ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RULES STANDING COMMITTEE
SENATE SPECIAL COMMITTEE ON ENERGY
June 5, 2008
9:03 a.m.

MEMBERS PRESENT

HOUSE RULES

Representative John Coghill, Chair
Representative John Harris (AGIA Subcommittee, Chair)
Representative Anna Fairclough
Representative Craig Johnson
Representative Ralph Samuels (AGIA Subcommittee)
Representative Beth Kerttula (AGIA Subcommittee)
Representative David Guttenberg

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Charlie Huggins, Chair
Senator Bert Stedman, Vice Chair
Senator Kim Elton
Senator Lyda Green
Senator Lyman Hoffman
Senator Lesil McGuire
Senator Donald Olson
Senator Gary Stevens
Senator Joe Thomas
Senator Bill Wielechowski
Senator Fred Dyson
Senator Thomas Wagoner

MEMBERS ABSENT

HOUSE RULES

All members present

SENATE SPECIAL COMMITTEE ON ENERGY

All members present

OTHER LEGISLATORS PRESENT

Representative Bob Buch

Representative Mike Chenault
Representative Sharon Cissna
Representative Harry Crawford
Representative Nancy Dahlstrom
Representative Andrea Doll
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative Berta Gardner
Representative Carl Gatto
Representative Mike Hawker
Representative Lindsey Holmes
Representative Kyle Johansen
Representative Reggie Joule
Representative Scott Kawasaki
Representative Wes Keller
Representative Mike Kelly
Representative Gabrielle LeDoux
Representative Bob Lynn
Representative Kevin Meyer
Representative Mark Neuman
Representative Kurt Olson
Representative Bob Roses
Representative Woodie Salmon
Representative Paul Seaton
Representative Bill Stoltze
Representative Bill Thomas
Representative Peggy Wilson

Senator Con Bunde
Senator Bettye Davis
Senator Johnny Ellis
Senator Hollis French
Senator Gene Therriault
Senator Gary Wilken

COMMITTEE CALENDAR

HOUSE BILL NO. 3001
"An Act approving issuance of a license by the commissioner of revenue and the commissioner of natural resources to TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd., jointly as licensee, under the Alaska Gasline Inducement Act; and providing for an effective date."

- HEARD AND HELD

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- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 3001
SHORT TITLE: APPROVING AGIA LICENSE
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(H)	READ THE FIRST TIME - REFERRALS
06/03/08	(H)	RLS
06/03/08	(H)	WRITTEN FINDINGS & DETERMINATION
06/04/08	(H)	RLS AT 9:00 AM CAPITOL 120
06/04/08	(H)	Heard & Held; Assigned to Subcommittee
06/04/08	(H)	MINUTE(RLS)
06/05/08	(H)	RLS AT 9:00 AM TERRY MILLER GYM

BILL: SB 3001
SHORT TITLE: APPROVING AGIA LICENSE
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(S)	READ THE FIRST TIME - REFERRALS
06/03/08	(S)	ENR
06/03/08	(S)	REPORT ON FINDINGS AND DETERMINATION
06/04/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/04/08	(S)	Heard & Held
06/04/08	(S)	MINUTE(ENR)
06/05/08	(S)	ENR AT 9:00 AM TERRY MILLER GYM

WITNESS REGISTER

LESA ADAIR
Muse Stancil & Co.
Addison, Texas
POSITION STATEMENT: Continued her presentation titled "TransCanada Gas Pipeline and Storage Assets."

DAN DICKINSON, Certified Public Accountant (CPA), Consultant
Legislative Budget and Audit Committee
Alaska State Legislature
Anchorage, Alaska

POSITION STATEMENT: Provided his presentation titled "Some things to look for and ask about in the AGIA License Determination."

JOHN NERI, PhD, Consultant
Benjamin Schlesinger & Assoc., Inc.
Bethesda, Maryland
POSITION STATEMENT: During hearing, answered questions.

BARRY PULLIAM, Consultant
Econ One Research, Inc.
Los Angeles, California
POSITION STATEMENT: During hearing, answered questions.

ACTION NARRATIVE

REPRESENTATIVE RALPH SAMUELS called the joint meeting of the House Rules Standing Committee Subcommittee on AGIA and the Senate Special Committee on Energy to order at 9:03:17 AM.

HB 3001-APPROVING AGIA LICENSE
SB 3001-APPROVING AGIA LICENSE

REPRESENTATIVE SAMUELS announced that today Ms. Adair would continue her presentation titled "TransCanada Gas Pipeline and Storage Assets."

9:04:00 AM

LESA ADAIR, Muse Stancil & Co., reviewed the matters that she would discuss today as specified on slide 33 of the presentation titled "Financial Assessment of the Impact of the Alaska Gas Pipeline." Referring to slide 34 titled "TransCanada Gas Pipeline and Storage Assets", Ms. Adair related that the table on this slide is from the TransCanada Alaska Company, LLC (TransCanada), web site and the numbers presented from 2006 aren't that different than those for 2007. The table illustrates that TransCanada has significant gas throughput on its systems. She emphasized the need to keep in mind when reviewing these numbers that some of these systems feed into other systems. Therefore, one can't view each [of these throughputs] as individual modules of gas that are independent of one another. There is double counting, she highlighted. For instance, some of the gas that comes on the Alberta System may also flow into the Canadian Mainline system. Ms. Adair informed the committee that TransCanada has both wholly owned and affiliated interests in pipelines. It's certainly the case that for some of these affiliated systems there are multiple owners, she noted. TransCanada also owns TC PipeLines, LP, which is a publicly held limited partnership that owns some of the affiliated interests as well. She then relayed that the appendix of the handout includes more detailed information with regard to individual systems and their origin and termination points. Referring to slide 35 titled "Canadian Gas Pipelines," Ms. Adair reviewed that the Alberta System gathers natural gas for the Canadian Mainline and connects to the BC System, the Foothills System, and other pipelines in the area. The Canadian Mainline extends into Eastern Canada and delivers natural gas to Northeastern U.S. She informed the members that Foothills is bringing natural gas from Alberta to markets in the U.S. Midwest, Pacific Northwest, California, and Nevada. Ventures LP, she related, supports natural gas demand in the oil sands region while TQM transports from the Canadian Mainline to Quebec City and connects to the Portland system.

MS. ADAIR, referring to slide 35 titled "Gas Storage Overview," explained that the yellow triangles on the map represent the gas storage projects owned by TransCanada, which amounts to about one-third of the natural gas storage in Alberta. The two large projects [in Alberta] are the Edson and Crossalta facilities, which are well located to support demand in the area. "Gas storage is really there to makeup the difference between what the pipelines can deliver and demand in high-demand seasons - Alberta in the winter especially," she said. The Canadian storage being discussed doesn't include the Michigan project, although it's affiliated with [TransCanada's] operations in the ANR Pipeline.

MS. ADAIR then turned to the gas production forecast. The numbers that will be shown are based on the National Energy Board (NEB) and other publicly available sources, such as the Energy Information Administration (EIA). She then directed attention to the chart on slide 38 titled "Production by Province," which illustrates that currently most of the natural gas comes from Alberta and will continue to do so in the future. Although there is some production in the eastern provinces, it's relatively small. Following Alberta, the next largest source of production is British Columbia.

9:09:52 AM

REPRESENTATIVE GUTTENBERG inquired as to the location of the Yukon production on the chart [on slide 38].

MS. ADAIR relayed that it's probably a small slice that's difficult see. Therefore, she offered to pull the numbers out later for discussion.

9:10:15 AM

MS. ADAIR, continuing with slide 39 titled "Western Canada Natural Gas Production Outlook," remarked that folks like to review the various sources and the sorts of technologies required to extract oil and gas, given the types of reservoirs being exploited. The chart on slide 39 illustrates that conventional drilling is the most common. She then directed attention to the swath representing coal bed methane (cbm), and added that there's a large amount of cbm development in Wyoming and Montana. Coal bed methane development is a large trend that is continuing to develop throughout North America. The chart also illustrates that shale[production], although not large in Canada, is huge in the Central U.S. For instance, in Texas the Barnett shale was producing almost no natural gas at all, but is now producing over 3 billion cubic feet a day (Bcf/d). Most of that production came online in the last three years and the trend is now extending west to the Texas pan handle and north into Louisiana and Arkansas. Some forecasts project that there could be 4 Bcf/d from northern Louisiana in another three to five years. In British Columbia the shale play is just beginning, as indicated by a recent [gas prospects] lease sale. She related that there have been about five discoveries of the magnitude of 6-10 trillion cubic feet (Tcf) per discovery. Although how that shale play is going to develop in British Columbia is still a question, the gas will compete for capacity and the new discovery isn't included in the forecast being presented.

9:12:38 AM

MS. ADAIR then highlighted that the NEB is forecasting that Mackenzie will come on stream in 2015 with about 1.2 Bcf/d. Turning to slide 40 titled "Western Canada Gas Demand," she pointed out that the total gas demand by province is well below the production available from Canada in the timeframe of the forecast through 2030. Ms. Adair opined that although Alberta demand has been strong and it's believed that it will continue to grow, there are many energy improvement projects. Even with respect to the oil sands, there are efforts to conserve natural gas, she related. Still, there will be plenty of gas produced to meet the demand in Canada. In response to Representative Samuels, Ms. Adair confirmed that the demand is for total demand

and included the usage of tar sands, not just power generation. Moving on to slide 41 titled "Alberta Gas Demand," she pointed out that the chart illustrates that there is huge industrial demand in Alberta of which oil sands is a large portion. Coal gasification is becoming more prevalent and will likely be adopted more for use in the oil sands going forward, and therefore it's included in the forecast [presented on slide 41].

MS. ADAIR, referring to slide 42 titled "Alberta Hub and Export Capacity," reminded legislators that the hub is a large market area, not a single point in the pipeline. The supply to the hub today comes from production in Alberta and British Columbia. The total export capacity out of Alberta is about 11 Bcf/d, which is post-conversion of TransCanada's Mainline capacity that will be put into crude oil service. There are new supplies from Mackenzie and Alaska gas coming into Alberta at Boundary Lake. Therefore, she opined that there is about 11 Bcf/d take away capacity available. Slide 43 titled "Proposed Alaska Gas Pipeline Route" illustrates where the pipeline will hook into the system. There will be some new build pipe required, she noted. She then highlighted that basically the gas will come in, pass through the hub, and be available to move to almost all the markets in the U.S.

MS. ADAIR, referring to the chart on slide 44 titled "Alberta Gas Supply Forecast," informed the members that the forecast of the Alberta production and what's coming out of British Columbia and Mackenzie gas results in excess capacity in the system. This excess capacity is available before and after Alaska gas. Only during startup does there pose a bit of an issue to try to move all the gas through existing capacity. She emphasized that the timing of when AGP [Alaska Gas Pipeline] starts up and when some of the other projects come on line and how the decline occurs in various areas over time are factors. One must keep in mind, she opined, that NEB's forecast is about $7 per thousand thousand British thermal unit (MMBtu) equivalent Henry Hub price, although gas prices are higher than that today. The aforementioned may stimulate additional drilling and production, which might create tighter capacity utilization here. However, if the Alaska gasline project slips at all, there may be no problem with capacity. Ms. Adair said, "We feel very comfortable that we're in a good situation, with respect to that gas coming in and that if there are changes that need to be made, they're not going to be big changes. You should be able to handle all that gas through the Alberta Hub."

9:18:07 AM

MS. ADAIR, referring to slide 45 titled "Future Performance of TransCanada's Canadian Gas Assets," informed the members that Muse Stancil staff who work primarily in oil sands and gas projects performed a study late last year regarding how many of the announced projects were likely to go forward. At that time, the thought was that about two-thirds of the announced projects would move forward and become productive. Since that time oil prices have increased, and therefore it's possible that it would be an even higher percentage of projects that would move forward. Most of those projects, she projected, will move forward in the near- to medium-term. Ms. Adair then turned to CO_2 sequestration and reminded members that Canada has signed the Kyoto Accord. Canada, she relayed, is working through its federal government to try to implement changes to the system that would adhere to the Kyoto Accord. In February 2008 British Columbia did unveil a carbon tax program. For most of the places for which there is concern [regarding CO_2], including Alberta, British Columbia, and even perhaps Alaska, there are existing developed geologic reservoirs. From a technological standpoint, CO_2 can be removed by injecting it into reservoirs. In fact, she recalled working on a project in the 1980s in which a 1950s process to take gas off of boilers to be injected into the ground for miscible flooding was used in order to increase oil recovery. Although this is nothing new with regard to technology, it comes at a cost. Ms. Adair said it remains to be seen when the [Kyoto Accord] mandates will be implemented and the technology that will evolve to minimize the cost associated with the disposal or minimization of green house emissions. In terms of announced projects, the aforementioned isn't viewed as being a big problem.

9:21:20 AM

REPRESENTATIVE NEUMAN asked if by 2018, when both the Denali Project and TransCanada propose to be running, ConocoPhillips Alaska, Inc. (ConocoPhillips) and BP will have need to replenish the reserves and will there be the market demand to ensure that Alaska's gas goes into the market.

MS. ADAIR explained that all of the forecasts for natural gas demand include growth. For example, "T-Electric" (ph) in Texas tried to certificate new coal burning capacity. However, T-Electric wasn't certificated because of the air quality concerns with regard to burning coal. "Natural gas does not have those kinds of issues, yet, because ... we haven't made big moves to limit natural gas electrical generation," she pointed out. She also pointed out that many projects are being developed to meet the increased demand. The future seems to hold continued demand. In fact, the current demand in the U.S. is being met with imports from Canada. She projected that those Canadian imports will continue to be needed as well as liquefied natural gas (LNG). Ms. Adair opined that there will definitely be demand. The question is regarding what is the most economic source, Alaska gas or LNG.

REPRESENTATIVE NEUMAN asked specifically if there will be enough demand to use Alaska's gas.

MS. ADAIR answered that the best information available today says that there will be enough demand to use Alaska's gas. However, there is always the possibility that prices could rise so high that the elasticity of demand would result in customers cutting back as was recently seen in Juneau. Ms. Adair, returning to the presentation and slide 47 titled "Evaluation of Natural Gas Storage and Outlook," said that there have been a lot of gas storage projects developed in the U.S. over the last five years. The reason for that is as the U.S. relies more heavily on imported supplies and supplies that are located farther and farther from the large demand centers, gas storage helps balance out the available supply through the pipelines with the instantaneous demand in the large-use markets. TransCanada's two projects are well positioned to do the aforementioned. Those two projects have been profitable and provide a vital service to the region, which she opined will continue. Furthermore, the future demand for storage will be good as gas supplies and development occur farther away from the demand centers.

9:26:11 AM

MS. ADAIR reviewed slide 49 titled "TransCanada's Canadian Gas Assets Without Alaska Gas Supply" and slide 50 titled "TransCanada's Canadian Gas Assets With Alaska Gas Supply." As the chart on slide 50 relates, the Alaska gas supply provides a significant increase in net income.

9:28:23 AM

REPRESENTATIVE GATTO, referring to the chart on slide 50, asked if the y-axis that is labeled "Millions of U.S. Dollars" refers to the tariff on the pipe or value.

MS. ADAIR responded that it refers to value, net income. She explained that it's taking the tariff as revenue and netting out TransCanada's costs.

