for the legislation to be passed out by the end of session.

[1:14:03 PM](#)

PETER CAPTAIN, SR., Vice President, Tanana Chiefs Conference, informed the committee that recently the Tanana Chiefs Conference (TCC) passed a resolution supporting an AGIA PLA, which he read.

[1:17:44 PM](#)

CO-CHAIR GATTO turned to the issue of the Alaska hire preference provision in HB 177. He offered that there will be many good jobs after the pipeline is constructed and delivering gas. Therefore, he requested that people are trained for long-term jobs after the construction is complete. He highlighted the various aspects of the project requiring workers from management to workers at the gas treatment plant. The goal, he opined, is to fill as many of the positions with Alaskans.

[1:19:17 PM](#)

JOHN CORBETT, Laborers Local 942, testified in support Governor Palin's AGIA amendment to include a PLA, which means locals will go to work first and be the last to be laid off. Furthermore, it means that the wages he earns could be put back into Alaska. He related his goal to be able to build a house and raise his family in Alaska.

[1:20:55 PM](#)

SAMANTHA FONOTI, Laborers Local 942, noted her agreement with Mr. Corbett's testimony.

[1:22:23 PM](#)

ERIC FONTENOT, Laborers Local 942, informed the committee that he has been living in Alaska for the last seven years after initially arriving with the U.S. Army. He recalled his time working with "NorConn" and the discussions he has heard relating that attempts to get a gasline have been going on for the last 30 years. Mr. Fontenot opined that a gasline needs to be constructed for more than just the jobs it will create, but also for the gas Alaskans could use. Furthermore, a gasline could reduce the strain on Alaska's economy.

[1:25:06 PM](#)

CO-CHAIR GATTO thanked Mr. Fontenot for his service in the U.S. Army. He then explained that the gas has constantly been used to reinject into the ground to push the oil out. Therefore, the gas has been useful and has pushed the life of Prudhoe Bay from 20 years to 30 years. At this point, the gas is ready to be shipped. Co-Chair Gatto expressed his hope that within five years the gas will be in the line.

[1:26:28 PM](#)

DIRK TAYLOR, Laborers Local 942, related his support for HB 177. He said this legislation [will result] in a lot of jobs for people living [in Alaska] who will put the money back into the state's economy. Furthermore, Alaskans will take pride in this job, pride that those in the Lower 48 won't necessarily have.

[1:27:39 PM](#)

JACOB HOWDESHELL, Laborers Local 942, noted his agreement with Mr. Taylor's testimony and the amendment to AGIA. He opined, "It will be long-term economic solution putting trade workers to work, not just in the construction but in the maintenance and the operations."

[1:28:15 PM](#)

EMALY SPENCER, Laborers Local 942, testified in support of Governor Palin's [proposal] because it provides jobs that allow her to support her children and work for her children in the future.

[1:29:29 PM](#)

ROBERT PURCELL, Laborers Local 942, opined that through the PLA in AGIA much more community building through jobs will result. Mr. Purcell related, "It means a lot to me to be able to say that I'm an apprentice in a laborer's program and that they're going to give me the training that I'm going to need not only to help with the pipeline but also to work in future jobs that come after work." He highlighted that it's important to be able to provide for his children and also have a pension plan that allows him to be able to retire. In conclusion, Mr. Purcell stated his support for the PLA in AGIA.

[1:30:49 PM](#)

BRYAN LINT, Laborers Local 942, testified in support of the PLA in AGIA. He expressed the need for the pipeline to go through. Mr. Lint related that all the training in the apprenticeship program is helping him and he would like to be able to use that knowledge at work.

[1:32:21 PM](#)

JERRY WALKER provided the following testimony:

I, respectfully address you today as an individual who is proud to have lived and worked in the great state of Alaska for 18 years. I am appreciative of the administration's efforts and your careful considerations to be responsible stewards of our resources. I remind you today of one very important theme and from that ask four questions for your careful consideration as you continue this critical process. The theme is the free enterprise system and state government's role within.

Question 1) Is the purpose of AGIA [to] enhance your role as legislators to induce private enterprise by providing \$500 billion in their risk-reward analysis? Or, should it merely be to ensure an open for business environment that is characterized by minimal interference? Please consider being less prescriptive and more general in your objectives for your bid requirements.

Question 2) Who best can evaluate risk and potential reward, private enterprise or state government? If, as legislators, you want to evaluate risk, I suggest you focus on how we, as a state, deal with the probable negative growth without individuals and companies willing to invest required capital. Please ... consider being less prescriptive and more general in your objectives for bid requirements.

Question 3) Is the real question of fiscal stability more important ... for potential shippers of our natural resources that we as a state have sold and hope to sell more of? Or, should it be for both current and future generations of Alaska to determine how we can pay for expected services? Please consider fixing severance tax rates that will prompt investment in Alaska.

Question 4) Do we really think we can expect current and future owners of our natural resources to compete in a global marketplace when, under the proposed bill two commissioners will be responsible to pick the winner? Please consider allowing for more proposals that will encourage more competition in our project such that the ultimate winner will be better prepared to compete globally, and hence provide more fiscal stability to Alaskans for many years to come. I

respect your commitment to Alaskans, present and future. I thank you for your careful consideration and request your responsible action and ultimate decision to this bill in this legislative session that is ... soon to expire.

1:35:46 PM

JAY QUAKENBUSH, President, Fairbanks Building and Construction Trades Council, said that labor organizations in Alaska are poised to train and employ Alaskans. He opined that a PLA will provide an opportunity to further the investment of [labor organizations] in the state and help the employment application of this job, which provides the pipeline licensee and the state assurance that the pipeline will be built on time and under budget. In response to Co-Chair Gatto, Mr. Quakenbush confirmed that a PLA wouldn't restrict laborers to be union members. The laborers on the project would be working under the terms and conditions of a bargaining agreement as would any other laborer on the project. Therefore, non-union members could possibly be working for the same wage as union members. In further response to Co-Chair Gatto, Mr. Quakenbush confirmed that these non-union laborers would be required to pay union dues that would go towards the laborer's representation under the collective bargaining agreement.

1:39:13 PM

DANIEL FIRMIN, Laborers Local 942, noted his agreement with the others who have testified [from the Laborers Local 942] and stated his agreement with the amendment to AGIA.

1:39:57 PM

GERALD KW BROWN applauded the effort and work that the committee puts into these meetings. He then noted his agreement that a PLA is a very important part of the process. He said that he sent all the committee members an email of some observation points he had after hearing Marty Massey's testimony, which he said took him aback. It seems that the three [companies] that have control of the gas don't really want to participate in this process. He expressed hope that some kind of fairness in how the gas from the North Slope is distributed can be achieved. Whether the aforementioned is part of AGIA or separate legislation, it needs to be reviewed, he opined. In fact, [the state] may need to mandate some release of the gas on an annual process. Mr. Brown mentioned that he was very impressed by Mr.

Keanan's testimony and his third party observation. He expressed hope that the committee saw the need for the production of gas and the demand that will result. Mr. Brown said, "I hope that AGIA does give a fair, balanced approach to distributing gas from Alaska." In conclusion, Mr. Brown urged that the committee pass HB 177.

[1:43:20 PM](#)

CO-CHAIR GATTO clarified that AGIA is legislation that simply allows the state to find someone who will be called a licensee, who will then have the most to do with moving the gas to market. The legislature's work is done when it finishes with AGIA and develops a structure from which the administration can select a licensee.

[1:44:46 PM](#)

MR. BROWN turned to the issue of those who work on the North Slope, but reside outside of the state. He suggested a state income tax might encourage people to be residents in the state because the tax refund could be tailored to residency.

[1:45:58 PM](#)

JERRY MEHLBERG began by informing the committee that he retired after working 20 years in the oil industry on the Alaska pipeline. He further informed the committee that he is a mechanical administrator and a licensed journeyman plumber. He related his support of some type of inducement to get the gasline built and in operation. Mr. Mehlberg then said that he has developed a long-range concept that will make much better use of the \$500 million incentive. He opined that his concept would dovetail with Governor Palin's commitment to reduce greenhouse gases; place the Railbelt [communities] and most other electric utilities on a common state strategy; would probably eliminate the need for construction of coal-fired plants, as is being discussed for the Matanuska-Susitna Valley; reduce electrical costs for everyone; and would help the producers maintain oil production while providing them a good economic and environmental incentive. Mr. Mehlberg said that his plan is comprehensive, and therefore he inquired as to who he should talk to about his plan.