REPRESENTATIVE GATTO surmised, then, that the chart projects out to 2028 as if the price of gas in the year 2028 is known. He characterized that as "quite the prediction," particularly given the view that nothing counts more than the price of gas.

MS. ADAIR clarified that the chart is relating TransCanada's service. She explained that TransCanada doesn't own gas, and therefore the chart shows the revenue TransCanada would generate from operating the pipeline. She further clarified that the chart relates tariffs net of cost.

9:29:51 AM

MS. ADAIR, referring to slide 53 titled "TransCanada Other Gas Pipeline Assets," noted that some of TransCanada's assets are integrated with the Canadian assets. She then informed the committee that in 2007 TransCanada acquired ANR, which is a large system that transports gas from the U.S. Gulf Coast to the Midwest. Ms. Adair characterized ANR as a great asset that also provides useful storage. The GTN System links Foothills Pipe Lines Ltd. ("Foothills") and moves gas south out of Mexico. The Great Lakes also serves through the Midwestern U.S. Iroquois delivers gas from the Canadian Mainline to New York State. She also mentioned the Portland, Tamazunchale, Transgas, and Gas Pacific projects. The aforementioned projects illustrate that there are lots of gas transportation assets in the portfolio.

9:31:12 AM

SENATOR THERRIAULT recalled slide 29, which refers to supporting the expected supply shortfall in petrochemical feedstock. He inquired as to what petrochemical is being referenced.

MS. ADAIR said that it's referring to the ethane demand. Ethane crackers and derivative chemicals manufacturing in Canada. In further response, Ms. Adair clarified that it was meant to say: "If the Alaska gas comes in, that's one of the things that flowing that gas through TransCanada would give you access to those markets."

SENATOR THERRIAULT then turned attention to slide 53, and noted that some have said that the Alaska pipeline will swamp the market, and it would be a poor business decision for TransCanada to develop a pipeline that kills the market for one of its other assets. Therefore, he requested that Ms. Adair discuss overall demand and whether this business enterprise places any other branch of the enterprise at risk of losing the market.

MS. ADAIR explained that with the available capacity of 11 Bcf/d at the Alberta Hub there isn't much of a bottleneck once Alaska's gas is laid in. She pointed out that is looking at the take-
away capacity today coming out of the hub and connecting to some of the different pipelines for distribution of gas. Although there may be a few pinch points, the capacity seems to be adequate. However, there may be issues with a gas system like ANR as there may be gas on gas competition. When the aforementioned happens, typically the market redistributes the gas such that some of the ANR gas jumps off the system and flows east sooner while pushing imports out from the East Coast.

9:34:07 AM

MS. ADAIR moves on to slide 55 titled "Power Segment Overview," which specifies the locations of all the power generation facilities in TransCanada's portfolio. TransCanada has a lot of assets in Alberta and the U.S. Northeast. When it comes to fuel sources for generation, TransCanada has a lot of diversity. She pointed out that TransCanada's portfolio even includes some wind, hydro, and nuclear power. To the extent TransCanada's assets are natural gas, those assets tie in well with the natural gas transmission and storage business the company has. She noted that the appendix includes a summary of the characteristics of the various markets. TransCanada does have a lot of power development projects in its formula as well. In fact, as related by slide 58 titled "Power Projects in Development," TransCanada has four good size projects underway with several in the development phase. Some of those projects tie into existing [projects]. Three projects are in the advanced development stage such that the company is close to committing capital for them.

9:35:45 AM

MS. ADAIR, referring to slide 59 titled "TransCanada's Keystone Crude Pipeline Project," related that Keystone will be the first crude oil pipeline in the portfolio. The initial phase of 435,000 barrels a day is to be expanded to 590,000 barrels a day. [Shippers] have already subscribed for 495,000 barrels a day of capacity with an 18-year contract life. ConocoPhillips is a partner with TransCanada. As related by slide 59 titled "TransCanada's Keystone Crude Pipeline Project," the project should be in service by the end of 2009.

MS. ADAIR, referring to slide 60 titled "LNG Terminal Development Assessment of Projects (continued)," reminded members that in late 2000 and early 2001 gas prices spiked and there were a large number of LNG projects announced. In fact, she recalled the announcement of the construction of over 30 projects in the U.S. in which import terminals were built with the hope that people would deliver LNG as well as terminals that were aligned with large gas deposits overseas. However, the aforementioned never happened. There are two new projects on the U.S. Gulf Coast. Although there haven't been a huge amount of LNG imports, TransCanada has announced the following two LNG terminal development projects: Broadwater Energy and Cacouna Energy. Broadwater Energy, in particular, has some fairly compelling economics because it will be able to address the large capacity constraint issues for those going into the New York - Connecticut area markets. The Quebec project, Cacouna Energy, is stalled at the moment.

MS. ADAIR opined that LNG terminal development has been impacted by capital cost escalation, uncertainty of available gas supply, public opposition to terminal site development, and the inability to obtain commitment from foreign reserves to the LNG projects. The U.S. natural gas prices, she noted, haven't been high enough to induce a lot of gas to come this way on the water.

9:39:24 AM

MS. ADAIR, referring to slide 63 titled "North American Gas Supply and Demand Impacts on TransCanada," related, in regard to ANR [development along the U.S. Gulf Coast], that there has been a longer lead time on deep water development. Furthermore, from a supply standpoint ANR has experienced development that has been farther west or farther east in the Gulf of Mexico relative to the ANR mainline. However, ANR is well located to take supplies from these new shale plays, including the Barnett shale and the Louisiana shale plays. Therefore, she expected ANR's supply basins to shift from the Gulf of Mexico to shale in the future. There is reserve development and competition in the U.S. Rocky Mountains. When more gas comes from the U.S. Rocky Mountains it will compete with gas from elsewhere, which may result in gas-on-gas competition and reshuffling in traditional supply patterns.

MS. ADAIR opined that LNG terminal development will continue and will likely be in niche locations and serve specific markets or along the U.S. Gulf Coast. Over time there will probably be plenty of capacity available for that, although most of it will likely be on the U.S. Gulf Coast. The impact on ANR may not be large as ANR turns more to shale gas. Furthermore, depending upon the location of the terminals, some gas may switch to ANR as capacity in the east is filled with LNG supplies.

9:42:43 AM

MS. ADAIR, referring to slide 65 titled "Impact of Alaska Gas Supply on TransCanada's Future Earnings," discussed the potential financing, debt and equity, return on equity. Financing should be available for the Alaska gasline project assuming sufficient risk allocation to other parties and barring unforeseen environmental credit constraints. However, the risk must be allocated such that credit risk would go to the firm transportation (FT) shippers. She then emphasized the importance of the health of the capital markets. With regard to debt and equity, TransCanada has a demonstrated track record. She mentioned that TransCanada may take on partners, which can enhance the value of the project. In fact, sometimes debt holders encourage such. She highlighted that the availability of non-recourse project debt will be a function of project risk allocation and how it's viewed by debt holders. However, no matter who the project developer is, there will be a high level of risk management and allocation.

MS. ADAIR, referring to slide 66 titled "Alaska Project Capital Requirements," emphasized the importance of realizing that the check isn't written on the first day but rather the funds are spent over time. Slide 66 illustrates a profile of the capital requirements, excluding the [gas treatment plant] GTP. The GTP will likely come into play during the last year or two of the build.

9:46:22 AM

REPRESENTATIVE NEUMAN referred to slide 65, which relates the assumption that there is sufficient risk allocation to other parties. He then inquired as to the incentives TransCanada would offer to the other parties and who would the other parties be.

MS. ADAIR said that usually it's part of the negotiation. When an entity prepares to build a project, request for proposals are issued to different people for different aspects of the project. Part of the commercial terms will be the allocation of risk. In further response to Representative Neuman, Ms. Adair specified that one of those parties would be an engineering and construction contractor. She reiterated that typically [risk allocation] is part of the negotiated commercial terms.

9:47:32 AM

MS. ADAIR returned to her presentation. Referring to slide 67 titled "TransCanada Financial Forecast," she relayed that the Canadian pipelines and U.S. pipelines are reviewed separately while taking into account the difference in the two markets. The financial forecast would review a forecast of the energy segment of the business while also taking into account the current projects as well as those in construction. The forecast would recognize the future for development and take into account Keystone, Mackenzie gas, and any LNG development. A forecast based on the aforementioned elements resulted in the forecast presented on slide 68 titled "Net Income Without Alaska Gas." Slide 69 titled "Net Income With Alaska Gas" illustrates that the addition of the Alaska gas pipeline is significant, although it's not as significant as when only compared to the earnings of the Canadian gas assets.

9:49:04 AM

REPRESENTATIVE ROSES asked whether the chart on slide 69, which is a TransCanada projection with Alaska gas, includes the decrease in tariff in the Canadian portion of the lines TransCanada owns. He related his understanding that once Alaska's volumes come in, it raises the capacity and thus the tariffs decrease. Is the aforementioned included in the chart, he asked.

MS. ADAIR said that should be included because a volume kick is included; there is additional volume but a decrease in the tariff.

9:49:48 AM

SENATOR THERRIAULT recalled that although there has been some concern with regard to TransCanada's ability to participate in this project, Ms. Adair related yesterday that TransCanada is a sound, capable company that could participate. He further recalled hearing last week that although the project taxes the company while it's in development, it strengthens the company.

MS. ADAIR confirmed that to be the case, adding that the company receives a significant contribution in net income from the project. She then opined that this is a huge project that will stress any [company].

REPRESENTATIVE GATTO observed that the net income declines from the first gas as the project proceeds, and yet some of the debt is being paid back. Therefore, he questioned why the net income declines rather than grows.

MS. ADAIR explained that the net income is declining because there is probably some long-term decline in the numbers. Also, there is going to be an increase in operating cost over time. Furthermore, if the tariff is a negotiated rate, there might be some "squeezing" in the margin. She reminded members that [this analysis] is being performed at a very high level without much detail. She suggested that Mr. Pulliam likely has a better forecast of that number. In further response to Representative Gatto, Ms. Adair reminded the members that TransCanada doesn't own any gas and thus it's only tariff revenue and costs.

9:51:39 AM

REPRESENTATIVE KELLY, recalling Ms. Adair's comments on the Ravenswood project, said that he took away a more negative slant than from the [administration's presentations] in Anchorage. However, he related his understanding from reading about the project that when the new asset was added, the credit watch was normal for the size of the acquisition. He asked if the intent was for there to be a more negative presentation of the Ravenswood project than occurred at the Anchorage presentations.

MS. ADAIR said that since she wasn't in Anchorage, and thus couldn't comment on that point. However, she confirmed that Ravenswood is a sizable project for [TransCanada] and the initial read is that the project isn't as good as some of the other projects TransCanada has taken. She opined, "The jury is out ... to wait and see what TransCanada is going to do with this asset." She mentioned that there are some options for repowering [Ravenswood] and making it more efficient, things that could enhance the value of it over time.

REPRESENTATIVE KELLY asked whether TransCanada is sorry it acquired that asset.

MS. ADAIR deferred to TransCanada.

DAN DICKINSON, Certified Public Accountant (CPA), Consultant, Legislative Budget and Audit Committee, Alaska State Legislature, offered his understanding that in Anchorage the administration was discussing specifically the credit issues while Ms. Adair was discussing the response in the equity markets.

MS. ADAIR reiterated her earlier comment that the jury is still out on the Ravenswood project because it depends upon what TransCanada does with that asset. She offered that her power people in Houston, Texas, believe that the Ravenswood project may be dilutive to earnings in the beginning. However, there are options to enhance the value of that project and the location is fantastic.

REPRESENTATIVE KELLY expressed the desire to review the Ravenswood project more.

9:54:52 AM

REPRESENTATIVE HAWKER expressed concern about what he termed "false precision" that is built into these conversations; that is the presumption that what is presented in these charts and graphs will occur. He pointed out that Ms. Adair isn't privy to the private corporate financial information, and therefore these are an outsider's estimate of a linear projection. There has been some controversy over the issue of the past partner liability. What has been quantified by some to be $8-$9 billion of liability was minimized by the attorneys last week who said that it's not a real risk. Therefore, he opined that the situation is headed for a cataclysmic legal debate. He asked if any such cost contingencies have been included in Muse Stancil's cost projections.

MS. ADAIR replied no.

9:56:44 AM

REPRESENTATIVE DOOGAN asked whether TransCanada would be on the state's list of companies to consider hiring to build the Alaska gas pipeline. He further asked if there's a better partner available.

MS. ADAIR, speaking from the perspective of a project engineer, said that generally she doesn't rank those from whom she would consider request for proposals (RFPs) until the commercial proposal is available. Ms. Adair answered that she believes TransCanada would be on the list, especially in light of the markets the state is trying to serve as well as the fact that TransCanada has existing assets geographically situated to reduce the cost of the build to get the gas to the Lower 48.

9:58:02 AM

REPRESENTATIVE GARDNER asked whether BP and ConocoPhillips, as was related yesterday about TransCanada, already have assets in Canada and the Lower 48 that would benefit this project.

MS. ADAIR responded not that readily come to mind. However, she acknowledged that BP and ConocoPhillips have production in these areas and are shippers. She recalled that there has been a question as to how much gas ConocoPhillips and BP own that already moves on TransCanada's system. Although she couldn't readily foresee a large asset that BP and ConocoPhillips could attach to the downstream side, on the upstream side there may be integration opportunities with existing facilities at Prudhoe Bay. For example, compression and treating can result in added value and reduce the overall risk and cost of the project.

9:59:51 AM

SENATOR WIELECHOWSKI asked whether Ms. Adair can give any value to TransCanada's claim that it has the rights-of-way. He also inquired as to TransCanada's relationships in dealing with the First Nations in the past.

MS. ADAIR said she doesn't have any personal knowledge on that.

10:00:32 AM

REPRESENTATIVE GARA questioned whether ExxonMobil Corporation ("ExxonMobil"), ConocoPhillips, and BP, who hold the gas leases, are negotiating by sending a message that they might withhold their gas from an independent pipeline project, such as TransCanada's project. He asked if there is any other circumstance in the world in which those holding the gas have tried to withhold it from an existing pipeline.

MS. ADAIR replied no, adding that she couldn't think of any such situation off the top of her head.

REPRESENTATIVE GARA surmised then that whenever there has been a pipeline in other parts of the world, companies have eventually sold their gas. Therefore, he asked if one could surmise that would occur in Alaska as well.

MS. ADAIR cautioned against assuming that such happens all the time. She offered that generally it's not uncommon for producers to review different options. In fact, she recalled a case in southwestern Wyoming where, because of timing and cost issues associated with the project, two companies built separate facilities.

10:02:41 AM

REPRESENTATIVE HAWKER recalled his involvement in the six-year process that has culminated into where the legislature is today. The presentations thus far seem to indicate to the public that there are only two choices. He then asked if TransCanada is the only entity that has Canadian assets that could be used to bring Alaska's gas to market.

MS. ADAIR ventured that if one were to look at TransCanada's portfolio in Canada, particularly through the Alberta Hub, TransCanada is the best existing entity. However, that's not to say that there aren't new build opportunities or ways to move part of the gas on TransCanada and use other options. She opined that it depends upon all of the commercial alternatives and their ranking, while taking into account which markets are desired and the best economic solution given the available capital and time. A great thing about TransCanada's assets is that many of them are already in the ground. Therefore, TransCanada is probably at the top of the list.

10:05:35 AM

REPRESENTATIVE GUTTENBERG, recalling that Ms. Adair has already testified that TransCanada is capable of doing the engineering of this project, asked if TransCanada is capable of pulling this off in terms of the financial obligations and technicalities.

MS. ADAIR surmised that whoever manages the project will have to go outside and pull together sufficient human capital. The size of the project would likely overload any [company], particularly in light of the fact that the oil industry is very busy. Although TransCanada has many core competencies as well as experience in cold environments, likely all of the engineering and construction will be done by third parties. The key is in how those contracts are negotiated and structured. She predicted that there will be more than one construction contractor and perhaps even more than one engineering contractor. Therefore, the large issue for the project developer is being able to negotiate and manage all the contracts to execute the project.

REPRESENTATIVE GUTTENBERG said that he saw TransCanada's ability to negotiate both regulatory agencies as an asset.

MS. ADAIR acknowledged that TransCanada has experience with both regulatory officials.

10:08:37 AM

SENATOR BUNDE said that if he were the producers, it would seem logical to want to have some vertical integration in order that the producer could be a producer, shipper, and owner of the pipeline. The aforementioned, he noted, is basically happening with the Trans-Alaska Pipeline System (TAPS) now. In such a situation the producers would be strongly motivated to eliminate other competition in order to have vertical integration and increase the bottom line. He asked if there is a scenario in which it would be more advantageous for a producer's bottom line to deal with a pipeline company rather than create its own pipeline company.

MS. ADAIR highlighted the complexities of the commercial aspects of operating pipeline companies. For example, accounting, fuel, keeping up with the tariffs, ownership, and allocation of gas requires much "back room infrastructure." To the extent that someone could be hired to do that and spread those costs for the systems and the people over a lot of volume is really helpful. Also, to the extent that these are common carrier systems, there isn't the opportunity to block out the competition. She informed the members that the Federal Energy Regulatory Commission (FERC) ensures that there is open access to the pipeline and thus a common carrier has to let in others. Most oil companies recognize that and account for and leave room for those common carrier systems because they don't want to be tied up with all the accompanying legal matters. Therefore, she said she didn't believe that's much of an issue. From an operations standpoint, it can be helpful to integrate operations for operating personnel, safety, maintenance coordination, and other such day-to-day operations. However, all the aforementioned commercial matters have to be taken care of as well. If the company doesn't already do that and doesn't have a large operation to do so, it might be better to let another entity take care of the commercial details.

10:12:01 AM

REPRESENTATIVE NEUMAN asked whether it would even be a "blip in the screen" if Alaska were able to attract an industry to build a gas-to-liquids (GTL) processing plant. He then inquired as to how Alaska's finances would be impacted by a proposed gasline, including the added-value products. Representative Neuman related his understanding that the GTLs are much more valuable than the methanes or other components.

MS. ADAIR, referring to what she termed the multiplier effect, said she can't address the number of jobs that would be created. However, she informed the committee that several years ago Muse Stancil did perform a study that reviewed alternatives besides shipping the gas to Alberta. Although a small percentage of the volume is taken out in terms of the liquids, it overwhelms the demand in Alaska. Therefore, there has to be a determination as to whether those will be recovered in Alaska. To make retail products, it's a huge capital investment and then it still has to be exported. She remarked that if only natural gas liquids are going to be made, perhaps there's a scenario by which some of those can go down TAPS. The aforementioned would, however, require a determination as to which can be kept, how they can be stored and exported as opposed to letting those liquids pass through the pipeline and transferred to a point at which there is an existing world scale petrochemical industry that wants the product. The economic analysis revealed, she related, that it makes more sense for those who own the liquids to take them to the existing markets.

MS. ADAIR, regarding TransCanada's earnings for [liquefied propane gas] LPG or [natural gas liquids] NGLs, pointed out that TransCanada doesn't own the liquids but rather they belong to the shippers. Therefore, each individual shipper can make a decision for its own account regarding what to do with the NGLs. She reminded the members that if the state wants to process some of the gas and recover liquids for in-state use, it could be done and the rest of the producers could ship their gas to existing facilities in Alberta.

10:16:13 AM

REPRESENTATIVE NEUMAN highlighted that the Ted Stevens International Airport is the busiest freight airport in America and the third busiest in the world. Therefore, Alaska is in a position to export those gas liquids [to Alberta]. He indicated that [the exportation] offers the development of jobs and the ability for Alaska to expand its dependence from more than one pipeline for 90 percent of its resources. He requested that such be reviewed.

SENATOR STEDMAN offered that there was quite a discussion over the past few years on the common carrier issue and dealing with gaslines rather than oil lines.

MS. ADAIR relayed that her experience is as a producer and a shipper. When there is open access and parties have difficulty entering, they can appeal to FERC. The purpose of the common carrier system is to make capacity available to everyone. If a system is oversubscribed, capacity is allocated based on nominations. The actual details of the process are probably best addressed by FERC representatives.

SENATOR STEDMAN surmised, then, that FERC would control that rather than the oil company.

MS. ADAIR said that typically the operator of the pipeline will publish tariffs as set out in the tariff document. If the pipeline is not complying with its published tariff or if it's viewed as restrictive in terms of competition, appeals can be made to FERC to change the tariffs and create access.

10:19:15 AM

REPRESENTATIVE SEATON related his understanding that under AGIA and this contract proposal, there's a requirement that every two years [the company] will solicit and will expand to any reasonable engineering increment without going through the FERC process. "That term is not contained in any non-AGIA pipeline proposal. And is that correct so that there is ... a definite difference between having to ... have a new supplier going through FERC for a mandatory requirement for expansion versus AGIA that has a requirement that this proposal had to have those voluntarily done," he asked.

10:20:32 AM

JOHN NERI, PhD, Consultant, Benjamin Schlesinger & Assoc., Inc., clarified that natural gas pipelines are contract carriers, and therefore the shippers enter into long-term contracts and reserve capacity on the pipeline. With respect to pipeline expansions under the Alaska legislation, he said FERC can require the Alaska pipeline to expand if there is interest on the part of the shippers. However, that's not generally the FERC policy. He related his understanding that the overall FERC policy doesn't require pipelines to expand.

REPRESENTATIVE SEATON pointed out that under the AGIA process there was a provision that the pipeline would have to expand under any reasonable economic or engineering expansion proposal and there would have to be a solicitation every two years. Although under FERC for a normal pipeline, there could be a request for a mandatory expansion, which could be a much longer process than the voluntary expansion required under AGIA. He asked if Dr. Neri understands the situation in the same way.

DR. NERI offered his understanding that under AGIA, the pipeline is [required] to test the market every two years by having an open season. The open season is basically the pipeline asking shippers if there is any interest in expanding the system. If there is interest, the FERC will go through the standard certificate process. The pipeline would present a proposal, hold an open season, enter into contracts with the expansion shippers, and then the pipeline would file an application for certificate at the FERC. The only difference is that under AGIA, the pipeline is required to test the market every two years.

10:23:25 AM

SENATOR THERRIAULT noted that Ms. Adair is using the term "common carrier" and a few other terms that seem more applicable to an oil pipeline not a gas pipeline. He further noted that there are fundamental differences in the way an oil pipeline versus a gas pipeline work.

MS. ADAIR concurred.

SENATOR THERRIAULT, recalling yesterday's testimony, said, "The net present value (NPV) of the ... potential up to $500 million contribution that the state gets, just in the reduction of the tariff that has a net present value to the State of Alaska, we'll actually make money on that." With regard to the other must-haves, such as expansions, he said, "The fact that if ... there is a request for an expansion, but contractually this pipeline will be at FERC supporting the expansion, not contesting it." He noted that since there can be an application to the FERC, there can be opposition to it. The hope is that the pipeline wouldn't do that under AGIA. He asked whether there is separate value to that beyond the NPV received from the reduction of the tariff.

MS. ADAIR surmised that would best be answered by Mr. Pulliam as he has performed more modeling of the pipeline economics.

10:25:05 AM

BARRY PULLIAM, Consultant, Econ One Research, Inc., relayed that the value obtained from the tariff reduction on $500 million is about $.05 per thousands thousand British thermal units (MMBtu). Under AGIA, one must solicit bids for expansion, and if there's [room for expansion] AGIA requires expansion in reasonable economic increments, assuming the contracts required can be obtained on a rolled-in basis. He related his understanding that under a normal situation, FERC wouldn't require either of the aforementioned. Furthermore, FERC wouldn't require the pipeline [owner] to affirmatively go forth and offer to expand whereas that's one of the things accomplished under AGIA. From a pipeline standpoint, the pipeline is interested in making money, which it does by getting gas down the pipe to increase revenues. Therefore, pipeline [owners] are generally interested in expansion so long as it's revenue enhancing. Mr. Pulliam identified the difference under AGIA as the fact that [the expansion process] is an automatic process versus having to seek it separately through FERC.

SENATOR THERRIAULT acknowledged that the return to the state from the reduction in the tariff can be quantified. However, he surmised that the state, as a sovereign, is receiving other things of value to which a dollar amount can't be assigned.

MR. PULLIAM opined that such things would fall under the category of intangibles. Scenarios could be offered and there could be attempts to quantify them. Assuming that the expansion was economic, but the pipeline [owners] were resisting it, one could quantify the value of having the automatic expansion. Without those base assumptions, they're intangibles.

10:28:02 AM

REPRESENTATIVE SAMUELS related that Shell, for instance, in the Beaufort Sea could have exploration offshore that's very good for the private sector. However, if the expansion for Shell gas resulted in an increase in the tariff, the state's royalty gas could potentially be worth less. He asked if it's possible to run models on the various different scenarios that would provide value to the legislature.

MR. PULLIAM said that although it may be of some value, it would require a large effort. The results will be dependent upon the assumptions of the gas that's put in the pipe. He noted his agreement with Representative Samuels that if the gas is largely offshore federal gas, then having additional volumes in the system would be beneficial the state, particularly if it's decreasing the tariff. However, if the state isn't receiving any other royalty or tax benefit from the volumes on those federal lands, it will receive the benefit of the lower tariff on the netback on state lands. If [the additional volumes] increase the tariffs beyond the initial rates, there's the potential to drive down the value to the state. There is a separate piece, which is the impact on the economy in terms of jobs and so forth. What also has to be factored in, he said, is the amount of the upstream piece from the new gas placed in the pipe.

REPRESENTATIVE SAMUELS said he didn't want to request something from Dr. Neri if it's not of value to other members.

10:31:57 AM

SENATOR THOMAS opined that initially the desire was to create a different situation than what exists with the TAPS, which is now at a third of its capacity. The notion was that development would be encouraged if there was something with the certainty of a timeframe for expansion. Therefore, he questioned the certainty that exists if the owners of the gasline are the producers versus if the owners of the gasline under AGIA are required to have regular, recurring expansions as it relates to FERC's process of allowing expansions when a pipeline owner is opposed to expansion, save for their own purposes.

10:33:30 AM

DR. NERI offered a hypothetical situation in which the producers pick up all of the capacity on the pipeline and it turns out that a fourth entity wants to enter the pipeline. Under AGIA, the pipeline would be required to hold an open season every two years. He related his understanding that if the pipeline [owners] don't want to expand, the fourth producer can file a protest with the FERC, which will act on that protest.

SENATOR THOMAS clarified that he wasn't speaking of AGIA expansion but rather of an expansion outside of the AGIA plan because of the failure of AGIA, which causes the state to proceed with the Denali Plan. He asked if the response would be the same in the aforementioned non-AGIA situation.

DR. NERI related his belief that the Alaska Natural Gas Pipeline Act would still provide the fourth producer, in the aforementioned example, the ability to file a complaint with FERC. In further response to Senator Thomas, Dr. Neri said that at that point FERC would make a determination as to whether it would require the pipeline to expand.

MR. DICKINSON highlighted that the federal law specifies that the Alaska pipeline is an open access pipeline. Furthermore, for the first time, Congress has said that FERC has the authority to mandate expansions. He acknowledged that it's an untried process. However, under this law FERC can mandate the expansion.

10:36:21 AM

SENATOR WIELECHOWSKI recalled that a few years ago Econ One Research, Inc., did a report that showed the upstream rates of return for a natural gas pipeline were high under almost every circumstance. He asked whether Mr. Pulliam has seen anything in the analysis that would change the aforementioned opinion.

MR. PULLIAM replied no, adding that Econ One Research, Inc., hasn't tried to recreate those analysis under the new costs and prices. Furthermore, he said that he hasn't seen any changes that would change his view on the returns, which he opined should be healthy.

10:37:16 AM

The committee took an at-ease from 10:37 a.m. to 11:09 a.m.

11:09:46 AM

REPRESENTATIVE SAMUELS announced that now members would hear Mr. Dickinson's presentation.

11:09:58 AM

MR. DICKINSON reviewed his assignment as laid out on slide 2 of the presentation titled "Some things to look for and ask about in the AGIA License Determination." He then turned to slide 3 titled "Part 1. Major Reasons Given to Vote for TransCanada License," which specifies that there are enforceable commitments, "dazzling" amounts of money for everyone, guarantees the state's must-haves, and provides the best way to get LNG export and meet in-state gas needs. Referring to slide 4 titled "Another Reason to Support a TransCanada License," Mr. Dickinson said he would argue that voting for this license probably won't harm the prospects for a line and, in fact, may strengthen the prospects.

MR. DICKINSON moved on to slide 5 titled "Item #1. What are the Enforceable Commitments in the License?" He explained that per AGIA the license has 20 must-haves of which 7 are procedural issues related to obtaining a license, 3 are pre-sanction commitments, 5 are tariff commitments, and 5 pertain to local commitments.

11:15:36 AM

MR. DICKINSON, referring to slide 6 titled "7 License Procedurals," said that the aforementioned seven license procedures include filing a timely application, providing a thorough description of the project, describing the gas treatment plant, proposing a reimbursement plan, waiving the right to appeal the license decision, describing the applicant in detail, and demonstrating readiness to implement the project. Mr. Dickinson noted that the description of the gas treatment plant includes some rate commitments. He explained that the central compression plant on the North Slope currently places 9 Bcf/d back into the ground. If this project is built, not nearly that much gas will have to be put back into the ground as some of the compression may come over and become part of another project. The idea is that the aforementioned won't be included in the rate base as if it were new. Generally, the GTP would be described and a reimbursement plan proposed. Under the TransCanada proposal how to get up to $500 million from the state for performing the initial work is achieved by spending about $112 million to be matched. Moving on to slide 7 titled "3 Pre-Sanction Milestones," Mr. Dickinson explained that it's an interstate project, it's regulated by FERC whereas if it's an intrastate project, it will be regulated by the Regulatory Commission of Alaska (RCA). The notion is that an open season will be held within 36 months, the pre-filing procedures created for an Alaska gas project will be used, and a certificate of public convenience and necessity (CPCN) will be applied for by a date certain. The second must-have in the pre-sanction area is that the market will have to be assessed every two years, which will continue after the pipeline is running.