[1:47:51 PM](#)

CO-CHAIR GATTO suggested that the House Special Committee on Ways and Means would be the appropriate venue for such.

[1:48:24 PM](#)

JERRY MCCUTCHEON began by indicating that Co-Chair Gatto should apologize to those whom he has lead to believe that there will be a gasline. He then provided the following testimony:

The legislature and the Governor Palin have not been honest with the public. They have led the public to believe there's going to be a gasline when, in fact, there will not be a gasline. Palin's press released that she was not going to lobby the legislature on her gasline legislation outside of her staff repeatedly cherry-picking, misleading information to give to the legislature and the public. I doubt if her lobbying the legislature would do much good; they have already served notice that they are going to take their time and do it their way. I think Palin has finally come to the conclusion she cannot obtain any semblance of an open season, thus no hope of a gasline. The outcome for Palin's gasline is nil to nonexistent. The most damaging presentation occurred when the exasperated Senator French, chairman of Senate Judiciary, said and asked of Cathy Forester of the [Alaska] Oil and Gas Conservation Commission after he could not get her to give him any amount of gas or any time the gas could be available. ... French said, "Well, we still have the 2.7 bcfd." Cathy replied, "Somebody would have to apply to the [Alaska] Oil and Gas Conservation Commission for that 2 bcfd offtake or some portion of it and the AOGCC would have to rehear the Rule 9, the 2.7 bcfd and after the hearing there would be no gas available." Thus, the once available gas, for at least the last 20 years, Rule 9 gas offtake of 2.7 bcfd is now nonexistent. It exists on paper only and if you try to apply for it, it isn't going to be there. There is no gas available for a gasline, nor is there any indication of when there will be gas available for a gasline, if ever. And, I'll bet on the later. Having predicted the disappearance of the 2.7 bcfd ever since it was first allowed, I will predict that the 2.7 bcfd will disappear again in 10 years, in 20 years. The illusion of a gas offtake for a gasline will always be like chasing a rainbow, it will always be just ahead

and never there when one gets to where they thought it was. The gas offtake is like a mirage, just over the hill but never there. Every time it comes to take the gas, the reservoir will have to be evaluated as if it were a new discovery and a new discovery with all the infrastructure in place. And, we will always be faced with the need for the gas for oil production. Palin was cognizant of the need for the rehearing of the 2.7 bcfd gas offtake. She was chairman of the [Alaska] Oil and Gas Conservation Commission, she must have known what the outcome of a rehearing would be. Palin just tried to scammer through in hope that the legislature would not find out ...

[1:52:38 PM](#)

CO-CHAIR GATTO interrupted Mr. McCutcheon to inform him that he had to conclude his testimony in the next few seconds.

[1:52:50 PM](#)

MR. MCCUTCHEON opined that he has a right to be heard and that the courts would uphold that he has a right to be heard by the legislature as well as the public.

CO-CHAIR GATTO explained that Mr. McCutcheon needed to summarize his comments as every witness has a certain amount of time due to the many who want to speak.

MR. MCCUTCHEON said that if this legislation ends up in court, he would be present and give the co-chair the opportunity to testify as to why he didn't allow [folks to heard]. He then reiterated his right to be heard [by the court] as well as by the public. He then emphasized that there's a big difference between [the court] and the legislature taking testimony and burying it somewhere.

[1:53:20 PM](#)

PAUL LAIRD, General Manager, Alaska Support Industry Alliance, paraphrased from the following written testimony [original punctuation provided]:

Our 400-plus member companies provide the goods and services that make Alaska's oil, gas and mining industries possible, and provide more than 30,000 Alaskan jobs.

First and foremost, the Alliance wants a gas project ... sooner rather than later, and with the greatest long-term benefits for the State of Alaska, Alaskan workers, Alaskan businesses and all Alaskans. We believe this act will fail in its objective of achieving a gas project unless key changes are made prior to passage:

First, bid requirements set out in the bill are too prescriptive and should be replaced with broad objectives. Bid requirements will limit competition in the application process. The prescriptive nature of the bill guarantees that creative and mutually beneficial approaches that address the state's needs will never be explored, and it likely will preclude some prospective applicants from participating.

Second, the bill places too much emphasis on mitigating the short-term financial risks incurred by the pipeline builder and too little on addressing the much longer-term and greater risks of gas shippers. It offers shippers a non-binding "trust-me" commitment for fiscal stability lasting a fraction of the project life, and does nothing to fix severance tax rates that the administration admits won't work.

Third, the \$500 million incentive is unnecessary. It has the potential to turn pretenders into contenders for a state license, and we're skeptical about placing Alaska's future into the hands of any entity that requires a \$500 million contribution in order to pursue a \$30 billion project. Applicants that need to be "bought" with the \$500 million may not be worth acquiring.

We're also concerned about provisions mandating the use of rolled-in tariff rates for pipeline expansions, establishing a virtual monopoly for the state's licensee at the possible expense of other qualified projects and allowing a pair of commissioners too much leeway in how they select a licensee.

The Alaska Gasline Inducement Act may be our last and best chance to make a North Slope gas project a reality, but only if it's fixed before it's passed. In order to succeed, the bill must reflect the interests

of Alaskans, of the developer and transporter and of North Slope producers and shippers. Thank you.

1:56:18 PM

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

PAUL KENDALL provided the following testimony:

Nearly all things send signals, signs, or indications of things that have been or things to come, in some form of another. You folks, because the producers have sent you confusing, admonishing, conflicting, minimal, and uncertain signals, must prepare for a worst case scenario in direct proportions to the signals you have received from the producers. This makes it all the more important that you stay focused, in the queue, ... and above all "The United as Alaskans mode we stand." I strongly, therefore, believe that you should gather and pass the initiative or whatever it takes to stay in session for the rest of the year. You have to pay yourselves a decent salary for you and your families. There are many critical details to come and more need for insights into a few more critical sectors, as I will list below. To mention a few of those: The capacity needs to be discussed in totality. The take, the take, and the take really needs to be a cautious discussion. Social impacts infrastructure, tailgating large projects such as Agrarium and ARR, the gas price charges to residential users at a true and actual cost. The Texas company purchase of Enstar, the GTP, the coal gasification process, hydrogen gas, several others are in need of an unhurried, methodical and professional accounting for an awareness, testimonies, and hearings. It is therefore, again, that I strongly urge the following in addition: that you contact the governors or their designees of Los Angeles, San Francisco, Sacramento, Seattle, Portland, and other leading cities located south and southwest of the Alberta Hub. You should invite their emissaries to come to Alaska ... for a roundtable forum on energy needs of those states and Alaska's role. Because we, as Alaskans, feel compelled to reach out to our fellow Americans to see if they're in need of our resources before we should send them elsewhere. The reason you should do this also is number one: it is the right

thing to do, it is the honorable thing to do, it is the American thing to do, it is the Alaskan thing to do, it is a smart business decision, it is a necessary component for a decision, especially if you get forced to a co-venturing position. Finally, in conclusion, ladies and gentlemen, I am having a great time learning so much about the gas piping, shipping industry. I am anxious to see how the take is divided ... and I only regret one thing and that is that no one is paying me to learn this .... In closing, ... this is to the governor, the House, the Senate, the unforeseen and the unseen or unheard others who work behind you in support of you, should I forget I am enjoying watching ... you all work together for the benefit of us all. What a great job and legacy all of you are part of it. This process you are involved in now is, in my opinion, how our society will need to be represented now and on into the future. Just as Alaska is a new frontier for many, so it is that you all may represent the new frontier for how our society will need to be represented by the new public servants of the future. It has to be an open and full-time commitment process called a job. I thank you and thank you on the behalf of those other people that feel the same way. Thank you.

2:01:02 PM

AVES THOMPSON, Executive Director, Alaska Trucking Association (ATA), paraphrased from the following written testimony [original punctuation provided]:

The Alaska Trucking Association is a state wide organization representing trucking interests from Barrow to Ketchikan for more than 49 years. Our more than 200 members represent all of the diverse trucking operations in the state and many associate members who provide goods and services to our industry. On behalf of ATA, I thank you for the opportunity to testify on the subject of AGIA.

The highest priority of the Alaska Trucking Association is to get a gas line built, up and running and delivering Alaska's gas to market. We applaud the Governor and her team for promptly presenting AGIA to the legislature for their consideration.