11:18:06 AM

MR. DICKINSON, referring to slide 8, emphasized the need to realize that there isn't an enforceable commitment to build a pipeline. Nothing in AGIA commits the party obtaining the license to build a pipeline. The aforementioned was emphasized by TransCanada Vice President Tony Palmer's statement at the February 6, 2008, House open caucus in which he said, "We are not obligated to build a pipeline. That is not what AGIA requires." He suggested that any time such an obligation is expounded, questions should be asked. Mr. Dickinson, referring to slide 9, explained that one of the must-haves in AGIA specifies that one must "conclude by a date certain, that is not later than 36 months after the date the license is issued, a binding open season ...." In its application TransCanada says it will comply with AGIA, and therefore if the license is granted this summer, the expectation is there would be an open season no later than the summer of 2011. However, in its contract TransCanada said that it would hope to have the open season by September 2008. He pointed out that one place in the contract specifies that TransCanada commits "subject to the license being issued by April 2008 to conclude an initial, binding open season within 18 months after the issuance of the AGIA license." As everyone is aware, no license was awarded by 2008, he noted. Referring to slide 10, Mr. Dickinson pointed out that the contract also says "TransCanada commits to conclude a binding open season by September 30, 2009." while another provision of the contract says "TransCanada would conduct the open season within 18 months following the date the license is issued." Therefore, one would ask if there's a binding commitment for an open season earlier than 36 months, and if so, what date is it. Mr. Dickinson related that his understanding, from some informal discussions, is that before there is an open season, there was the hope to have two seasons of field work. If the 2008 open season is lost, would the open season be September 2010 or would it be in 2011. Therefore, he questioned whether there is a binding commitment for an open season earlier than 2011.

11:22:00 AM

MR. DICKINSON, referring to slide 11 titled "Reminder: What does an Open Season accomplish?", explained that during an open season those underwriting the project, the customers, say that if a line is built they will ship on the line or pay as though they are using the line. Such a commitment allows the line to be built. The question that should come to mind in these discussions is whether a pipeline will be built without FT commitments. Furthermore, there should be a question as to what a company is doing beyond the open season if they don't have an FT commitment. The commitment in the license, per AGIA, is that the applicant will apply for a FERC CPCN by a date certain. The date certain would be specified in the application by TransCanada. The [application] specifies, as mentioned earlier, that TransCanada commits subject to the license being issued by April 2008, to apply for a FERC CPCN by December 2011. The [application] also specifies that TransCanada commits to apply for a FERC CPCN by December 30, 2011. Therefore, what is the date certain and is it conditional upon the license having been issued by a date it wasn't issued. The question becomes what are the enforceable commitments necessary.

MR. DICKINSON turned to slide 14 titled "Item #2 What kind of money does everyone make?"

11:25:15 AM

REPRESENTATIVE LEDOUX related her belief that there seems to be a bit of ambiguity in some of the dates.

MR. DICKINSON, speaking as a lay person, said that he doesn't know what is meant by an enforceable commitment.

REPRESENTATIVE LEDOUX questioned whether it would be prudent to clarify some of these ambiguities prior to possibly entering into litigation.

MR. DICKINSON said that no contract is being signed, but there is a license that will grant certain things. He explained that first one looks at AGIA to find out what's there, then the [request for applications] RFA issued under AGIA is reviewed, and ultimately the application and all of its clarifications are reviewed to determine what is being granted in the license. In further response to Representative LeDoux, Mr. Dickinson opined that clarity could be achieved by asking questions.

REPRESENTATIVE LEDOUX indicated the need to put it in writing versus merely asking questions.

MR. DICKINSON said he's suggesting that is a question to ask the administration or TransCanada.

11:27:28 AM

REPRESENTATIVE DOOGAN pointed out that over the course of Mr. Dickinson's slides the terms application, license, and contract have been used. He inquired as to Mr. Dickinson's understanding as to upon what the legislature is being asked to vote.

MR. DICKINSON apologized if he used the term "contract," which he said was a misstatement. He then clarified that the way to determine what is in the license is to review the following: the statute, the RFA issued pursuant to that statute, and the application that went through the process and was submitted to the legislature. As a part of the application review, the questions and responses used to clarify the application should also be reviewed.

11:29:07 AM

REPRESENTATIVE DOOGAN surmised, then, that the applicant's answers to questions in the RFA would be reviewed, and those answers would be what the applicant is obligated to do were the state to issue a license.

MR. DICKINSON, speaking as a lay person, answered that's how he would read that.

REPRESENTATIVE SAMUELS relayed that Mr. Dickinson was asked to go through the three phases and suggest what questions should be asked.

11:30:15 AM

REPRESENTATIVE GARA, referring to slide 12, related his understanding that the contract doesn't become unenforceable if a license isn't issued by 2008, but rather that was the proposed schedule when TransCanada filed in November. He asked if there are any legal opinions that say that the contract isn't enforceable.

MR. DICKINSON replied no. He added, "As a lay person, if it says if X, then Y and if not X, then I'm just questioning what Y is."

11:31:07 AM

MR. DICKINSON, referring to slide 13, highlighted the question of how does the project move forward if FERC approves a project without funding. He then recalled that during one of the [administration's] sessions in Anchorage there was a question of how cost overruns can be mitigated. The [response] was that as soon as FT commitments are made, orders are placed and early commitments for labor and materials occur because once there is a project and the customers are committed to it, the certificate will be received. "The notion," he relayed, "was companies were willing to start spending money to build a pipeline as soon as they had the FT commitments; it was that that made the difference, not the getting of the certificate."

11:32:34 AM

MR. DICKINSON returned attention to slide 14 regarding the notion that the cash flows are so extraordinary that everyone should "sign on." He clarified that "everyone" refers to three parties. He then explained that when there is a pipeline there are shippers, which everyone assumes will be the producers. The fact is that those who have the right to sell the gas have to get the gas to a market where they can sell it. The owners of the gas are taking a commodity price risk and as a consequence, they will pay production taxes, income taxes, and royalties directly to the state. The deal, he reminded members, is that the state has turned the gas over to the companies to sell and as a consequence, the owners of the gas pay royalties to the state. The state, then, collects those taxes and royalties and the U.S. and Canadian authorities collect some taxes. The state is in the position of taking a portion of the economic rents, he stated. TransCanada is a carrier and can make a regulated rate of return [shipping contracted gas]. He highlighted that the income and property taxes TransCanada receives can be included in the tariff. The well-established FERC policy is that there is an allowance for income taxes in the rate of return and the property tax is merely another operating cost that's passed on to the shippers. He noted that there are other taxes, including the federal taxes, Canadian federal taxes, and Canadian provincial taxes, all of which will be passed on in the tariff to the shippers.

11:34:32 AM

MR. DICKINSON reminded the members that the graph presented on slide 15 was part of TransCanada's application in January 2008. He reviewed the graph, which specifies that the Alaska producers' netback, after taxes and royalties, was $183 billion. He emphasized that these were undiscounted values. The State of Alaska's share of the rents from this would've been $115 billion. The federal government would've received $46 billion, and TransCanada's return on equity would've been $16 billion and the Yukon, British Columbia, and Canadian federal governments would've received a [total] of $8 billion.

MR. DICKINSON expressed concern with the graph on slide 16 in terms of how the costs were treated. When TransCanada reviewed its calculations of taxes, it surmised that after the producers receive the netback, they will have to pay to deliver the gas to the transportation facility. The costs in Prudhoe Bay for such would be minimal while the costs in Point Thompson would be much larger. TransCanada used a $1.50 on average. When one multiplies that through to determine how much the producers will have to spend to get the gas to the pipeline, it amounts to about $108-$109 million. Therefore, about $75 billion is left that is cash flow to TransCanada. In a similar situation, TransCanada will receive $109 billion, of which $93 billion will be operating costs that go out. Yet, if all the cash flows are summed, the number will be the same as the result of the calculation of how much gas and extracted liquids multiplied times the expected price. The graph on slide 16 relates where every dollar goes, the darker sections illustrate what the entity specified will receive while the red sections illustrate the out-of-pocket costs.

11:37:57 AM

REPRESENTATIVE SEATON asked if, in the cost section, anything is allocated as credits that the state gives on the upstream costs. At these high prices, basically half of the upstream costs are borne by the state. He inquired as to how that's addressed in the graph.

MR. DICKINSON specified that in slide 16, TransCanada's methodology is being used, which is a situation in which TransCanada takes a $1.50 and doesn't [take into account] the credits. Therefore, [slide 16] doesn't include the credit. Mr. Dickinson opined that TransCanada's focus was on midstream issues rather than upstream issues. The graph presented on slide 17 illustrates who ends up with all the cash and the cash flows. The graph illustrates, he highlighted, that the State of Alaska is the large piece as the state receives $115 billion with the producers following with receipt of $74 billion. What the federal government and TransCanada receive remain essentially the same.

11:39:22 AM

SENATOR STEDMAN requested that Mr. Dickinson elaborate on the impact the credits create.

MR. DICKINSON explained that in Prudhoe Bay there is a central gas facility and a central compression plant. Currently, the central compression plant is performing many things that would have to be done to prepare gas for the pipeline, but not all of them. The central compression plant takes the gas, strips out the water, and puts it back into the ground in order to keep the oil field under pressure to produce oil. When a stream of gas comes off, say 4 Bcf/d, sulfuric acid and carbon dioxide have to be removed from it. He pointed out, "The minimal capital improvements will have to be made when those are made under current law to those facilities. If they're not transportation facilities, but they are part of the upstream facilities those will be deductible from a producer's income tax and if they are capital investments there will also be a 20 percent credit that can be taken over two years." However, the Point Thompson field will be a green-field development for which there will be billions of dollars spent, regardless of whether it is to produce oil, gas, or address liquids. If hydrocarbons are being produced, it will qualify for credits and deduction from the producer's income taxes. For example, Exxon could be producing oil from Prudhoe Bay at $130 per barrel, which is a fair amount of taxable value. If that money is spent in Point Thompson to develop that field, the taxes the [producer] is paying is lowered. Therefore, it's a deduction from the money that's being made on the larger fields such as Prudhoe Bay. Furthermore, after calculating all the taxes, 10 percent of the investment can be subtracted in the first year and 10 percent can be subtracted in the second year. He related his belief that billions of dollars will have to be invested at Point Thompson before any hydrocarbons come out.

11:43:01 AM

REPRESENTATIVE NEUMAN offered his recollection that the state projected that it would make approximately $226 billion versus the $115 billion presented on the graph on slide 17.

MR. DICKINSON reminded the committee that the graph on slide 17 presents the analysis from TransCanada. The graph on slide 19 titled "Who makes money in Black and Veatch May 2008 Version?" relates [that the state will make] more that twice what is presented by TransCanada.

REPRESENTATIVE DOOGAN pointed out that this graph, as have the others, treats the money as if it's all paid out at the same time. Given the number of entities receiving money, he asked if the timing of the payment makes any substantial difference in regard to what they receive.

MR. DICKINSON informed the committee that upcoming slides relate Black & Veatch undiscounted dollars and discuss why they would be discounted and why the opportunity cost of capital is 15 percent while the state's is 5 percent.

REPRESENTATIVE DOOGAN interjected that there is an assumption.

MR. DICKINSON concurred.

11:44:42 AM

The committee took an at-ease from 11:45 a.m. to 1:06 p.m.

1:06:09 PM

REPRESENTATIVE SAMUELS reviewed the agenda for the remainder of the day.

1:07:32 PM

MR. DICKINSON, continuing his presentation, turned attention to slide 18 titled "Who makes money in Black & Veatch May 2008 Version?". The graph is a reproduction of a diagram by Black & Veatch. The information on slide 19 relates the expected cash flows extrapolated from the graph on slide 18. Under the May 2008 Black & Veatch analysis, the total dollars received are as follows:

Canadian government - $3.5 billion
U.S. federal government - $114 billion
State of Alaska - $257 billion

TransCanada - $57.5 billion
Producers - $154 billion

MR. DICKINSON pointed out that per AGIA, Black & Veatch discounted the aforementioned numbers. He offered that his explanation of why discounting occurs is related to opportunity costs. If one looks at an investment, one must review what more would be made, the added value, with the investment versus merely placing the funds in the bank. Therefore, one would discount [the total dollars] at 2.5 percent to determine the additional value of the project. He opined that the state has a negative time value of money. The point is, he emphasized, that it's perfectly appropriate for it to be low. In some analysis, the rate of return earned by the permanent fund is used. He highlighted the discount rate for the various entities under the Black & Veatch May 2008 version. For instance, the discount rate of 10-15 percent. The point is that if an oil company doesn't use the money on this project, it can invest in a place where it can receive a much higher return than if the state doesn't spend its dollars. That's why the discounting exists, he said. Slide 19 illustrates, under the Black & Veatch analysis, how much better off the various entities will be. For instance, the Canadian governments will be $700 million better off and the U.S. federal government will be about $30 billion better off. He then turned attention to slide 20 titled "How do the Black and Veatch May 2008 Analysis and TransCanada Jan 2008 Analysis of 4.5 bcf/d, 25 year project compare?" Looking at the total dollars number, it's apparent that in general they more than doubled. Discounting the TransCanada streams produces the same type of movement, although the percentage increases are smaller. The percentage increases are smaller because the dollars that are further out have increased the most, he noted. He then pointed out that the graph on slide 21 provides a sense of the order of magnitude difference.

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REPRESENTATIVE DOOGAN recalled previous testimony that both ConocoPhillips and BP are buying back their stock, which indicates they won't receive the rates of return being used in the discount rates. He asked if that makes any difference about the assumptions that the legislature should be making about the producer's discount rates.

MR. DICKINSON replied yes, and related that the aforementioned indicates they can't find all the opportunities. He said he would argue that a discount rate of 10-15 is below the opportunity cost of the companies. Generally, a large oil company has [amassed] lots of cash over the last few years, and generally the oil companies can't find opportunities that provide that rate of return if prices don't continue to increase. Therefore, he opined that the best way to pass on the bonus to shareholders is by repurchasing stock. Repurchasing stock indicates the capital can't be employed in a manner that would bring higher returns.

MS. ADAIR noted her agreement. She added that the rate of return will remain high because the oil companies are investing in those projects already on their balance sheets and they aren't investing in projects with lower rates of return. In effect, the oil companies are increasing ownership in those by buying back stock for the shareholders.

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SENATOR FRENCH inquired as to how Mr. Dickinson analyzed the differences in the Black & Veatch analysis and the TransCanada analysis.

MR. DICKINSON said he should answer that in the upcoming slides.

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MR. DICKINSON, continuing with slide 21, related that the biggest driver is the price. He then highlighted the changes that occurred in the producer's and the state's netbacks, the upstream values. The aforementioned occurred because the state's and producer's money flows from the value of the gas. Moving on to slide 22, Mr. Dickinson pointed out that generally the Black & Veatch base case forecast and the Wood Mackenzie Alberta Energy Company (AECO) forecast are in the same place. He then continued to review the graph on slide 22. Black & Veatch has put forward very aggressive prices, which he reminded members are nominal prices that one would expect to pay in today's dollars. He explained that the price that TransCanada used is below any of [Black & Veatch's] estimates; they are below the 10 percent range. The exact numbers are specified on slide 23 titled "How do the forecast prices Black and Veatch used compare with those TCC used?" He recalled that in discussions with Mr. Pulliam, it came out that the long-term TransCanada has said that AECO prices would be $.75 below Henry Hub. However, [the Black & Veatch] information relates that AECO will sell at a premium to the Henry Hub prices and thus one would add to the Henry Hub prices.

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MR. PULLIAM interjected that the Wood Mackenzie AECO forecast reviews flows in and out of the entire North American grid. With those flows in mind, they are trying to predict a difference between Henry Hub and AECO. He opined that because of declining production from Canada, the differential will tighten over time. "They actually see, as you get out beyond Alaska gas flowing, some premium for AECO over Henry Hub. Others don't see a premium, but do see a tightening of the differential," he related.

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SENATOR FRENCH surmised then that slide 23 relates that TransCanada is predicting a gas price that is about half of what Black & Veatch forecasts.

MR. DICKINSON replied yes, which is why there's a difference between the [state's expected cash flow] under the two analyses.

SENATOR FRENCH pointed out that the TransCanada application predicts it will make more money than under the Black & Veatch analysis, although TransCanada projects a much lower gas price.

MR. DICKINSON stated that's because what TransCanada makes has nothing to do with the gas price.

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MR. DICKINSON moved on to slide 24, which illustrates a flat or slightly declining line that represents TransCanada's take. TransCanada only modeled it's return on equity. Therefore, when TransCanada goes into service in 2018 and for the first time receives revenues from the project, what of those tariff revenues are defined as return on equity, he asked. Under TransCanada's model even though the tariff is levelized, within the tariff one can still build out the amount of return on equity. As depreciation occurs, the amount of equity decreases and the return also falls. Referring to slide 25 titled "Is State harmed or helped by delay in project?", he pointed out that the Black & Veatch analysis indicates the state is helped by delay. As the project proceeds in time, the state's NPV increases. In the base case of $64 billion, a delay increased the state's NPV by $1.8 billion. Upon further review, he determined that the NPV increase is due to the production tax.

He explained that as price increases, higher progressivity is triggered. In the tax, the progressivity rate is increased over all of the payments, over all of the value. Therefore, as one reaches high gas prices, the state's take is increasing at a rate that is much faster than the 5 percent at which it's discounting. In other words, for every year of delay progressivity increases, as does the base and the tax. "You knock off 2020, and you add on a year at 2044 and you've picked up $2 billion," he highlighted.

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SENATOR FRENCH related his understanding that slide 24 relates that Black & Veatch looks for a higher return for TransCanada than TransCanada estimates. However, that doesn't coordinate with slide 20.

MR. DICKINSON clarified that slide 20 relates that TransCanada shows $16.4 billion coming in while Black & Veatch shows it at roughly three times that, $57.5 billion. The graph on slide 24 shows a difference of about one-third [between the Black & Veatch model of TransCanada cash flows and TransCanada's model of return on equity], he said.

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REPRESENTATIVE GARA, returning to slide 25, recalled three years ago when the former administration presented one of the reasons to accept its proposal was that the sooner the pipeline was [built] more money would be made; the NPV was larger the sooner the pipeline [was built]. However, this analysis presents that if there is a progressive gas tax, the later [the pipeline is built], the better. "I have a hard time accepting any of this at this point," he said.

MR. DICKINSON, referring to slide 27, relayed that three days ago the current administration said "that state investment buys progress and delay costs the state; intrinsic value because of deferred revenue from gas commercialization." Traditionally, as one thinks about a world with lower prices, the aforementioned is the thought. He related his assumption that the Black & Veatch report wasn't presented in time to impact the thinking and presentations of others.

REPRESENTATIVE GARA related his frustration with regard to the conflicting analysis, but added that he isn't going to pursue a project that he would try to delay.

MR. DICKINSON pointed out that using a lower price assumption, consistently shows that delay harms. However, a higher price assumption coupled with progressivity shows that the delay helps. As illustrated on slide 26, if the producers have a 15 percent discount rate, a higher rate, it results in a 10 percent decrease if there is a delay of a year. He acknowledged Representative Gara's frustration, which he remarked should drive questions about why [Black & Veatch's] numeric model presents an answer that's different than what people have assumed for many years.

REPRESENTATIVE GARA related that he feels mislead a few years ago and the legislature should've been told, if someone knew, that the NPV could be increased with a delayed pipeline by having a progressive tax.

MR. DICKINSON suggested that if anyone had come forward three years ago and asked the legislature to base its analysis on $27 gas, the legislature would've rejected that. He highlighted that even in the special session three months ago when the "bend over point for progressivity" was at $97.5, the notion that would be $40 below price was inconceivable. He further suggested that folks are having a hard time keeping up with the price changes.

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SENATOR WIELECHOWSKI, continuing the discussion regarding delay, opined that specifying 2044 assumes the gas stops then. He suggested, however, that the analysis should factor in that there will be continuing gas, beyond 2044.

MR. DICKINSON noted his agreement, but remarked that the analysis is cut off at 2044 for comparative reasons. The cut-off point is, roughly speaking, at the 35 Tcf, which is now known, and "15 yet defined." As it proceeds further out, it may be that the state may make more and some thought should be given as to what expansions mean in that context. Mr. Dickinson then reiterated that the NPV analysis is a critical part of the formal decision-making process of the administration.

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REPRESENTATIVE SAMUELS recalled that a couple of years ago Mr. Pulliam ran the cost of the delay to the state, in terms of the tax rate and making the NPV the same. "And you ran the number at ... 7.25 and a three-year delay, you would've had to raise the tax rate by about 40 percent. It was up to 10.75 to get the same net present value, with just a three-year delay," he said.

MR. PULLIAM confirmed that was the analysis. However, he reminded the committee that the analysis back then was for rates that didn't have progressivity. It's important to keep in mind that these are fairly low discount rates to analyze these cash flows, he opined. Anything over 5 percent produces a more intuitive result, which is that delay costs the state in terms of NPV. He recalled that the discount rates used in the analysis from a few years ago was in the range of 8-10 percent.

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REPRESENTATIVE LEDOUX remarked that she isn't interested in delaying, even if it may result in an economic benefit.

MR. DICKINSON said that a model is as good as what it's trying to review and show. The administration properly took a fixed period and reviewed what happens within that period and what happens if that period is shifted. Clearly, when [the administration] is reviewing the NPV to the state, the four major sources of cash flow are being reviewed not the secondary effects, the multiplier effects, and other effects that could be of concern.

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MR. DICKINSON, returning to his presentation, directed attention to slide 28 titled "How robust is the assumption of rising real prices over life of project?" From 1965 to the mid 1980s, there were real rising prices as there wasn't a Henry Hub or AECO price to which to return. Then there was another 20-year period in which there was falling real prices. Since 2006 there has been dramatically rising real prices. When there are rising prices, there are supply effects such that "people come out", there is an oversupply, and the price decreases. Mr. Dickinson said there's no particular reason that this rise will continue on until 2042. He suggested that there will be a correction, although he didn't know when or how much. The point is, he emphasized, that all of these assumptions are forward-looking rising real prices. The aforementioned hasn't historically been the case. Furthermore, the more pressure on price, the more vigorous a supply response is received and thus it's more valuable for folks to enter the business, which results in more is production and an oversupply that results in a decrease in the price.

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REPRESENTATIVE DOOGAN surmised that if the aforementioned is graphed, the result will be rising real prices even if the slope is different. He asked if the expectation of rising prices, as applied to this project, is really a question of how much the prices are expected to rise.

MR. DICKINSON responded, "That's a fair way of observing it."

REPRESENTATIVE DOOGAN surmised then that the question to consider is what is the state's expectations of the increase as well as the expectations of others and how the state should analyze those.

MR. DICKINSON confirmed that it's appropriate to ask questions about a dramatic rising gas price and what it does.

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MR. DICKINSON referred to slide 29 titled "Why are the producers concerned about fiscal certainty?" He posed a scenario in which there are low prices followed by a correction that results in higher prices, in real terms, by a bit. In such a situation, if oil prices have fallen and there isn't much revenue to go around, the question becomes whether the state tries to solve its revenue issues by having a different split between the producers and the state or is there so much revenue that the return on investment clearly meets the hurdle rate. When there is discussion of fiscal stability, it's important to focus on which of those is the concern. He noted that the mechanism the state might use to solve either might be very different.

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REPRESENTATIVE GATTO, referring to slide 28, highlighted that 1984 was the middle of the Alaska housing slump. He questioned whether that slump was a reflection of a much greater decline in the economy. Since 2005, [Alaska] has been experiencing another housing slump, which he surmised is a reflection of the overall world economy and high petroleum prices. He asked if in the out years there could be a lengthy decline such that the projections would be far off.

MR. DICKINSON acknowledged that the aforementioned is a very real possibility and that the graph on slide 28 ties into many other things. He reminded the members that what may be more directly tied to what was happening in Alaska in 1985-1986 was the dramatic fall in oil prices.

MR. PULLIAM interjected that one must also keep in mind that the period prior to the late 1980s was a period of price controls for natural gas in the U.S. Therefore, that first upward movement prior to 1985 was due to prices being controlled above market levels. When the prices weren't controlled, there was a bit of a drop down to normal supply and demand conditions. As far as price projections, it's certain that the exact prices won't be what is projected.

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REPRESENTATIVE WILSON pointed out that during the period of falling prices, there weren't two large population areas of the world entering the industrial revolution, and therefore the demand that exists now didn't then. She asked if that would make a large difference.

MR. DICKINSON replied yes. He related that he recently had dinner with an individual who works for a law firm that does a lot of work in China. That individual said in 10 years he expects there to be a full scale civil war in China. Mr. Dickinson acknowledged that Representative Wilson has correctly identified a driving growth pattern, but whether that will be sustained may be more difficult to determine.

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REPRESENTATIVE LEDOUX recalled hearing in the past that the producers needed fiscal certainty due to the large scale nature of building the pipeline and the corresponding risk. She inquired as to the rationale the producers have for seeking fiscal certainty.

MR. DICKINSON explained that in the U.S. those taking the commodity price risk, the people who have to sell the gas, make FT commitments and thus even if they have to sell the gas for less than tariff, they will still pay the tariff. The aforementioned is what TransCanada takes to the bank because it's not taking the price risk, other than a minor fuel piece. The aforementioned is often referred to as risk sharing. Mr. Dickinson then reminded the members that only five years ago the producers were in the U.S. Congress seeking a price floor such that they would receive a tax break if the price fell below about $2.35. The concern [for the producers] was that they would put the money out and the effective tariff would be greater than what the gas could be sold. Although that concern may remain, there may also be the opposite concern in which there is so much economic rent being generated that the state will want to renegotiate that part of the arrangement. The fundamental idea, he emphasized, is who is taking the risk on price isn't the pipeline.

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MR. DICKINSON, returning to his presentation, directed attention to slide 30 titled "Words Matter." He highlighted that the administration has suggested avoiding "subsidies" and/or "billions of dollars in concessions." However, other aspects of the current license were referred to as quid pro quos, such as "state investment buys progress and state investment buys provisions." The notion is that those who believe there is a valid need for fiscal stability/certainty for those who take the price risk would characterize the situation as quid pro quo in which there will be an arrangement involving the state's ability to use its taxing authority and those who are taxed when they sell the gas.

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SENATOR FRENCH inquired as to Mr. Dickinson's view of the 10-year tax certainty offered in AGIA.

MR. DICKINSON related his understanding that the [language related to tax certainty] was changed, and therefore he offered to answer later. Referring to slide 18, Mr. Dickinson opined that it's appropriate for the state to make commercial arrangements that include fiscal certainty. However, the problem is that Alaskans don't want to give away things that aren't necessary or have reimbursements that aren't critical whereas the producers may argue for a larger number than will drive their decisions. Therefore, judgment regarding the correct level [of tax certainty] will have to be made. Mr. Dickinson related that he is exploring the notion that the state seems willing to use its taxing authority as part of the arrangements it will make to enable the construction of the pipeline. Ultimately, there will be various projections of the correct number.

SENATOR FRENCH opined that the state has provided fiscal stability. Therefore, before sweetening the pot, he suggested obtaining a commitment from the producers to nominate a certain amount of gas.

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MR. DICKINSON, referring to slide 31, highlighted that the state used quid pro quo, inducements, to find a builder for the pipeline. Now the state needs to find a financer of the pipeline. Mr. Dickinson then turned to the difference in the inducements between the mid- and upstream. He reminded the members that TransCanada's model doesn't include progressivity. The notion is that as price increases, there are dramatic increases in the dollars available upstream that are impacted by the production tax, the income tax, and the producers' residual after those are subtracted. The Black & Veatch analysis on slide 33 illustrates something similar, that is how much of the dollars, sensitivity for the state, is driven by the oil prices. As Senator Therriault pointed out, the tornado diagram is problematic because different impressions can be shown by choosing what ranges will be shown. The overall notion of the diagram is that the state's revenue on this matter is being driven by commodity prices. The tornado diagram on slide 34 refers to the producers' sensitivities, for which the biggest driver is also the commodity prices.

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SENATOR STEDMAN, speaking to slide 32, questioned how valid the analysis is since it doesn't take into account progressivity, which is a large impact, and the tie in of oil taxes with gas.

MR. DICKINSON recalled that when TransCanada discussed the graph on slide 32, Mr. Palmer referred to it as very unsophisticated analysis because TransCanada focused on the midstream. Mr. Dickinson agreed with Senator Stedman that the slide, since it doesn't use progressivity, probably isn't the most useful.

SENATOR STEDMAN remarked that part of his concern when reviewing this data is that progressivity is a substantial portion of the state's tax structure and within that tax structure there's a 20 percent credit. Unless progressivity and the credit are recognized, the numbers reflecting what the state may gain will be off. He recalled that being an issue with the oil tax, when the state was surprised with the modeling. He expressed the hope that a similar mistake wouldn't be made.

MR. DICKINSON related his understanding that TransCanada has an economic liability spreadsheet, as required by the RFA, and was frank that some of the formulas it used were simplistic. The Black & Veatch analysis is more sophisticated and has been added. Therefore, Mr. Dickinson surmised that the legislature would prefer to review those results from the Black & Veatch analysis versus the TransCanada analysis. He said that although he hasn't [thoroughly] reviewed Black & Veatch's analysis, the Black & Veatch analysts did things that TransCanada didn't, and therefore there's more precision.

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MR. DICKINSON moved on to slide 35 titled "Everyone Makes Money Questions: Would the producers make more as producer/carriers?" He asked are the producers making so much money that they would sign on to this project. He suggested that the focus should be on what's referred to as an incremental analysis. If the producers agreed to all the AGIA enhanced equal access provisions and built the pipeline, how much of the money would flow through, he asked. In other words, how much of what occurs is a consequence of this particular license or how much is a comparison of the two projects. Referring to slide 36, the notion is that a shipper will receive returns from monetizing gas and after taxes keep the remainder. There is also a pipeline, a carrier, earning money from carrying the gas. If that's the same parent company, then it makes that $57 billion. If there is a third party, then the third party makes the $57 billion and the upstream producer only makes $154 billion. In simplistic terms, the party that makes the pipeline will earn as a consequences of doing so.

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SENATOR WIELECHOWSKI recalled Spencer Hosie's comments that the producers have an obligation to sell if they can make a reasonable profit. He inquired as to what's considered to be a reasonable profit, $154 billion or $74 billion.

MR. DICKINSON responded that he, like Mr. Hosie, couldn't quantify what's considered a reasonable profit.

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MR. DICKINSON, moving on to slide 37, pointed out that if the cash flow is discounted at 10 percent rather than 8.8 percent, it shrinks considerably. If it's discounted at 15 percent, a producer would come out behind, he said.

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SENATOR FRENCH, referring to slide 35, pointed out that the $114 billion and $256 billion refer to the producers, although on slide 35 those numbers seem to refer to the state. Senator French then requested that Mr. Dickinson provide members a two- to three-paragraph analysis of how slide 37 works.