We believe like others, that AGIA has a chance to bring a gas line to fruition. We also believe that certain changes must be made to make the gas line a reality. I will address some of the important issues as we see them.

Bid requirements of the bill are far too specific. The better approach may be to set performance specifications or expectations or outcomes and let the bidders address how they will meet those expected outcomes. There may be other ways to reach these mutually beneficial outcomes, and the prescriptive nature of the current bill guarantees we will never hear the alternatives.

The bill needs clear and objective criteria for evaluating applications. Some recommendations for criteria are:

- Best financial return to the state,
- Lowest level of risk of delays due to lawsuits, etc,
- Highest probability of success,
- Jobs, instate use of gas, etc.
- Expansion provisions for adding gas to the line.

The bill places too much emphasis on mitigating the short-term financial risks incurred by the pipeline builder and too little to address the much longer-term and greater risks of gas shippers. Fiscal certainty is an important issue for those that will be asked to commit to long term firm transportation agreements worth billions of dollars over the life of the agreements. Some notion of future tax or royalty law or at least, policy must be part of the deal.

As a corollary to the previous point, we feel the \$500 million giveaway is unnecessary and imprudent as we would like to see the successful licensee be financially capable of making their decisions based on the sound economics of the project rather than a subsidy or handout from the state.

It seems that existing shippers should not be forced to subsidize new shippers by sharing the cost of pipeline capacity expansions. It would seem more equitable and predictable to provide that the new shippers pay the cost of expansion.

These are a few of our concerns and I'm sure you will hear from others today as they share their testimony. The Alaska Trucking Association is eager for this project to succeed and stands ready to assist in any way to help make this dream a reality.

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

[2:04:21 PM](#)

MAYNARD TAPP paraphrased from the following written testimony [original punctuation provided]:

I am a citizen of Alaska since 1990 and Alaskan in spirit since 1954 when my dad worked in Barrow for the Coast Guard.

DO THE DEAL NOW

At Thursday's spot price for natural gas at \$7.510 per MMBTU the states share @12.5% would be \$0.94 per MMBTU.

If 1MMBTU is approximately 1,000 Cubic feet then, at a production of 4.5 Billion Cubic feet per day, the state of Alaska revenues loss is \$4,224,375 per day.

I worked on the Gasline Study from Jan 2001 until March 2002 (15 months) this study spent approximately \$125MM to get near the end of Conceptual Design. We accomplished a lot during that timeframe. Everyone worked hard and fast. The results of that effort indicated that the producer's wanted to move forward with the pipeline project.

It will take any new player at least 15 months say 450 days to get to the point where the producers study ended. At \$4.2MM per day that totals \$1.9 billion dollars loss in state revenues just to get to the place we are today, close to the end of Conceptual Design.

At the same time Prudhoe Bay production is declining at 6% per year and therefore the related state revenues from the oil production is declining at the same rate. And at the same time competing projects and technologies are moving forward.

The chart I am including in my testimony is one that I attained when working with a world class engineering company. It is used to help them determine the amount of contingency used at any point during the lifecycle of a project. It is, therefore, a measure of

confidence that a project has regarding known and unknown costs. These milestones cannot be compressed. You already have two to three years of testimony. Will you learn anything more in the next 15 months and \$1.9 billion in lost revenues.

2:06:46 PM

CO-CHAIR GATTO inquired as to what Mr. Tapp means by "Do the Deal Now" as he said he thought that's what is occurring now.

2:06:55 PM

MR. TAPP opined that under AGIA it seems that the process is starting over again. He reiterated that most of the legislature has already had two years of testimony and experience on the matter. Therefore, he opined that the legislature could pick up and negotiate under the last governor's proposal. There is enough information from the prior administration to pull together a deal, modify it, and sign it. He suggested that doing so could result in an open season within a year or two, rather than 36 months. Mr. Tapp said that he supports Governor Palin's openness and transparency with AGIA, but the concern is that 15 months will be lost.

2:08:10 PM

ERIC DOMPELING, Vice President, Alaska Support Industry Alliance, paraphrased from the following written testimony [original punctuation provided]:

When I came to Alaska 37years ago, there was a term that doesn't get used as much today "We don't care how they do it outside!" Over the course of those 37 years, things have changed in Alaska; we now provide roughly 20% of the oil consumed in the United States; the revenue that comes from that oil development supports the state economy. But it was not the State that risked the capital to explore and develop those leases.

AGIA is intended to expand resource sales, this time the gas associated with North Slope Oil. Gas has been produced at Prudhoe Bay for 30 years and in that time has been an economic boon by maintaining pressure at Prudhoe Bay which in turn has allowed an additional 3 billion barrels of oil to be produced. Today that

gas, that 8 Billion Cubic Feet of Gas, being produced with the oil and reinjected everyday is creating a handling issue and needs to be shipped to market.

This gas project will be world class by any definition, but we are not alone in the development of World Class Resources. There is a project already underway in Qatar that has 1,500 trillion cubic feet of known reserves, 42 times larger than all 35 trillion Cubic Feet of gas currently producible on the North Slope. The Pipelines are in place the Tankers are built and the expansion is moving forward.

We have heard for years from oil producers that any project must compete globally for capital investment and be judged on the return on the capital invested. Based on that factor alone Construction and expansion of any project will not be prescribed; but determined by the economics.

The North Slope gas project will ultimately not be a political decision, it will be an economic decision by a resource leaseholder, whether they have known reserves or are exploring hoping to develop future reserves. In a free market, the tariffs will determine if a line gets built or expanded. In order to promote a project the States role should be to ensure that the resource owners know what the terms and conditions will be, I urge you not to leave the tax issue open to interpretation. Open ended contracts expose both sides of any agreement to litigation not construction.

The efforts of Governor Palin and her team, to advance The North Slope gas project, through AGIA; are applauded by all Alaskans including the members of the Alliance. However, the Inducement Act as currently drafted does not include clear objective criteria for evaluating the economics of a project, without those economic objectives this project will not move forward. Attempts by government entities to determine economic viability do not have an enviable track record. Let the market decide by asking for a "Best Proposal" offer that is open and transparent and can be judged by the merits of the economics, because in the end it all comes down to the Tariff!

I spoke earlier about Alaskan's not caring how things are done outside! Today we compete in a Global Market, let us not focus only on Alaska's wants, but focus on how we compete for the development of our resources in that Global arena. The Alaska Gasline Inducement Act may be the best opportunity to make a North Slope gas project a reality, If it is to succeed, the bill must acknowledge the interests of not only Alaskans, but those of the project developer, the transporter and the North Slope producers and shippers.

Thank you for your time, this concludes my testimony.

[2:12:04 PM](#)

MR. DOMPELING, in response to Co-Chair Gatto, explained that the Alaska Support Industry Alliance is a trade organization of 400 different members representing roughly 30,000 employees in the state. He mentioned that the organization encourages the responsible development of Alaska's natural resources.

[2:12:53 PM](#)

KEVIN KNOX related his support of AGIA and the PLA amendment to it. He opined that the PLA will ensure that local people will go to work first and be the last to be laid off. Furthermore, the wages earned [by Alaskans] will be put back into Alaska.

[2:14:00 PM](#)

TAMMIE WILSON thanked the committee for including the PLA in HB 177. She then related that her son has benefited from the Department of Labor & Workforce Development (DLWD) grant to become a heavy diesel mechanic. The aforementioned will allow her son to immediately enter the operators' union where he can make good wages and have a retirement and pension plan. Furthermore, this training will allow him to build a house, raise a family, and spend his money in Alaska.

[2:16:05 PM](#)

JOSEPH BOYLE, Local 942, informed the committee that he is a recent graduate of the Laborers Local 942 apprentice program. He testified in support of the PLA included in HB 177 as it means that he can continue working and have a future.

[2:16:57 PM](#)

RON MCPHETERS, President, Laborers Local 341, informed the committee that he represents 6,000 members statewide through the District Council of Laborers. He urged the committee to leave the PLA language in HB 177.

[2:18:20 PM](#)

MEG LUM, Apprentice, Laborers Local 341, informed the committee that she is currently obtaining her trade skills during her apprenticeship program. She related her excitement for the gasline, which she hoped will be a source of employment for those reinvesting income in the state. Ms. Lum said that AGIA must include a PLA, which will ensure Alaska hire on one of the most important projects that Alaska has seen. She opined that Alaska's economy can be kept strong and apprentices like herself can be kept in the state with the security of a decent wage and benefits. She then related that she looks forward to working on the gasline to maintain her independence as a single mother and taxpayer. She concluded by encouraging the committee to enforce the PLA in AGIA.

[2:19:31 PM](#)

REPRESENTATIVE SEATON pointed out that another committee made a change in the PLA such that a pipeline applicant is required to use the DLWD's job centers and Internet hiring program, to the extent practical. He asked if using the in-state hiring processes is detrimental to the PLA.

MS. LUM said that she wasn't familiar with that.

[2:20:23 PM](#)

TIM SHARP, Business Manager, Alaska District Council of Laborers, began by addressing Representative Seaton's question. He informed the committee that when the Fort Knox Mine was built, people from the Lower 48 were instructed to go directly to the job service centers to sign up and inform personnel that they had been in Alaska for a month and intended to stay. The aforementioned meant that such individuals [were considered] Alaskan residents and were then referred to the Fort Knox Mine. Therefore, Mr. Sharp opined that such a requirement isn't going to threaten the PLA, but it threatens the goal of putting Alaskans to work first and keeping them to the end. He highlighted that previous testimony has illustrated that

Laborers Local 341 and 942 have over 60 years of training and putting Alaskans to work in Alaska. Mr. Sharp said that he is present to support the governor in getting the gas to market as well as Alaskans building the pipeline. He then reminded the committee that the constitutional definition of an Alaskan resident is 30 days, with the intent to stay. The PLA is the only way to legally raise the bar in defining legal residency in Alaska. The Alaska District Council of Laborers only allow folks to sign up on the hiring hall list [after one year in state.] The aforementioned increases the good outcome allowing Alaskans to go to work on these projects. Furthermore, [the PLA] allows the building and construction trades to perform training. He noted that it takes three to five years to turn out journeyman. With regard to legacy jobs, Mr. Sharp opined that a properly crafted PLA with legacy jobs and Alaska hire requirements in mind could be beneficial in the long-term outlook. He highlighted that oil companies are on record saying that the [pipeline can't be built] without organized labor and organized labor has said it can't be done without a PLA. Mr. Sharp specified that he doesn't want to slow AGIA down, but does want to maximize the benefit to Alaskans.

[2:24:11 PM](#)

REPRESENTATIVE SEATON requested that Mr. Sharp obtain the Senate Judiciary Standing Committee's language change to the PLA and email the committee his comments.

MR. SHARP agreed to do so.

[2:25:40 PM](#)

LISA PEGER began by saying that she is representing The Common Sense Activist Party, of which she is the only member. Ms. Peger said that she supports HB 177. However, she cautioned the committee with regard to the consolidation of power such that it's placed in the hands of only one or two people. She then expressed the need for competition such that new producers can come on line cheaply because competition breeds efficiency. She pointed to Canada as an example with its 3,000 oil and gas producers whereas in the U.S. basically three producers produce and distribute all the country's oil and gas. The producers, she opined, are the least likely group to want to develop the gas line quickly. She then opined that energy costs make everything escalate, including the cost of labor and housing. Ms. Peger turned to the trillions of dollars of gas and suggested that all the problems that producers have identified

can be addressed. With regard to financial certainty, she again reminded the committee that this is trillions of dollars. She then suggested that the \$500 million inducement could be an option rather than a given.

MR. PEGER told the committee that the state government is spending \$30,000 per Alaska worker per year, most of which is for labor. Therefore, she suggested that it may be time to freeze the 3 percent Consumer Price Index (CPI) and any wage hikes until the gas is flowing. She characterized the CPI as a phony thing and that educators and government workers don't need to be given 3 percent more. In conclusion, she reiterated her support for AGIA.

[2:31:32 PM](#)

DAVE MCCLURE, Executive Director, Bristol Bay Housing Authority; Chairman, Board of Southwest Alaska Vocational Education Center, paraphrased from the following written testimony [original punctuation provided]:

I support the CSHB 177, and specifically, subsection 17 of Section 43.90.130, which includes a project labor agreement in the application process. This PLA is vital to ensuring residents of our region, and our state, are hired for the workforce to be employed during construction and operation of the pipeline.

During the construction of our Voc Ed Center, we created a partnership and project labor agreement with the trade Unions in the State, in coordination with Alaska Works Partnership, which was highly beneficial to the residents of the region. The facility was completed with at least 85% local labor, both journeyman and apprentices. Including that project and in subsequent years, we have had over 120 local folks enrolled in a general building maintenance repair and apprenticeship programs, with ten percent of those folks gaining journeyman status.

I also support Section 43.90.470, concerning job training programs. I ask that this section include reference to training centers, including those in Anchorage, Fairbanks, and the rural regional training centers such as the Southwest Alaska Voc Tec Center, the People's learning Center in Bethel, the centers in Kotzebue and St. Marys.

In conclusion, the Project Labor Agreement and use of the training centers in the State of Alaska are critical and crucial for maximizing the use of Alaska workers in this important project.

[2:33:11 PM](#)

ANDY ANDERSON, Deputy Director, Bristol Bay Housing Authority, paraphrased from the following written testimony [original punctuation provided]:

My statement is short and addresses the labor provision and is in support of an equitable Project Labor agreement.

My responsibilities for the last 14 years include the construction of Affordable Housing and associated infrastructure in the Bristol Bay region. As such, it is my responsibility to ensure that Federal, State and local funds allocated to low to moderate income housing are shepherded towards providing the maximum quantity of safe, decent, and affordable housing for every dollar spent while maximizing local labor.

At the time I started this job, skilled building trades almost did not exist in the 32 communities BBHA serves. This paucity of local building skills forced contractors to import a majority of their labor. The creation of the Southwest Alaska Vocational Education Center, or SAVEC, through the leadership of a dedicated core of local leaders with the financial support of Federal, State and local agencies, and with a major part being played by the Alaska Works Partnership, Inc. has slowly, but effectively, reversed that situation. Mr. McClure has provided numbers of SAVEC training graduates that have allowed affordable home construction labor in the region to be 95% locally sourced.

Institutions such as SAVEC, with the training and financial input of Alaskan unions, will be needed to ensure that Alaskan residents are prepared to construct and operate the gas pipeline.

I emphasize that it was the cooperation, training and financial support of the union trade organizations and

advocates and their steadfast support to provide the training and entry level opportunities for village residents that has made this, by any measure, a successful effort.

The pipeline and other future major public and private constructions will be a successful with the labor leadership, organization and demonstrated capabilities of the local unions and their organizations, ensuring maximum participation of Alaskan residents.

2:35:59 PM

CO-CHAIR GATTO announced that the committee would be in recess until 3:00 p.m.

3:03:56 PM

CO-CHAIR GATTO reconvened the meeting at 3:03 p.m. and noted that public testimony will remain open. He then announced that the remainder of the meeting will be a roundtable during which the committee will hear concerns from the producers regarding concerns they have regarding previous testimony.

3:06:14 PM

DAVID VAN TUYL, Manager, Gas Commercialization, BP Exploration (Alaska) Inc. (BP), paraphrased from the following written testimony [original punctuation provided]:

Chairman Gatto and Members of the House Resources Committee, we appreciate the opportunity to address you regarding points that have been made over the last few days. We recognize you have a very busy schedule, and we will make our comments brief.

My name is Dave Van Tuyl, representing BP. With me here is Wendy King, representing ConocoPhillips and I believe Bill McMahon with ExxonMobil is joining us by telephone. While I represent BP, these points I will be providing in testimony have been jointly prepared with ConocoPhillips and ExxonMobil.

The first and most important point I want to leave with you is that we fundamentally disagree with the characterization of the Alaska Gas project economics as recently presented by Antony Scott.

We have concerns over many different statements made by Mr. Scott, but in the interest of time I'll limit my comments to addressing three key concerns.

1. Underlying economic methodology - Decoupling the Upstream from the Midstream
2. Nature of firm shipping commitments
3. The importance of long term cash flow in investment decision making

We appreciate this opportunity to state our concerns.

I suggest that I go thru my talking points here in about 10 or 15 minutes and then we are available to spend all the time the committee wants to answer your questions.

And I'm confident that, especially with Ms. King here, you won't be shy about asking questions.

[3:07:37 PM](#)

#### **Point Number 1 - Project Economics**

We are very concerned that the economic analysis presented by Mr. Scott to this committee is very misleading.