MR. DICKINSON agreed to do so. He mentioned that income taxes weren't included [in the analysis on slide 37] because the state doesn't have a separate accounting income tax but rather has an apportionment income tax. Apportionment income tax means that a company's worldwide income is multiplied by a state apportionment factor, the sum of which is multiplied by 9.4 percent. In a project such as this, most of the changes in income tax are flowing from the change in the apportionment factors that come from additional production, property, equipment, or sales.

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MR. DICKINSON, speaking to slide 38, said the question is: how much money is flowing from the incremental effects of the must-haves and how much is flowing from the unenhanced project. The aforementioned leads to the notion of an enhanced open access pipeline. As posed on slide 39: "How does the state achieve an 'enhanced open access pipeline?'" The goal of the must-haves is to produce an enhanced open access pipeline such that there will be an increase in the benefits and in an extreme case of open access, those benefits could be written into the documentation. He then turned to the enforceable commitment relative to the open access line. He explained that TransCanada is making a commitment as to the position it will take when it goes before a regulatory body. It's important to recall, he emphasized, that AGIA doesn't effect the decisions made by FERC. Another important point, in the case of the producers being the opposite party, is that the producers' ability to argue their case isn't constrained. Therefore, he suggested that a question may be whether that might be a more effective conversation. Many of TransCanada's positions are ones they might take regardless, he noted.

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MR. DICKINSON, referring to slide 40, highlighted that TransCanada's commitments refer to both what it will advocate for and negotiate. However, a negotiated rate still has to go before FERC or NEB, which may or may not approve it. He related his understanding that [FERC] likes negotiated rates. Moving on to slide 41 titled "How will Third Parties be affected by TransCanada's commitments?", he recalled that Commissioner Galvin suggested considering whether an entity would explore in the face of "an unknown and uncertain regulatory process - that doesn't exist anywhere else, don't know how long it will take, don't know whether it will succeed." The question to ask, Mr. Dickinson suggested, is whether TransCanada's commitments make navigating the new rules at FERC any clearer. "How much uncertainty are folks used to facing in the regulatory process; how much does this set of rules, on one of the parties, change ... the uncertainties in that regulatory process," he questioned. He then reminded members that in 2004 the federal rules changed and FERC was given powers to enforce some of the open access pipeline provisions. There is no knowledge as to how FERC's normal practices will change when it's faced with enforcing the new rules. Referring to slide 43, Mr. Dickinson reviewed the five tariff commitments, as follows: expansion in reasonable engineering increments and on reasonable commercial terms; rolled-in rates; minimum debt of 70 percent; cost overrun mechanisms to share risk with shippers; and $500 million state spending won't be part of the tariff. He noted that the $500 million state incentive would accrue the most interest as it would essentially be the first funds spent.

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MR. DICKINSON, continuing with slide 44, remarked that the definition of "open access" has been explained as when "Explorers have confidence that the pipeline will be expanded and new gas will pay a fair transportation rate with rolled-in rates." Deputy Commissioner Rutherford has said explorers won't explore without confidence. Therefore, the question is whether TransCanada's commitment makes a difference beyond the federal [presumptions]. He suggested questioning how much of future benefits from future exploration activity flow from AGIA. With regard to rolled-in rates, one should ask how TransCanada's agreement to rolled-in rates impacts its bottom line versus whether TransCanada is merely rearranging the dollars between the shippers. TransCanada is always going to receive full cost recovery and return on its investment. Assuming the credit risks are equal, it doesn't matter to TransCanada who is paying those dollars. He opined that when one reviews a rolled-in rate that is moving a total amount or just allocating between shippers, TransCanada doesn't care about that in most cases. However, the overall tariff rate does impact TransCanada because if the tariff is too high, TransCanada won't have any customers. Still, the certainty of an entity signing up for there rates is important, he noted. Mr. Dickinson moved on to slide 45, which relates that FERC already has a presumption favoring rolled-in rates for any project. The reason an entity would object to rolled-in rates is that the entity, with a long-term contract, might object to having to pick up a piece of an expansion. The question is whether it would be more effective to reach that likely objection by talking with those who would likely object or by talking to TransCanada, who may have been neutral on the issue. With regard to the limit on equity percent, slide 46, Mr. Dickinson said it's clearly a case in which TransCanada pays. That's a compromise that TransCanada is making and any shipper will receive the benefit of the lower tariffs. As relayed in slide 47 with regard to the cost overrun risk mechanisms, TransCanada will take on some risk. As characterized in the Anchorage presentations [by the administration], TransCanada has made a very good opening bid.

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MR. DICKINSON, referring to slide 48, highlighted that the administration has related that the $500 million "credit to rate base pays for itself in increased future revenues." Therefore, the administration believes it makes sense to lay out that $500 million as its exchange for value. Therefore, he said he would question whether the rest of the must-haves are free. He said he would also question whether there's a point at which the state wouldn't receive a future benefit from the state putting it's money in. He suggested that there should be a mechanical breakeven point. Moving on to slide 49, Mr. Dickinson pointed out that there is the general notion that the state's netback is dependent on the tariff. Therefore, if there's a high tariff, the state makes less money and vice versa. One must remember, however, that the majority of dollars are coming from the state's production tax. In the November 2007 special session, the legislature changed those rules as specified under AS 43.55.150(a). Under the new AS 43.55.150(a), the following conditions were set: if the shipper is affiliated with the transportation carrier or with a person that owns an interest in the transportation facility, then the gross value at the point of production is calculated using the actual cost of transportation or the reasonable cost of transportation, whichever is lower. Therefore, if, under the TransCanada plan, ConocoPhillips bought a 1 percent interest in the pipeline, the aforementioned would be triggered such that ConocoPhillips' tariff would be the lower of its actual costs or its reasonable costs. The statute specifies, "The department shall determine the reasonable costs of transportation using fair market value ... or other reasonable methods." In other words, if a pipeline shipper owns any interest or has any commonality of interest with the pipeline owner, the department can write regulations which determine the deduction for purposes of the production tax. Although this doesn't impact third parties, clearly a higher tariff is real money out of the pocket of the third party. Continuing with slide 50, he highlighted the following questions: "How will this license lead to in-state gas in ways that other project won't?"; "How will this license lead to an LNG project in ways that other project won't?" As related on slide 51, the notion is that all these benefits will flow from a pipeline project, no matter whose project it is. If one believes the license is the best/only way to start a pipeline project, then the aforementioned notion is correct. However, if that's not true, then the state should be wary of benefits attributable to a specific pipeline project covered by this license.

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REPRESENTATIVE DOOGAN asked if it would be equally true that this license is the most likely way to start a pipeline project.

MR. DICKINSON replied yes, adding the caveat of being able to quantify the likelihood of how much would flow.

REPRESENTATIVE DOOGAN remarked that his point is that if this is being based on a syllogism, it must be the appropriate syllogism.

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REPRESENTATIVE SAMUELS announced that the meeting would break for a Joint Armed Services Committee meeting, and upon its conclusion the meeting would continue.

The committee took an at-ease from 2:26 p.m. to 3:16 p.m.

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MR. DICKINSON referred to slide 52 titled "5 Local Commitments," which include the five in-state takeoff points; firm transportation with distance sensitive rates even without FT commitments; local headquarters; local hiring and contracting; and a project labor agreement (PLA). He noted that a company that will move gas into the state doesn't necessarily need to make an FT commitment in the open season. Therefore, he opined that the volume of gas that will move that way is so small that it doesn't need to be financed 10-15 years in advance. The question with regard to all of the aforementioned commitments is in regard to how unique each is to this particular project, as relayed on slide 53. Moving on to slide 54 titled "Unique to TransCanada Project?", Mr. Dickinson questioned how much local commitments account for if the state received all 20 must-haves for $500 million because any project would likely include things such as local headquarters. Another question to ask is whether the Alaska Natural Gas Development Authority's (ANGDA) principle: "Ride as far as you can in the big pipe" is tied to this specific license or would any project include the same aspect. He then continued with slide 55 titled "What is the enforceable commitment for In-State Rates without FT?" He reminded the members that TransCanada said it would offer FT service, provided that in-state shippers execute long-term FT contracts with the Alaska Section for service. TransCanada has also said, "In the event there is insufficient capacity for the delivery of in-State gas, TransCanada is prepared to expand the Alaska Section to accommodate such deliveries, provided that such expansions are in engineering increments under commercially reasonable terms and conditions." He interpreted the aforementioned to mean that although an FT commitment doesn't have to be made, an entity that gives an FT commitment when the pipeline is already full would only receive what's available when it's available.

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REPRESENTATIVE SAMUELS inquired as to how it works for the ramp-up for the Fairbanks market to slowly increment to what is a fraction of an increment. He then questioned whether the usage in Fairbanks is so small in the aggregate that it wouldn't matter.

MR. DICKINSON noted that those who forecast future use might bid on future capacity. The question is whether the entity is willing to make commitments early on, prior to the build up. The difficulty with long-term contracts is that others may also be making long-term contracts. If it's a matter of switching the Fairbanks economy to base everything on gas, that will take some time. Furthermore, there will be costs for doing so.

Clearly, one of the issues is that of the 4.5 Bcf/d pipeline, the state's concerns is about a very small piece. TransCanada wants to identify the takeoff locations upfront, which means the construction of a telescoping pipe. The difficulty, he noted, is to determine the location of the takeoff points and the amount of demand. The aforementioned decision should be made when the size of the pipe is determined.

REPRESENTATIVE SAMUELS asked if Fairbanks is such a small amount on a 4.5 Bcf/d pipeline that the takeoff doesn't matter because it's such a small amount of gas on a large pipe. Or, is it problematic for Fairbanksans to slowly ratchet up what they use or "is the small amount in the rounding?"

MS. ADAIR opined that it's in the rounding, at least at the level of project definition being discussed today. As Mr. Dickinson suggested, as more [detail] is available in terms of the design of the project, [Fairbanks' off takes can] probably be accommodated. She suggested that it could likely be accommodated in compression line pack.

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REPRESENTATIVE KELLY remarked that it's important that TransCanada understand that Fairbanks, which will be in the 1 B[cf/d] range, will request that TransCanada provide for that [1 Bcf/d] range and it won't be required to be nominated from day one.

MR. DICKINSON related his belief that if there's space, that would be appropriate. However, if it's fully bid out under the current proposal, then there could be situation in which there is insufficient capacity and an expansion to meet that would be required.

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REPRESENTATIVE SAMUELS asked if it's assumed that when an entity bids on pipeline capacity, there's long-term capacity as well as short-term capacity, which is more fungible in terms of gas usage. He questioned how pipelines work in small markets, such as that of Fairbanks.

MR. DICKINSON answered that he wasn't sure. However, he recalled that TransCanada discussed having several time ranges, in the range of 20-25 years. He then noted that during an open season, an entity can have a nonconforming bid and then proceed.

He said he didn't recall anything about shorter timeframes, and thus he suggested talking with TransCanada about this point.

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REPRESENTATIVE KELLY specified, "I think that the words we want to hear would be: 'provide for the eventual build out.'" He expressed the desire for the off-take points for Fairbanks and there to be enough capacity, in say a decade, to have the build out occur. The aforementioned isn't going to occur initially with the FT commitments.

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SENATOR WIELECHOWSKI opined that this is an important issue. He recalled that according to the ANGDA presentations, there is 500 thousand cubic feet (Mcf) to 1 Bcf in potential demand in Alaska for in-state use. He opined that going into initial construction knowing that there needs to be an expansion, there would need to be a cost benefit analysis regarding whether there should be a separate in-state line. He pointed out that the tariff would be lost on that 1 Bcf/d for Alaska and TransCanada would be losing the tariff that would otherwise accrue going to Alberta.

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SENATOR BUNDE inquired as to whether a provision was made for the state to take its royalty gas in-kind and how that would be accommodated in capacity.

MR. DICKINSON answered that under the lease the state has the option to take the gas in-kind on very short notice. One of the areas in which the state agreed to fiscal certainty was in limiting that ability so that producers would know more about what gas they had versus the state's gas. He offered that a producer would not want to bid on FT and discover that the state "pulls it out from under you and you have empty capacity." However, he related his belief that in the long run whether the state selects the royalty gas in-kind or not, that someone has to make the FT commitment. He opined that ownership interest in the pipeline would be irrelevant since no matter whose gas it is, the issue is that someone must step forward and say, "I'm going to pay that charge whether I ship that gas or not." He said that he didn't think that the upstream shippers have any concern with the state taking its gas so long as the state makes it clear beforehand so everyone can make an FT commitment based on how much gas they will have to take to the destinations to obtain the highest value.

3:31:24 PM

SENATOR BUNDE opined that someone has to make the FT commitment. He inquired as to whether that occurs through future negotiations when the state decides it wants a portion of the FT such that if the state chooses to take the gas in-kind it can do so.

MR. DICKINSON offered that might be one way of doing it if the state didn't feel it was ready in the first open season to either step in, in place of the organizations that the state felt might use it or to take that capacity and put it out to become a secondary market. He noted that several approaches could be made.

3:32:02 PM

REPRESENTATIVE KELLY suggested that on the Alaska “off-take” there are two hurdles, which are pipe size and FT. He related his understanding as to how the two are linked. However, on sizing the pipeline, as Senator Wielechowski commented, he opined that the state would want to avoid the situation in which the flange is sitting useless until further expansion happens. He opined that the smaller in-state amounts needs to be approached with the appropriately sized pipe and perhaps the FT being ramped into it. However, the first hurdle is more important than the second hurdle since the state has the ability on royalties to easily satisfy the initial requirements, he stated.

3:32:59 PM

MR. DICKINSON said he believes that the installation of the flange when building a pipe is almost cost free as opposed to attempting to do so later. Therefore, the state might want to over flange at the time of selecting options and making commercial arrangements.

REPRESENTATIVE KELLY remarked that was his point.

3:33:24 PM

MR. DICKINSON referred to slide 56, which he said highlights the same comments that Senator Wielechowski made, which is to ask how TransCanada makes its money. TransCanada makes its money on expansion. Therefore, it will be allied with the state on expansion and TransCanada will help ensure that happens. He elaborated by offering the analysis that TransCanada makes its money on transporting gas and its return on investment on how much plant and equipment it has. Thus, if the company has less equipment and transports less gas to the Lower 48, TransCanada is going to make less money. He stated that TransCanada makes the most money by transporting "the most gas over the most miles." Considering TransCanada's alignment with Alaska, he noted that there may be some misalignment.

MR. DICKENSON, referring to slide 57 titled "AGIA Mechanism," offered that the AGIA mechanism provided an inducement to a carrier. If a carrier holds an open season, obtains a license, and takes the other steps necessary, AGIA sets up a situation in which a line can be constructed. The inducements for the shippers were to entice them to underwrite the gasline, or to provide the financial underpinning, he offered.

3:35:05 PM

REPRESENTATIVE ROSES referred to slide 49, of proposed AS 43.55.150(b), which read:

> b) gross value at the point of production is calculated using the actual costs of transportation or the reasonable costs of transportation ... whichever is lower. The department shall determine the reasonable costs of transportation using fair market value ... or other reasonable methods.

REPRESENTATIVE ROSES inquired as to whether Mr. Dickinson advised that if this provision passed as part of the tax revenue, then [AS 43.55.150](b) would be triggered in the event that the company has any affiliation with the pipe. Thus, if TransCanada guarantees it, does this provision "kick in" and if so, by passing AGIA did the legislature create disincentives for the companies to become partners, he asked. If that is the case and the state has created disincentives for partnerships by TransCanada, he suggested it provide a reason for TransCanada to build its own line since it will pay the rate either way.