##### Economics

- Without the commitment of capital to the pipeline or the huge financial obligation required for Firm Transportation (FT) for the midstream facilities, there is no way to realize value from the sale of gas. Thus, any analysis of the project that excludes midstream capital and FT is incomplete.
- In reality, major gas pipeline projects are built on the back of long-term, firm transportation commitments. For example, two recent gas pipeline projects are Alliance and Rockies Express. Alliance required 15 year shipping commitments, and Rockies Express required 10 year commitments. And both of those projects are significantly smaller in scale than the Alaska gas pipeline project.
- And because these commitments are just that, legally binding commitments, they need to be accounted for

when evaluating project economics. These commitments were ignored in Mr. Scott's analysis of the economics.

- That analysis suggests that the upstream project can be developed without a commitment to the midstream.
- Because that method ignores the FT obligation, the resulting assertion that our upstream economics are so robust is patently incorrect. In fact, the upstream pays for the midstream. It does this through firm transportation commitments. These commitments cannot be ignored.
- In order to evaluate the economics of any project, you must account for the commitments that are necessary to enable the project to move forward.
- We must evaluate economics on the complete project, that is on an integrated basis (top to bottom) to properly account for total project risk and determine whether the project is economic. Any decision to invest will be based on integrated project economics.
- To analyze a project correctly, one needs to look at both the costs and the benefits together, that is, we need to evaluate the benefits of the reserves along with the cost of the commitments required to produce those reserves. In fact, that's the way we do our project analysis.

[3:10:22 PM](#)

- To conclude our discussion on the economics I wanted to just touch on reserve booking.
- We agree with the Administration that being able to add reserves to our books is a benefit - that's the lifeblood of our business. But we don't book reserves at any cost. They need to be economically recoverable.
- And we don't book the "value" of our reserves. Any value attributed to those reserves will be determined by the cost of the commitments and the investment required to get those reserves to market. Hopefully we can get the gas to market cheaper than the market price.
- Remember that for gas, the transportation cost is a very significant portion of the value of the gas itself - that makes gas projects with a large transportation component inherently risky.

- When we add reserves to our books, which we hope to be able to do for Alaska's gas resource, Wall Street will notice. They will also notice when we inform them of the firm transportation commitments required to underpin the project, and the cost of the project to develop those reserves.

- So to summarize our concern with the characterization of the economics, we disagree with Mr. Scott's analysis that with a 3<sup>rd</sup> party pipeline the upstream business can be analyzed separately from the midstream investment. That analysis ignores the commitments required to develop the upstream. And therefore we believe that analysis is fundamentally flawed.

[3:12:08 PM](#)

REPRESENTATIVE ANNA FAIRCLOUGH, Alaska State Legislature, inquired as to why the Rockies project, which is over 800 miles in length, isn't comparable in some way.

MR. VAN TUYL specified that the two projects he mentioned are about an order of magnitude smaller in terms of cost. The Rockies Express project cost about \$4 billion, while the projected costs of the Alaska project in 2001 was \$20 billion. With increased costs since 2001, there has been speculation that the cost of the Alaska project could be as high as \$30 billion. Similarly, the Alliance project is about a \$3.7 billion investment and moves 1.6 billion cubic feet a day, whereas the Alaska project is expected to move 4.5 billion cubic feet a day.

[3:13:26 PM](#)

REPRESENTATIVE FAIRCLOUGH inquired as to why the costs to run 800 miles in the Rockies Express project are so different from that of the Alaska project. She acknowledged that transportation would be a factor as would the cost of materials at the time of construction, but maintained that it seems to be quite a difference for what seems to be fairly comparable mileage.

[3:14:01 PM](#)

MR. TUYL pointed out that the project evaluated in 2001 was 3,600 miles. He said that it's known that 2,100 miles of pipe has to be built to transport gas into Alberta since no

transportation system exists today to get gas that far. Although it's not known whether new pipe will have to be built from Alberta south, that was assumed to be the case for the purposes of comparison. The aforementioned results in another 1,500 miles to transport gas from Alberta to the upper Midwest market, which totals 3,600 miles.

[3:15:02 PM](#)

CO-CHAIR GATTO related his understanding that the \$30 billion estimate is a Chicago estimate rather than an Alberta estimate.

MR. TUYL confirmed that the \$30 billion estimate assumes new pipe is built to Chicago. However, even if new pipe isn't built out of Alberta, there will need to be firm transportation commitments to move gas out of Alberta, even on existing pipe.

[3:15:34 PM](#)

MR. TUYL continued:

**Point Number Two**

The second point we want to emphasize is to ensure we have a common understanding of the nature of these firm transportation commitments we've just talked about.

Nature of Firm Transportation Commitments

FT is a binding commitment made by a shipper to a pipeline company in an open season to secure capacity on the pipeline for a specified duration at a specified cost

There are a few important facts to be clear on about FT

FT is binding legal obligation. It becomes binding once the necessary conditions are met, including the pipeline coming into operation.

Mr. Scott has claimed that the Producers say that FT is "exactly like debt". I'm not aware of any of us having said that in testimony. Long term commercial commitments like FT are often characterized as "debt-like", and must be reported to the SEC.

The core issue is whether the FT commitments require the producers to absorb the substantial majority of the risk associated with the project.

FT is a financial obligation, and it is certain that the lenders would have recourse to the financial security provided by the producers' FT, should the pipeline company fail to meet its obligations. Therefore, FT cannot be ignored if a project is to be evaluated properly.

[3:17:14 PM](#)

CO-CHAIR GATTO interrupted Mr. Van Tuyl and related his understanding that Mr. Van Tuyl is saying that the SEC wants to know what the debt would be.

MR. VAN TUYL clarified that the SEC requires [producers] to report long-term commercial commitments. In further response to Co-Chair Gatto, Mr. Van Tuyl specified that BP's annual report includes a host of information, including assets, debt, and debt-like obligations. Therefore, the annual report includes long-term commercial commitments.

[3:17:49 PM](#)

CO-CHAIR GATTO asked if gas in the ground can be reported as an asset.

MR. VAN TUYL clarified that gas in the ground can be reported as an asset once it reaches a status called proven. The vast majority of gas in Alaska isn't proven, he related. The other portion of the gas that's proven is that used for field fuel, which is a small fraction of the known resource. The gas would become proven once there's a demonstrated method to move the gas to market.

[3:18:22 PM](#)

CO-CHAIR GATTO surmised then that all of the known Prudhoe Bay reserves that have been used to push the oil out are considered unproven.

MR. VAN TUYL referred to them as a nonproven resource.

[3:18:40 PM](#)

REPRESENTATIVE FAIRCLOUGH asked if the term proven is a financial term or a term used within the oil and gas industry.

MR. VAN TUYL confirmed that the term proven is a term of art that is used by the SEC to establish a certain quality of resource that has reached a certainty of being developable. To reach proven status, certain hurdles have to be crossed. In further response to Representative Fairclough, Mr. Van Tuyl confirmed that the term proven is a recognized accounting term.

[3:19:40 PM](#)

REPRESENTATIVE WILSON surmised then that nonproven means that the resource is known to be present, but it hasn't went through the steps to make it proven.

[3:19:46 PM](#)

WENDY KING, Director of External Strategies, ANS Gas Development Team, ConocoPhillips Alaska, Inc., interjected that she has heard the term "probable reserves" and "possible reserves", although those definitions don't seem to be as clearly established. The proven category, although there are distinctions within it, is a defined term, she said.

[3:20:10 PM](#)

REPRESENTATIVE GUTTENBERG asked if there are times when it is advantageous not to finish the process that would move a reserve from unprovable to provable.

MR. VAN TUYL answered that the primary motivation is to develop resources. Therefore, the commercial motivation is to obtain resources and develop through the value chain from known possible to probable and to ultimate development. The motivation is to continue to advance.

[3:20:59 PM](#)

REPRESENTATIVE GUTTENBERG said:

One of the things that brings up a question for me is the amount of gas that's provable up there versus that's not provable that might be probable or otherwise or speculative if it's there. We understand ... there needs to be a lot more gas than what is currently proven or being able to pull off Prudhoe. So, you might know there's more gas up there and not want it proven, but as soon as it becomes economically viable you just finish that process and it becomes a

proven reserve. And there you're going forward with it.

[3:21:41 PM](#)

REPRESENTATIVE ROSES related his understanding that when the gas is in the ground, one would have a good idea that it's present after it has been discovered. In fact, the gas may be injected into the oil to obtain more oil. However, until there is a way to deliver that gas to market, it doesn't become proven. Therefore, he surmised that the term "marketable" would be synonymous with "proven."

MR. VAN TUYL responded that Representative Roses has provided a fairly apt description. He pointed out that there's an aspect of commercial viability of the resource that is considered when advancing the resource from possible to probable to proven.

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REPRESENTATIVE ROSES opined that once a transportation commitment is made, regardless of the price, it is a risk because whether it's delivered or not there will be payment. The risk is that the entity can't deliver the volume to which it committed. Therefore, he surmised that it becomes a debt the first day that the entity can't deliver what it committed to deliver.

MR. VAN TUYL stated his agreement that Representative Roses comments are a reasonable summary. He then noted that the one thing that is certain about a FT commitment is that the entity making that commitment will ultimately make good on that obligation to the pipeline company to which the commitment is made, which is why it's a legally binding obligation that can't be ignored. "Hopefully, in association with making that commitment for that period, you're also able to deliver gas. But that's not a known; what's known is that that firm transportation commitment is a legally binding obligation," he specified.

[3:25:11 PM](#)

REPRESENTATIVE ROSES recalled when Mr. Van Tuyl said that the economics have been misrepresented. He further recalled that Mr. Van Tuyl said that as a part of that [committed] volume and the commitment to inject gas into a pipeline to be delivered, a company can't ignore the value of that without calculating the

costs because without the costs the "borrow ability" is unknown. He related his understanding that Mr. Van Tuyl was referring to knowing the costs, beginning to end, in order for investors to commit to a specified amount of gas.

MR. VAN TUYL noted his agreement with Representative Roses. He added that the gas only flows down the pipeline if there was an upfront commitment made to the builder of the pipeline for the transportation capacity for a period of time. The commitment, which is a real obligation, had to be made first in order to allow the gas to flow. Therefore, the two have to be evaluated in concert, he highlighted.

[3:26:42 PM](#)

REPRESENTATIVE WILSON inquired as to whether [the producers] have ever experienced not having the amount of gas committed.

MR. VAN TUYL said there are always risks on the deliverability, the ability to actually move gas to the pipeline on a day-to-day basis. Mr. Van Tuyl confirmed that it has happened for BP, and said he could obtain statistics for the committee.

MS. KING noted that she has worked for Conoco in the United Kingdom on the Southern Gas Basin producing known assets. One winter it was particularly cold in the United Kingdom and there was an unexpected event that caused the company not to be able to deliver gas for an extended period of time, even in known producing fields. However, she said that she didn't have any collective statistics.

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CO-CHAIR GATTO related his understanding that each of the terms probable, possible, and proven all have an associated number. He said, "P90 for proven. You're sitting on the gas, you've pumped it for 20 years, you know it's there, you're allowed to say it's 90 percent proven." He then posed an assumption that Prudhoe Bay is 90 percent proven, which he said doesn't sound like a risk.

MR. VAN TUYL clarified that proven is a term of art with SEC reserve booking methodology. The resource that is known about at Prudhoe Bay is not a proven resource, although it's a known resource. Proven requires certain steps of commerciality.

[3:30:06 PM](#)

CO-CHAIR GATTO asked then if the gas moves from known to proven when the gas is available to be placed in the pipe.

MR. VAN TUYL explained that typically as a project matures, it would move through the reserve categorization. At the point of committing funds to develop the project, the SEC or the company's auditors would view that as a commitment to the project and sufficient commercial viability since the company is willing to place more investment into the project. At that point, the reserve is placed into the proven category, which has subcategories. Until this point, the resource isn't a proven resource.

[3:31:15 PM](#)

CO-CHAIR GATTO posed a situation in which the producer isn't the pipeline builder. As the pipeline is being built, the producer is waiting for the opportunity to bid for the reserves. At that point, would the producer review all the gas it has determined to be proven and decide that the FT would be made, he asked. "Is there some thing that happens at the moment you make your FT in a pipeline you do not own, you've taken on a responsibility to pay for the shipment of whatever FT you have but you've also gained the asset, the bookable reserve," he said.

MR. VAN TUYL pointed out that each company will have its own thresholds and standards of reserve booking. He said he didn't know if he could tell the committee definitively when a bookable reserve would occur in the aforementioned scenario.

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MS. KING requested that questions regarding how companies might view things with respect to making decisions during an open season be addressed on an individual basis.

MR. VAN TUYL pointed out that an open season is a competitive process and the [producers] are competitors who need to be able to act independently and compete.

[3:33:27 PM](#)

BILL MCMAHAN, Commercial Manager, Alaska Gas Development Group, ExxonMobil Corporation, regarding the progression of the booking of reserves, said that as a project gets closer to startup, individual companies may become more confident. He said that

one strategy could be to book a portion of the proven reserves as key milestones are made. For instance, a portion of proven reserves could be [booked] when the pipeline company makes commitments in the open season, obtains its permits, or when the pipeline company sanctions or funds the project. Mr. McMahan said that he hasn't viewed the booking of the proven reserves in this project as a singular event as it could be a series of events.

[3:34:42 PM](#)

CO-CHAIR GATTO likened the situation to a funnel in which the wide part of the funnel says there's no certificate and there's 100 percent uncertainty while the narrow portion of the funnel says that the certainty is 5 percent. Therefore, at some point between the 100 percent and 5 percent lies a significant amount of certainty and the company is willing to book certain amounts.

MR. MCMAHAN noted his agreement with the aforementioned characterization. As uncertainty narrows, the confidence to represent the gas resource to the investment community as proven increases.

[3:35:30 PM](#)

REPRESENTATIVE FAIRCLOUGH returned to the matter of cost fluctuations and FT commitments. With regard to Ms. King's example in the United Kingdom, Representative Fairclough inquired as to whether the company has a clause within the contract addressing acts of God or war that resulted in a company's inability to move gas that didn't require the producer to pay the shippers in these instances.

MS. KING said that the agreement in that particular instance is confidential. However, she offered that force majeure clauses are typical clauses in some arrangements. She explained that a pipeline entity is subject to a component of the charge called the demand charge, which must be paid whether gas is delivered or not. Ms. King related her anticipation that a pipeline entity negotiating firm shipping commitment would discuss how to handle a force majeure event.

[3:36:47 PM](#)

REPRESENTATIVE FAIRCLOUGH asked whether a pipeline entity would negotiate some flexibility in any contract in order to reduce

the risk from the demand clause in case something unforeseen happened.

MR. VAN TUYL explained that typically on a gas pipeline project a completion guarantee governs until the pipeline is put into service. Therefore, the entity that is building the pipeline has a guarantee to its lenders that the project will be completed. Until that point, the holders of the FT commitment aren't binding. Typically, once a project is placed in service the FT commitment is binding. For example, if the pipeline is in operation but something happens on the upstream end and the pipeline entity is unable to deliver gas to the project, the pipeline entity isn't excused from that obligation to deliver the gas. However, if there's some reason that the pipeline is unable to receive gas, that would typically relieve the pipeline entity of delivering gas until the pipeline is again able to receive gas. As mentioned earlier, the aforementioned is the subject of a negotiation between the pipeline company and the shipper.

[3:38:33 PM](#)

REPRESENTATIVE ROSES inquired as to at what point in the process from reserves, to probables, to known reserves, to an FT commitment does that commodity become the most valuable for getting investors to participate in a project.

MR. VAN TUYL opined that the commodity would be most valuable once it's able to be placed in a market, provided the market wants to accept that commodity. Therefore, the investment has been delivered, provided that it has been delivered in a manner that the commodity can be delivered to the market at a cost below the price of the commodity.

MS. KING reminded the committee of the testimony she provided on Monday when she tried to illustrate the gated decision-making process. Clearly, a critical milestone would be the open season. She noted that more engineering and environmental permitting work will continue in parallel with the FERC certification process. Furthermore, during that time the pipeline entity will continue to receive updated cost estimates and more market information. Ms. King said that the question is a bit unanswerable because there isn't knowledge as to what will happen in the market. The aforementioned is what she said she was trying to illustrate with her testimony on Monday. "There's going to be uncertainties and we're going to do all that we can in developing a project to try to mitigate those risk and

uncertainties in advance, but you don't know what's going to happen, for example, to the price of steel or the cost of labor," she said.