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MR. DICKINSON acknowledged that as a good question to ask. He stated that he did not want to prejudice potential future litigation by opining on whether it makes sense. However, he offered his belief that Representative Roses identified an issue that should be asked since it does identify the cause and effect that would flow from these specific provisions in AGIA.

3:36:06 PM

MR. DICKINSON referred to slide 58, and to the carrier inducements. He stated that a carrier stepped forward and said that it would accept those inducements in exchange for the “must haves.” He said that the question to ask is whether the $500 million was exchanged for something else, in which the state created value. Another way to phrase that question is to ask whether TransCanada was allowed to “play with the shipper chips." He inquired as to whether a situation exists in which TransCanada is doing things that won't affect its bottom line, but would affect the shipper’s bottom line and that is the reason why the inducement was successful. He asked whether TransCanada would have done some of those things even if it wasn’t required to do so under a binding commitment. Continuing with slide 59, Mr. Dickinson asked whether the shipper inducements will be sufficient by adding value and making [the gasline] more likely to happen.

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MR. DICKINSON, referring to slide 60 titled "Part II: The Vote - Beginning or end of Competition," opined that the questions he has raised will provoke discussion and provide useful answers. He offered that the legislature is faced with voting on a proposition and he wants to suggest some ways of thinking about the proposition. He stated that he didn't think that a lot of the questions he has raised are about the connection between what the license will do and the results. He opined that it would be a mistake to vote against a license on the basis that the legislature thinks it won’t deliver everything it promises. He suggested that a better way to consider a license is in regard to which license places the state in a better position. One positive step in the process is that the outcome is good if awarding a license encourages another competitor. He expressed concern if the administration doesn't treat this process as a competition, but as the end of the competition. He cautioned that the process creates a situation in which the race has been won, the gold medal is placed around the winner, and everyone else is shunted off. The notion is that there are a number of producer/state issues that will affect both parties on any project. He opined that it isn't productive if the license award is treated as a green light to ignore the issues. Secondly, the legislature wouldn't be encouraging competition if the licensee has access to funds in which the non-licensee is somehow affected and this project is favored over other potential projects, such as LNG or the producer line, or even a GTL plant.

3:39:53 PM

REPRESENTATIVE GARA offered his understanding that Mr. Dickinson is suggesting that the state award the license and then shift the contract to the producers or someone else later. He noted his further understanding that awarding the license encourages another competitor. He inquired as to what sanctions are contained in AGIA that would apply in an instance in which the state awards the license, then bails out on the licensee and accepts another company.

MR. DICKINSON stated his agreement that the state could do the aforementioned. However, he offered that there is some question, in terms of reviewing the definitions, as to the overall financial impact. A number of attorneys and the DNR commissioner have advised that the state would have a financial impact of about $333 million maximum. If, after all the work had occurred to obtain a certificate, the state “changed horses,” the state would be responsible for 3 times the liability of the unreimbursed amount, which would total b about $333 million. Others have speculated that the cost would be three times $600 million or $1.8 billion. Secondly, he pointed out that one of the things he heard in Anchorage is that negotiations are ongoing. He opined that the investors have to ensure that their $30 billion is protected and invested appropriately. In that negotiation process, the producer will move risks around and one possibility is that the producers may play a larger role in this line, whether it stems from AGIA or not. He mentioned that the license may impede that or not. Simply dropping one [licensee] and going to another probably wouldn’t occur, he surmised. Furthermore, AGIA clearly sets out steps to cover instances in which either side thinks the project is not economically feasible, particularly if the other side disagrees. The only time that the triple damages would occur is in the event that the state extends preferential royalty or tax treatment or a grant of state funds for the purpose of facilitating the construction of a competing natural gas pipeline in the state. However, if a negotiation came together in which the producers made the project feasible, it is possible that TransCanada might agree not to claim the triple damages.

Thus, if the negotiations occur, it is just another one of the pieces that would need to be moved around, he remarked.

3:43:40 PM

REPRESENTATIVE GARA inquired as to whether Mr. Dickinson is suggesting that the state grant a contract and then breach the contract. He opined that the state does not want to be viewed as an unstable or untrustworthy partner.

MR. DICKINSON cautioned that he is not suggesting that the state breach a contract. He clarified that what he is trying to convey that the intent of how this contract will be fulfilled is, as the governor stated, the state stays out of the way and allows the commercial parties to negotiate. He opined that it could be a three-way negotiation if one commercial party desires something that isn't in the purview of another commercial party, but involves the state. In the event that such a situation happens, one of the issues will be whether treble damages may or may not occur. Mr. Dickinson highlighted that since TransCanada has experience in negotiating other deals and shipping other producers' gas, it has experience in working with producers and in negotiating tax rates. Thus, developing the gasline doesn't create a unique experience for TransCanada, other than scale. He opined that if a deal gets put together that makes sense to TransCanada, it will inform the state, particularly in anticipation that the state will provide, as mentioned by Senator French, "some additional skin."

3:45:26 PM

SENATOR WIELECHOWSKI posed a scenario in which the state awards TransCanada a license and the producers continue with the Denali Project. He inquired as to whether FERC would give the TransCanada license any additional weight due to the state support through licensure.

DR. NERI answered that while he was not 100 percent sure, he didn't think that the state issuing the license to TransCanada would carry any extra weight unless legislation passed.

3:46:11 PM

SENATOR WIELECHOWSKI he asked if anyone has a sense as to how FERC would analyze two separate proposals, the TransCanada proposal and the Denali Project.

DR. NERI opined that FERC's intent would be to evaluate each of the proposals. However, one possibility is that FERC could advise that the two parties to team up and work out a project together [in order to avoid] redundancy and waste of resources.

MR. DICKINSON recalled that the same question was posed earlier and received some thoughtful answers relaying that FERC attempts to suggest what is in everyone's best interest and when it has allowed commercial parties to work. He opined that clearly lots of projects exist in which compete parties attempt to build projects, when demand is identified. The FERC ultimately determines which project will work for the public convenience and necessity.

3:47:45 PM

REPRESENTATIVE SEATON related his understanding of the AGIA process that the state cannot preferentially aid another pipeline. However, he inquired as to what would happen if the producers decide to convert the gas to liquids, monetize it at the leasehold, and ship it down TAPS. He opined that nothing in AGIA prevents preferential use or treatment if the gas is converted to synthetic crude on the North Slope.

MR. DICKINSON reiterated that the provision contains two components that aren't identical, which he opined is confusing. The trigger talks about preferential treatment, but doesn't include the remainder of the phrase in the rest of the sentence. He expressed hope that Representative Seaton's interpretation is correct and that other projects will continue to thrive until the projects are no longer compatible. He said that point is in the future and he would hope that awarding a license would not change that. He opined that the attorneys could interpret the phrase in AGIA and regarding what would trigger the condition.

3:49:57 PM

REPRESENTATIVE SEATON related a scenario in which the producers decide to monetize the gas by putting it in GTL modules at Prudhoe Bay and use TAPS to transport it. He then inquired as to whether anything in AGIA would prevent or impact the license or any project from moving forward.

MR. DICKINSON said it did not, but he suggested that attorneys examine the damages questions since they may interpret AGIA differently than a lay person.

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REPRESENTATIVE KERTTULA related her understanding that the competition has already happened, such that proposals were made and this is now based on availability of the resource. She said that it is not as though the state will close things down, but rather what is available at a certain point.

MR. DICKINSON noted his agreement, adding that the point is what resources are available at what risk. He predicted that over the next five days the legislature will hear that those who take the price risk on the commodity try very hard to protect themselves from things like cost overruns and so they negotiate. Echoing his earlier comments, Mr. Dickinson stressed that awarding the license should be the kickoff for the commercial negotiation, not the end.

3:51:58 PM

REPRESENTATIVE SAMUELS related a scenario in which ConocoPhillips and BP sought a permit from DNR for a pipeline at the same time as TransCanada, and inquired as to whether the treble damages clause would be triggered. He surmised that TransCanada would claim that the state couldn't issue ConocoPhillips or BP the permits since it is the licensee. He said that he realizes Mr. Dickinson isn't an attorney, but he asked for his opinion.

MR. DICKINSON, acknowledging that he isn't an attorney, surmised that it seems to him that as long as the government is functioning as the government and is not acting preferentially, he would hope treble damages wouldn't be triggered. He related his belief that although the rights-of-way are nonexclusive, there are some "pinch points." Moreover, until the deciding authority, FERC, has made some decisions, it would be a mistake for the state to favor one project over another or grant any exclusive rights.

REPRESENTATIVE SAMUELS noted that TransCanada would be asked the same question.

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REPRESENTATIVE GATTO inquired as to whether the license is a license that [the licensee] would own or that the state lends it [to the licensee]. He further asked whether restrictions apply, the producer can sell [the license], or whether the license will sunset.

MR. DICKINSON, speaking to the last question, explained that a set of commitments to act would exist and, at some point, TransCanada's inaction would represent abandonment of the project. At that point, TransCanada would turn over to the state all the work that had been done to that point, he related. Although he said that he didn't believe a specific sunset exists in AGIA, the timelines have that effect. Referring to Representative Gatto’s earlier question, Mr. Dickinson said he would “dodge that.” He recalled that it isn’t so much that the license could be sold, but rather what happens if ownership is changed. He offered to find out and provide a specific answer.

3:56:05 PM

REPRESENTATIVE GATTO inquired as to whether the contract would still be [TransCanada’s], if [TransCanada] were enter into an agreement with the producers. He opined that in such a situation [TransCanada] couldn't merely inform the state that the contract is now shared with the producers.

MR. DICKINSON clarified that it's a license. However, he deferred to an attorney regarding those kinds of changes to the license.

3:56:32 PM

MR. DICKINSON, returning to his presentation, referred to slide 61 titled “Beginning or End of Competition?” He explained that this slide portrays two views from Commissioner Galvin, one that introduces more competition while the other doesn’t. The question is which way is the state headed. Mr. Dickinson said:

> The first one, he was very clear and very forceful. It says, “We are not here to stop them [the producer line].” I think he was very explicit that they can continue to move on whatever schedule they had, but that the administration was embarked on something with its own set of specific guidelines and timelines, and it wasn’t an attempt to move in a way of a producer pipeline. On the other hand, at that same forum, on the same day, I believe even the same presentation, he said that the “State has a considerable interest in steering producer gas to the TransCanada project.” And again, what the state views as the steps it can

take to follow through on that considerable interest are things that you might question if what you're trying to do is keep the competition a full-fledged competition.

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MR. DICKINSON noted that slides 62 and 63 are in the wrong order. He related that on slide 63 he was asking a cynical question by asking, “How can another ‘competitor’ with no credit and no customers strengthen the prospect for a line?” He offered that the answer is: the more information gathered the better. He opined that although this is already the most studied pipeline ever, much is still unknown. He surmised that given the size of the commitment that it made sense to gather more information. He pointed out that one of the things that can happen in an “open season” is that producers may use non-conforming offers to forward the negotiations. He opined that in a commercial negotiation other parties figure out what their weaknesses are and what the other party can bring [to the table].

4:00:08 PM

MR. DICKINSON, referring to the last bullet point on slide 63, related his understanding that historically, when FERC has had two competing projects, it has specified what it believed to be in the national interest and would suggest ways that the parties could resolve issues much in the way that a judge suggests a way to resolve a case. In this case, Congress has told FERC that [Alaska's gasline] is clearly in the national interest. He related that he has heard in a conversation today that the aforementioned isn't as true recently as it was in the past. Therefore, the question to ask is whether FERC will intervene and attempt to merge the parties or not.

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REPRESENTATIVE GUTTENBERG inquired as to whether the legislature has access to the work product.

MR. DICKINSON said that the state has access to the work product if certain things fail. He related his belief that the legislature probably has access to the work product under AGIA, but he offered to research that matter further.

REPRESENTATIVE GUTTENBERG related that in his experience construction contracts sometimes don't include [access to work product] provisions. He related his understanding that many legislators feel that having a non-producer owned pipeline is critical to open competition in Alaska. He inquired as to whether the state would still have an open access project if the producers hold the controlling interest in the project.

MR. DICKINSON replied yes, the federal law is explicit on that. He related his understanding that the Anchorage presentations specified that AGIA brings an enhanced or true open access pipeline. Thus, some of the questions raised are whether the ownership interest creates the difference or can it be mitigated. He questioned whether, under federal rules, the state adding its own layer affords that much protection or not. He stated that although he doesn't have a quick answer, he believes being an open access pipeline is embedded in federal law and FERC will act on that. Therefore, one must ask whether that's a sufficient guarantee, and if committing one of the parties who is appearing before FERC to something else is an improvement. He suggested that perhaps better open access could be achieved by talking directly to the folks who would be trying to get the provisions which may be viewed as more controlling. "The problem," he said "is knowing the FERC rules are not tested and tried, and so you are always going to be having, you'll have to get opinions from folks who have been in front of FERC under the old rules and try to figure out what may or may not happen."

4:04:24 PM

SENATOR WIELECHOWSKI related his understanding that everyone, including the state, seems to be in agreement that the gasline is a profitable project. He inquired as to whether it's in the state's best interest to have an independent entity build the pipeline or if it's better to have the producers do so, if the choice is between TransCanada and the Denali Project or some other producers.

MR. DICKINSON answered that he personally doesn't know. He opined that it's important to step back and review what affects each party can have, what they can provide, and the values associated with that. He said it would be unfortunate if a battle ensued that was identified for the wrong reasons. He clarified, "What I'm trying to say is I don't have a personal opinion on that and I don't believe at this stage, voting on the license, that that answer is a critical one, one way or the other."

4:06:44 PM

SENATOR BUNDE referred to slide 4 titled “Another Reason to Support a TransCanada License” which he read: “Probably won’t harm the prospects for a line and may strengthen them.” Senator Bunde inquired as to whether that slide poses a question or provides a statement.

MR. DICKINSON answered that slide 4 offers a way to think about the license and what it brings the state. The question is whether irreparable damage is caused by taking this step or whether there's an advantage to this step and the legislature shouldn't focus on whether this step leads to the next step and subsequent steps because there are so many steps. In further response to Senator Bunde, Mr. Dickinson noted his agreement that it’s like chicken soup in that it won’t hurt.

SENATOR BUNDE asked the other panel members to weigh in on whether matter the TransCanada license probably will not harm or will harm [the prospects for a gasline].

MR. PULLIAM noted that this isn't a question he specifically set out to answer. However, based on his part in the process, as he has reviewed the findings, listened to Mr. Dickinson’s presentation, and been part of the process for the past few years, he offered that he personally did not see harm.

MS. ADAIR concurred with Mr. Pulliam. She said that although she hasn't personally reviewed this issue, discussing the issues further and perhaps clarifying everyone’s position a little better has been helpful. She offered that project completion will require many steps and the better everyone understands the needs of individual parties, the higher the likelihood of success of the project.

DR. NERI answered that he, too, didn't see [granting the license] as harmful to the process and as mentioned earlier many more steps are needed, including obtaining the certificate.