[3:41:36 PM](#)

CO-CHAIR GATTO related his understanding that this conversation is leading to the determination of what the net present value is. He recalled that Mr. Scott presented a different net present value than that [of the producers].

MR. VAN TUYL said that his testimony will briefly touch on that.

[3:42:16 PM](#)

REPRESENTATIVE ROSES related that his anticipation was that Mr. Van Tuyl would [specify that the point in the process a commodity becomes the most valuable for getting investors to participate in a project] is when the firm commitment is made. However, he recalled that Mr. Van Tuyl said that's also the point at which it's classified as the greatest risk.

MR. VAN TUYL confirmed that the point at which there's a firm transportation is a great risk because the pipeline entity doesn't know whether it can enter the market and obtain a sufficient price for the commodity to cover the costs for the duration of the firm transportation commitment.

REPRESENTATIVE ROSES surmised then that if it is the greatest asset and potentially the greatest risk, the pipeline entity would try to maximize the amount put into it in order to capitalize on the greatest potential asset. Therefore, the pipeline entity will want to ensure the price is as low as it is in all aspects in order to minimize the potential risk.

MR. VAN TUYL agreed with Representative Roses, adding that there are certain things that the pipeline entity can try to control or at least influence to reduce those risks it can. If the pipeline entity controls the risks that it can, it increases the likelihood that the pipeline entity will have a good outcome.

[3:43:55 PM](#)

CO-CHAIR GATTO asked if [BP] would care about the risk if it were the pipeline owner.

MR. VAN TUYL opined that the pipeline owner will want to ensure that it has customers for a long time in order to have an expandable project with more customers. Therefore, he opined that the pipeline owner would want to have a project that attracts customers. He pointed out that part of the dynamic is that if an entity is just a pipeline company, the only source of revenue is from the rate base. Therefore, the pipeline company is motivated to increase the rate base and the tariff while ensuring the customers remain. The aforementioned is different from an entity that wants to maximize the value of the resource, which would desire the lowest cost project.

[3:44:56 PM](#)

CO-CHAIR GATTO surmised then that since this pipeline is certainly a monopoly pipeline, the builder wouldn't have much of an interest, except to ensure that it cost quite a bit. He asked if that would be expected from an entity that is only building the pipeline.

MR. VAN TUYL answered that as a resource owner [BP] would certainly have the motivation to deliver a low cost project to prevent the aforementioned situation. A [resource owner] would want a low capital and low operating cost project in order to ensure the value of the resource is maximized over time.

[3:45:40 PM](#)

REPRESENTATIVE SEATON highlighted that this exact problem has occurred with a producer-owned pipeline in TAPS, at least for the interstate portion.

MR. VAN TUYL responded, "We do want the lowest possible capital cost project." He then noted that FERC will adjudicate the rates associated with the project and review the return on equity and the cost of debt.

[3:47:22 PM](#)

REPRESENTATIVE SEATON said he agreed that [the producers] want the lowest cost project, but whether it's the lowest tariff is a different discussion. With regard to the portion of risk being borne by the pipeline company for delays, the risk is on the pipeline owner and those doing the debt service on the pipeline because FT doesn't go into effect until the pipeline is in service.

[3:48:28 PM](#)

MR. VAN TUYL returned to his prepared testimony and concluded the portion addressing the nature of firm transportation commitments:

And generic statements about treatment of long term commercial commitments is dangerous. Commitments of the magnitude required to underpin this project are massive in both the dollar amount and the likely duration.

These commitments will create their own weather in the financial markets - they must be considered.

[3:49:21 PM](#)

**Point Number Three**

The third and final point we wanted to emphasize this afternoon is that confidence in future cash flows is very important in evaluating the commercial viability of any investment decision. That is particularly true for a commitment as large as the Alaska gas pipeline project.

Mr. Scott suggested that cash flows beyond 10 years are effectively inconsequential in financial decision making on this project That's not true.

[3:49:53 PM](#)

CO-CHAIR GATTO interjected that he didn't believe that Mr. Scott ever used the word "inconsequential" but rather made the point that it was significantly abbreviated.

[3:50:11 PM](#)

MR. VAN TUYL said he would accept Co-Chair Gatto's correction, but opined that the point stands that the implication was the focus is on the cash flows for the first 10 years and beyond that they become less important. The [producers], he related, don't believe that to be true. Mr. Van Tuyl then returned to his prepared testimony:

Cash flows further out in time tend to have less effect on NPV - this is true  
But cash impact years into the future will indeed be real

Many factors are used to evaluate a go - no-go decision for a project, not just one economic yardstick like NPV

In evaluating the economics of projects, we look at many different measures. NPV, IRR and PI are just some of the measures which are considered.

The ability of a project to generate long-term cash flow is also an important consideration to investors.

It's important to bear in mind that we expect the FT commitments we just talked about will be in effect well beyond 10 years.

So those making long terms commitments want to know that they'll be able to make good on them. Lenders will want to know this, too.

[3:51:24 PM](#)

REPRESENTATIVE GUTTENBERG inquired as to what Mr. Van Tuyl views as the duration of the FTs in the first open season in a normal project versus that of Alaska's project.

MR. VAN TUYL specified that the duration of the FT can vary and depends upon the project. The Alliance pipeline going from Alberta into the Chicago area was 15 years for 1.6 billion cubic feet a day, \$3.7 billion project. The Rockies Express pipeline had a 10-year FT. Because the Alaska project is significantly larger in the size, cost, and nature of the project, the expected FT required should be commensurately longer. He said that he couldn't say with certainty the duration of the FT. He then highlighted that an important trend to know is that in general the longer the term of the FT, the lower the risk on the pipeline. Therefore, the lower the toll charged by the pipeline. The aforementioned illustrates the benefit to the shipper to be able to enter into longer FT because of the lower toll, but that must be weighed against the risk of entering into that longer commitment.

[3:52:51 PM](#)

CO-CHAIR GATTO mentioned that he has a Lukens Energy Group report by Dr. Jay Lukens, dated June 30, 2005, that includes a profile showing that from about 0-12 years, it's a 100 percent and from 12-15 years, it's 97 percent. He noted that it's a 4.3 bcf Alaska gas reserve profile. Therefore, he surmised that [the duration of the FT] would be at least 15 years.

[3:53:54 PM](#)

MR. VAN TUYL continued with his prepared remarks:

Let's consider this point from a different perspective.

When making a decision to purchase a home that you know you'll live in for 30 years, will the interest rate on your mortgage still matter after 10 years? I think it will.

Will the property tax assessment no longer matter after 10 years? Or the property tax rate?

They certainly will matter, because cash generation is an important factor in personal budgeting, just as it is to a major corporation in making an investment decision.

Getting this project right has enough challenges of its own, let alone when we have such fundamental disagreement with how the project is characterized.

Thank you for the opportunity to share these concerns with you.

As I mentioned at the start, we have many other concerns with Mr. Scott's testimony, but I've limited these remarks this afternoon to these three areas. That concludes the testimony prepared by BP, ConocoPhillips and ExxonMobil unless Wendy or Bill have anything to add. The three of us would be happy to answer any questions

[3:55:19 PM](#)

MR. MCMAHAN said that he wanted to reinforce what Mr. Van Tuyl has shared in regard to Mr. Scott's analysis. With regard to the TAPS tariff dispute, Mr. McMahan said that the difference between the proposed gasline and TAPS is that TAPS is complete and running now. Therefore, the cost of TAPS is known. The owners of TAPS are simply trying to receive the return on their agreed upon investment. He acknowledged that it's understandable that shippers on TAPS would like a lower tax, which is what they're requesting. The FERC has been given the authority to settle this difference of opinion. Mr. McMahan said that the focus thus far on lowest possible cost is because the Alaska gasline hasn't yet been built.

[3:56:37 PM](#)

CO-CHAIR GATTO related his understanding that Mr. McMahan is referring to the TAPS settlement methodology. Under that methodology, the RCA would determine the tariff if the pipe were completely within the state and the product didn't leave the state.

MR. MCMAHAN said that is his understanding as well.

[3:57:08 PM](#)

CO-CHAIR GATTO further related his understanding that the oil goes to Valdez and if it's used in the state the tariff is \$2 whereas if the oil is placed on a boat, the tariff is over \$5. The aforementioned is a huge discrepancy, which certainly impacted those who didn't own the pipeline but wanted to ship oil. He related his belief that the state is one of those entities. He related his understanding that the aforementioned hasn't been decided, but will be decided by FERC.

MR. MCMAHAN said that's correct.

[3:58:07 PM](#)

MS. KING added that [the producers] will further expand on its comments if allowed to do so in future committees.

[3:59:09 PM](#)

MS. KING said that the three points brought before the committee today are the areas of focus. She then turned to the issue of reserves and highlighted that one of the critical issues will always be the deliverability of those reserves. The gas in the ground is different than the rate at which the gas can be produced. Therefore, assumptions and decisions will have to be made in relation to the 20- to 25-year shipping commitments being contemplated. Furthermore, the lead time is substantial.

[4:01:14 PM](#)

REPRESENTATIVE ROSES recalled that one witness today testified that AGIA is a joke as there aren't enough reserves and by the time the gas is pumped in the pipeline to get the oil out, it's a waste of time and money. He asked if the producers would care to comment.

[4:01:41 PM](#)

MR. VAN TUYL said that the producers don't share that view. The producers committed \$125 million to advance the project and demonstrate sufficient confidence that the producers would be able to get the gas to market. He said that the producers continue to be encouraged about the prospects of this project being able to deliver this gas to market. He mentioned those at BP like to talk about a 50-year future, which is only possible if Alaska's gas goes to market. Furthermore, BP believes the aforementioned is possible and thus it makes a lot of other things possible, such as developing heavy oil on the North Slope and extending the life of TAPS. Therefore, [the producers] are absolutely committed to getting Alaska's gas to market while recognizing the regulatory hurdles.

[4:03:35 PM](#)

MS. KING drew attention to her previous testimony and reminded the committee that ConocoPhillips worked very hard since 2000 to advance the gasline project. ConocoPhillips, she related, believes there is potential value in this project and want to continue to pursue that. However, ConocoPhillips doesn't believe the project is without risk as there are no guarantees in regard to the project economics. Still, ConocoPhillips is continuing to work to advance the gasline project.

[4:04:10 PM](#)

REPRESENTATIVE SEATON recalled that most of [ConocoPhillips'] testimony has been about upstream in the aspects of AGIA. He further recalled testimony that the royalty inducements and the 90-day switching from royalty in-value to royalty in-kind is problematic for [the producers]. Therefore, there was some discussion of doing royalty in-value with the guarantee that the producers would supply to in-state residential and commercial markets. Representative Seaton asked if that's something in which the producers are still interested.

MR. VAN TUYL said that [BP] is interested in pursuing any means that is mutually agreeable to mitigate those risks. He emphasized that switching from royalty in-value to royalty in-kind is incompatible with the long-term contracts required as well as the purchase and sell agreements.

MS. KING confirmed that [ConocoPhillips] wants to continue to find a way to work the entire area of the resource inducements prior to an open season. Therefore, the producers would like to

continue a conversation with the governor and the legislature on this matter.

[4:06:46 PM](#)

REPRESENTATIVE SEATON commented that the high side of in-state use on residential and commercial would probably be .3 bcf. He then highlighted that many portions of AGIA ensure that there is gas for in-state use. He asked if the producers view the elimination of the switching with the assurance that the producers would supply the in-state gas at distance-sensitive rates as beneficial.

MR. MCMAHAN said that this example highlights the need to make AGIA objective driven. If the [producers] understand the state's needs through AGIA, then that will free up the applicants to propose innovative ways to meet the state's needs. Given that freedom, it would be possible for an applicant to address the concerns with switching and its incompatibility with FT commitments while addressing the state's need for ensuring gas is available and deliveries are made in state.

[4:09:31 PM](#)

REPRESENTATIVE SEATON surmised then that from ExxonMobil's perspective, the switching is problematic.

MR. MCMAHAN replied yes.

[4:10:08 PM](#)

CO-CHAIR GATTO related his understanding that when gas is shipped down the pipe and the state takes it as in-kind, there is space, a vacuum, going down the line. He inquired as to what happens to that available space for new gas.

MR. MCMAHAN responded that it depends on when the gap occurs. If it's known going into the open season that the state is going to take gas in-kind and deliver it to an in-state market, then the pipeline constructor will be able to design the pipe downstream of that point so that there isn't an unused portion of capacity. However, if that in-state delivery materializes after the design and construction of the pipeline, then there could be some unused capacity downstream of that point and for which there would need to be payment. The lenders who will loan the money to build this project will need to be paid for the entire line.

4:11:47 PM

CO-CHAIR GATTO surmised then that a pipeline builder would prefer that there not be any offtakes.

MR. MCMAHAN replied no, the pipeline builder would prefer to know the location and the volume of the offtakes in order to design the pipeline to match that service.

MR. VAN TUYL pointed out that the Alaska Natural Gas Pipeline Act actually envisions an in-state use study to be conducted prior to the initial open season, presumably to design the pipeline appropriately and avoid the aforementioned situation.

4:12:47 PM

CO-CHAIR GATTO said he would guess that the size of the pipe wouldn't change following an offtake.

MR. VAN TUYL answered that it would depend on the magnitude of the offtake. Typically, an offtake could be accommodated with the design of the compression system downstream. He said that there could be a smaller diameter pipe, if there's a significant change in the offtake.

CO-CHAIR GATTO related his understanding that the administration wants to write regulations such that the larger the offtake, the longer lead time companies would have for switching. Co-Chair Gatto expressed concern with the amount of offtake.

4:13:47 PM

REPRESENTATIVE SEATON recalled that discussions about the previous package generally considered allowing for future growth in use will probably amount to about .3 bcf for all residential and commercial in-state use. However, that doesn't include something like Nikiski LNG or Agrium or another industry. The chief concern, he opined, in AGIA is to ensure that commercial and residential uses are covered.

MS. KING said that those order of magnitude figures are consistent with some of the previous studies. She reminded the committee that FERC will require an in-state needs study prior to an open season in order to address services of in-state needs.

[4:15:10 PM](#)

CO-CHAIR GATTO, upon determining no one else wished to testify, announced that public testimony is closed.

[4:15:27 PM](#)

REPRESENTATIVE EDGMON posed a situation in which the legislation is passed, signed by the governor, and is fairly similar to the legislation as it stands today. He surmised that such a situation would be unacceptable to the producers and they won't be able to participate. Therefore, he questioned where such a situation would leave the producers.

MR. VAN TUYL said if CSHB 177(O&G) passes, BP wouldn't be in a position to submit a bid. He reminded the committee that BP, in its testimony, has highlighted the chief concerns it has that would need to be addressed to place BP in a position of submitting a bid. Mr. Van Tuyl emphasized that BP hopes that the legislation will arrive in a structure that will allow BP to submit a bid because BP wants to be able to submit a bid. He related that the company will be focused on getting the legislation in a structure that allows the maximum chance for the construction of a gasline.

[4:17:44 PM](#)

REPRESENTATIVE EDGMON asked whether his characterization of fundamental differences is an overstatement.

MR. MCMAHAN confirmed that there are fundamental differences with CSHB 177(O&G). As currently drafted, AGIA is very prescriptive in the way in which the state expects a proposal to be tabled. Mr. McMahan noted his agreement with Mr. Massey's earlier testimony that AGIA in its current form actually limits competition. Therefore, Mr. McMahan recommended the substitution of less prescriptive legislation that clearly lays out the objectives the state has, invites applicants to propose how to best meet those objectives, and specifies selection criteria that the state will use to determine which applicant best meets the state's objectives.

[4:19:08 PM](#)

CO-CHAIR GATTO recalled that Ms. King suggested use of the term "bid variables" rather than "must-haves." He opined that "bid variables" sounds completely like the previous administration's

goal of having the [applicants] tell the state what they need and the state giving it to [the applicant]. Co-Chair Gatto identified the aforementioned as the problem. The very issue is that the "must haves" are very tolerable, although they do limit the competition in some ways. The legislature wants a pipeline, he stressed. He then related his expectation that an independent company will have the most interest in the gasline. The producers, he opined, seem to be saying that they might not bid, but fall short of saying that they won't bid. He then highlighted the magnitude of this project in terms of importance to Alaska and the country as a whole. Co-Chair Gatto begged the producers to not give up on this project. He informed everyone that the committee would consider amendments on Monday and as of yet he hasn't received any from the producers. He mentioned his hope that the producers will provide some amendments Monday. Co-Chair Gatto then passed out amendments to the committee.

[HB 177 was held over.]

[4:24:29 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 4:24 p.m.