4:09:35 PM

MR. DICKINSON pointed out that it is easier to ask detailed questions about detailed projects. He recalled someone characterizing the Denali Project as a 12-page PowerPoint. He opined that if the license is issued, in two years it would likely result in two open seasons from which the legislature could learn much more. Referring to slides 64-65, he stated that the critical issue is who is underwriting this project. Mr. Dickinson, referring to the upstream conversation, expressed the hope that no one thinks that granting the license ends the need for conversation and communication on that matter.

4:11:29 PM

REPRESENTATIVE DOOGAN, assuming this project is going to make money for everyone including the shippers, asked what carrots or sticks could be used or should be used to encourage the shippers.

MR. DICKINSON answered that the question really comes back to the risks associated with the pipeline. He explained that the those investing the money want to ensure money is made and thus they reduce their risks. He then explained the “terrible price scenario” in which the state’s natural resource wealth isn't worth as much. Although that was a concern five years ago, ConocoPhillips may believe that it's no longer a concern due to rising prices.

4:13:19 PM

REPRESENTATIVE DOOGAN recalled that the Department of Revenue (DOR) commissioner has stated several times that an important goal is for the state to use the pipeline to open up the basin. He further recalled Mr. Dickinson mentioning that issue as well. He inquired as to why that issue hasn't been discussed, whether it's important, and how awarding of a license to TransCanada might affect opening the basin.

MR. DICKINSON answered that although he may not have addressed that issue expressly, he opined that a [gasline] project will open the basin. Therefore, the question is whether a TransCanada project will do a better job of opening the basin than a producer controlled project. The aforementioned returns to the previous discussion, regarding that federal law defines this as an open access pipeline, and the question of whether the provisions of AGIA will do more to open up that basin than the current provisions in FERC. If so, and if the state is trading to obtain those provisions, the question is whether the state is trading the right amounts. He related his observation that historically when producers have been involved in pipelines, they often dispose of them. However, he acknowledged that Ms. Adair mentioned earlier that ConocoPhillips prefers to have a percentage equal to what it invests in the pipeline and thus he said he wasn't guaranteeing that the producers will dispose of the pipeline. The question is whether during the early years, when the state is forming competition, the producers will resist expansions and convey that other companies aren't welcome in the pipeline, and therefore other exploration won't occur and the basin won't open. However, he opined that TAPS isn't a good analogy from which to draw that conclusion. He said, "As I see that risk in the documents that I've read, ... I certainly believe that the FERC, the federal concerns, will do something to alleviate that. And I guess this is really, at the margin, a question of whether the additional AGIA provisions move you from opening the basin to not opening it. ... Do they get the basin opened more than just the federal provisions?"

REPRESENTATIVE DOOGAN, assuming Mr. Dickinson has identified the question correctly, requested Mr. Dickinson's answer.

MR. DICKINSON answered by saying that as the negotiation proceeds, the folks concerned about the open basin provisions need to ensure those provisions are adequately protected as other commercial arrangements are made. He said "And the notion of a must have which ... cannot be compromised, and cannot be used to reach a solution, I think is not ... necessarily the best way to proceed towards a given goal."

4:16:53 PM

REPRESENTATIVE DOOGAN pointed out that some provisions in AGIA aren't protected in the FERC process, such as the treatment of rates, at least in the initial expansions, and the frequency with which FERC will evaluate the necessity for future expansions. He said he thought that review was every two years. He inquired as to whether that provision, which is a part of the license but not part of the FERC procedure, is "a chip that's worth playing for here."

MR. DICKINSON offered his understanding that the engineers will confirm that the early expansions lower the overall project cost for everyone. He said, "No one gets to show up and say, if I pay for an extra compressor, can I just pay for that compressor and then ship." Therefore, the question only occurs when [the project produces] several billion cubic feet a day of expansions in the gas. He opined that the project would have to be at the 6.9 Bcf or 7 Bcf before that becomes an issue. The federal law addresses rolled-in rates, but he said he doesn't know whether [the state's] rolled-in rate provision or [the federal] rolled-in rate provision will be more effective.

4:18:30 PM

REPRESENTATIVE DOOGAN pointed out that AGIA provides for the shipper to reevaluate every two years.

MR. DICKINSON related his belief that a the shipper that is denied expansion can ask FERC for that expansion. For the first time, FERC has the authority to "do it." He commented that he didn't know whether a solicitation every two years would enhance that process. However, he opined that the reevaluation wouldn't provide any additional rights before FERC, which will act as the ultimate arbitrator.

MR. PULLIAM noted his agreement with Mr. Dickinson that ultimately the issue will come before FERC. He explained that AGIA provides an "automatic alignment," in which the pipeline has to go automatically, as opposed to having a shipper or the state bring them. The aforementioned may move things along a little quicker, he remarked. No matter who owns the pipeline, a producer or a third party, their interest will be to have more gas flowing down the pipeline for increased revenues. However, the issues become clouded when the upstream pieces are included as well. "Whether those are really enough, on the margin, to make ... a difference, I don't know," he said. He reiterated that with AGIA the state has an automatic provision whereby the pipeline has to go to FERC, which will tends to speed things a bit.

REPRESENTATIVE DOOGAN surmised then that Mr. Pulliam is conveying that [AGIA] offers some advantages in terms of the process, but doesn't guarantee the result.

4:20:39 PM

SENATOR WIELECHOWSKI opined that the producers obviously believe this is a profitable project as they have proposed a $30 billion project. He inquired as to what additional carrots should be provided.

MR. DICKINSON said that he wasn't sure. He then remarked:

> Is there a right set to bring about negotiations? The state is taking the majority of the upstream value, and you can argue that is entirely appropriate. One of the questions I raised here is if the state increases that by “x” percent it can reduce the

producer's take dramatically, and is that a fear that needs to be addressed. Is that what is holding the project back. If you identify that, I would view that as a carrot so to speak.

4:21:42 PM

SENATOR WIELECHOWSKI inquired as to whether Mr. Dickinson considered that a tax break or a concession.

MR. DICKINSON explained that but under the current statute the state would basically be agreeing to a 10-year "freeze." The question is whether that's appropriate and how one would arrive at the appropriate level.

SENATOR WIELECHOWSKI asked if Mr. Dickinson thought it was appropriate.

MR. DICKINSON, speaking as a citizen, replied yes. He related his belief that the state's taxing authority is [a tool] it can use to open the basin. However, it would be inappropriate to use taxes, such as a reserves tax, as a stick and provide an exemption for only gas that went to a licensed project. In further response to Senator Wielechowski, Mr. Dickinson said he didn't see what the [state's taxing authority] would be used to accomplish in the next 60 days. He suggested that if the legislature passes the license, the process [should be allowed] to work out, such that investors can make rational decisions and negotiate on the points that hold the most concern.

4:23:27 PM

REPRESENTATIVE KELLY, recalling the answers to Senator Bunde's earlier question, surmised that [awarding TransCanada the license] wouldn't hurt and might even help. He noted that for the past several days, legislators have been told that either [TransCanada or Denali Project] have the ability to build the pipeline. He offered his understanding that the $500 million investment in nominal dollars could bring the state to over a billion in present value dollars. Therefore, he questioned why [the state] would eliminate one of the players from the beginning rather than move ahead with both players.

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MR. DICKINSON offered that Representative Kelly provides the basic question he is trying to frame. He opined that [moving ahead with both players] is entirely appropriate and not doing so doesn't seem useful. The concern, he related, is that the granting of the license may be viewed as a "green light" to do just what Representative Kelly framed. He then said:

> I hope that, and certainly the administration said lots of things that led me to believe that they heard the same things from the experts that I did, and concluded that this is a long process and that the more competition in these early stages makes the most sense, and that they would do that.

4:26:10 PM

REPRESENTATIVE SEATON pointed out that AGIA requires that the pipeline identify how it would handle carbon emissions. He inquired as to whether Mr. Dickinson has reviewed the effect on tariffs or on the probability of moving forward under a regime of carbon taxes, carbon credits, or carbon sequestration.

MR. DICKINSON answered that although he didn't review those types of credits, he recalled that the materials he reviewed offered some treatment. However, he couldn't recall the specifics of the analysis, with respect to credits.

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REPRESENTATIVE SEATON opined that a carbon tax could have a drastic effect on the tariffs. He inquired as to whether carbon credits could be sequestered and whether the state would obtain the carbon credits or whether the pipeline company would, in terms of net present value (NPV).

MR. PULLIAM said he didn't recall carbon credits being addressed in the analysis and that he isn't familiar with that issue at this point.

4:28:09 PM

REPRESENTATIVE GUTTENBERG, referring to the prior administration's proposal, opined that the legislature "poured a lot of sugar over that proposal." He inquired as to whether anyone compared this proposal to that one, given that the current price of the commodity is significantly higher for profit margins. He expressed concern that "we have to pour more sweetener into the pot." He noted that part of the analysis in Anchorage was to get to an "open season" and to let producers come to table. He pointed out the estimate of $200 billion in savings for consumers once the gas is supplied to the Midwest market. Additionally, he pointed out that Congress has viewed the gasline as a matter of national importance. Thus, he questioned the need to "sweeten" the deal more. He surmised how much better this proposal is due to the increased value of the commodity, since the risk remains the same while the profits are higher.

MR. DICKINSON agreed that Representative Guttenberg accurately identifies why producers are announcing this project. He opined that the timing may have something to do with this, given AGIA. He agreed that after 20 years of low prices, the producers are more interested now. He predicted that if producers believed prices would stay high and that the state would not change the relative split of economic rents, the producers might move forward. He acknowledged that no one can guarantee prices, and thus the remaining issue is how the economic rents are split.

MR. DICKINSON reminded members that the last administration proposed a project that focused on the state having 20 percent ownership in the pipeline and the gas and make 20 percent of the FT commitment. The aforementioned was coupled with locking in a 20 percent tax rate with no progressivity, with which many were very uncomfortable. Since then, a progressivity piece has been added. Mr. Dickenson related his understanding that Representative Guttenberg's question "implied that the prior administration had piled up a certain amount of sugar, and ... that I was arguing that now a larger pile needed to be made on top of that." However, he pointed out that the current proposal starts from a very different place and is a very different project. Still, the question remains: would the guarantees in the aforementioned contract have been sufficient if all the ownership issues had ever been worked out. He opined that the aforementioned is something no one knows.

4:33:03 PM

REPRESENTATIVE GARA stated that he doesn't want TransCanada to think that the legislature will vote [to approve its license] and then "use them as sort of a horse to ride" and then "just leave them." He related his understanding that Mr. Dickinson suggests that if the legislature moves ahead that perhaps the parties will negotiate and form some type of consortium, which he characterized as acting in good faith. He expressed concern with Mr. Dickinson's suggestion that TransCanada would invoke the treble damages provision because the treble damages provision would only apply if the state breaches the contract. He said he hopes that Mr. Dickinson didn't mean to imply that the state would breach its contract. He recalled Mr. Dickinson's question as to what the state needs to do to bring the shippers in to finance the project. He surmised that if Mr. Dickinson means to let the parties negotiate and form a consortium, he has no problem with that. However, he opined that it's cause for concern if Mr. Dickinson is asking what the state needs to do to bring the shippers in to build the project. He reiterated his comfort with the process that the legislature would approve the license in hopes that the shippers will negotiate and form a consortium. However, he inquired as to whether Mr. Dickinson is suggesting that the state should take actions, invoke the treble damages under AGIA, and then let the producers build the pipeline, "in which case, you are speaking for yourself and as far as I know, not anybody in the legislature."

MR. DICKINSON apologized and as a non-attorney related his understanding that under one scenario TransCanada would receive an 80 percent reimbursement and under another set of conditions that reimbursement would be raised to three times some number. He opined that he didn't know whether that would constitute a breach of the contract. Clearly, TransCanada is paid by the state in various conditions outlined in the contract. He commented that it might be a definitional issue. He said he doesn't think the state should enter the contract in bad faith. However, certain conditions exist under which the state will owe TransCanada some money or TransCanada will argue the state owes it money. He offered that as a lay person he is confused by that sentence. He said, "If what you mean is meeting the conditions of that sentence, that that constitutes a breach, then maybe we're saying the same thing. I don't read it that way and I don't think I'm talking about anyone breaching a contract."

4:36:13 PM

REPRESENTATIVE GARA responded that he understands Mr. Dickinson's answer. However, he reiterated that he doesn't have any intention of awarding a contract to a party and then just abandoning it. Such an action, he opined, would lead to a very unstable negotiating atmosphere.

MR. DICKINSON remarked that what is at issue is the issuance of a license and not a contract. He reiterated that [AGIA] sets out conditions for payment under the license, which he is unsure as to how that fits into breach of contract.

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SENATOR THERRIAULT, referring to the graph on slide 37, expressed concern that it might be misunderstood. He noted that when referring to the $13 billion, Mr. Dickinson is really discounting the $154 billion listed on the graph on slide 36.

MR. DICKINSON clarified that the white area on the graph on slide 37 represents the producers' NPV 10 or NPV 15.

4:37:47 PM

SENATOR THERRIAULT pointed that that since the amount is discounted at different rates, it makes the state's profit appear to be much larger. He suggested that Mr. Dickinson could have discounted the state at 4 percent and it would have increased the state's portion from $66 billion to $80 billion. He related that Mr. Dickinson has arbitrarily selected values, and thus the public may be confused by the slide titled "Everyone makes money questions."

MR. DICKINSON interjected that the numbers, NPV 5, NPV 10, and NPV 8.8 were taken from the report. He offered his belief that the legislature would hear arguments as to why the numbers are appropriate numbers. He explained that when one is discussing hundreds of billions of dollars, it's not something that people can automatically translate into [something meaningful], such as how many car payments that totals. Therefore, he opined that it's valid to discount the numbers as long as one understands what's being compared. However, he said he did agree that the chart could be misinterpreted by someone that doesn't have that level of sophistication. "But, I think if you understand what the concept is, it does make sense to ask how valuable is this to the company," he said. Mr. Dickinson said:

> If I can go out and spend, if I can go out and do other projects and get a rate of return, what I really want to care about is what is my increment on top of that. If I am the state and I don't have a lot of other options, then it's appropriate to look at that number differently. And I absolutely agree that there is a great opportunity to be misled there, but ... the point I want to make is ... not only was there no ... intent to mislead, there is an intent to educate

because I really think the notion of discounting makes sense for certain comparisons.

4:40:00 PM

SENATOR THERRIAULT concurred, but pointed out that it should be made clear that the 13.5 [in the graph on slide 37 titled "TC Project"] still represents 40 percent of the profits over the life of this project, or the period that was chosen.

MR. DICKINSON responded that although he hadn't done the calculations, it "sounds about right." He pointed out, "If you said 13.5 in profits, but what I was trying to say here is that it is the NPV, and could there have been more words there, sure, but I take your point."

4:40:38 PM

SENATOR THERRIAULT recalled a conversation with Dr. Pedro van Meurs, who said that "once we get this up and running, it is a cash cow." However, in reviewing the graph on slide 36, the Black & Veatch estimate shows $154 billion, which represents 40 percent of the net revenues from the economic activity. Although $154 billion is substantial, when it's reduced to the $13 billion, that diminishes it. He offered his understanding that the graph was done for comparison purposes.

[HB 3001 and SB 3001 were heard and held.]

4:42:49 PM

ADJOURNMENT

There being no further business, the joint meeting of the House Rules Standing Committee Subcommittee on AGIA and the Senate Special Committee on Energy was adjourned at 4:42 p.m.