ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RULES SUBCOMMITTTEE ON AGIA
SENATE SPECIAL COMMITTEE ON ENERGY
June 6, 2008
10:15 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 Max Gruenberg
Representative Mike Hawker
Representative Lindsey Holmes
Representative Reggie Joule
Representative Scott Kawasaki
Representative Wes Keller
Representative Mike Kelly
Representative Bob Lynn
Representative Mark Neuman
Representative Kurt Olson
Representative Jay Ramras
Representative Bob Roses
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

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: HB3001
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)	Subcommittee Assigned
06/05/08	(H)	RLS AT 9:00 AM TERRY MILLER GYM
06/05/08	(H)	House Special Subcommittee on AGIA

BILL: SB3001
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
06/05/08	(S)	Heard & Held
06/05/08	(S)	MINUTE(ENR)

PRESENT VIA TELECONFERENCE

None

WITNESS REGISTER

Pat Galvin, Commissioner, Department of Revenue; Tony Palmer, Vice President, Alaska Business Development, TransCanada; Tom Irwin, Commissioner, Department of Natural Resources.

ACTION NARRATIVE

CHAIR SENATOR CHARLIE HUGGINS called the joint meeting of the House Rules Standing Committee Subcommittee on AGIA and the Senate Special Committee on Energy to order at 10:14 AM.
10:16:11 AM
^#hb3001
^#sb3001

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

CHAIR SENATOR HUGGINS noted that the Committee would recess for Senate floor session until 11:00 a.m.

RECESSED: 10:16:11 AM

RECONVENED: 11:06:55 AM

CHAIR SENATOR HUGGINS called on Commissioner Pat Galvin, Department of Revenue, to begin his presentation.

11:08:43 AM

PAT GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, provided members with a handout, "AGIA [Alaska Gasline Inducement Act], Statute & RFA [Request for Applications] Refresher, Special Session Opening, June 6, 2008" (Copy on File).

COMMISSIONER GALVIN addressed Slide 2, "Today's Agenda":

- AGIA Statute & RFA Refresher
- TC (TransCanada) Alaska Application Overview
- Commissioners' Finding and Determination Summary
- "The Prize" – Alaska Arctic Natural Gas Potential
- Jobs, Training, and In-state Gas

COMMISSIONER GALVIN addressed Slide 3, "Next Four Days":

- Saturday
    - Pipeline Regulation and Commercial Terms
    - Pipeline Expansion
- Sunday
    - How Do You Get the Gas?
- Monday
    - LNG (Liquid Natural Gas): Economics, Likelihood of Success, & Path Forward
- Tuesday
    - TC Alaska's Project: Economics & Likelihood of Success

COMMISSIONER GALVIN asked that questions be held until the end of the presentation, and that any technical or substantive questions be delayed to the particular day the experts testify.

11:14:17 AM

COMMISSIONER GALVIN addressed Slide 4, "AGIA Statute":

- AGIA License Application Requirements and Process
    - Applicant must unconditionally accept the "Must Haves"
    - Application Review Criteria
        - "NPV" (Net Present Value) and "Likelihood of Success"
        - Sufficiently Maximize Benefits to Alaskans
- Terms of the AGIA License
    - State's Obligations & Licensee's Remedies
    - Licensee's Obligations & State's Remedies
- Upstream Inducements

11:16:52 AM

COMMISSIONER GALVIN addressed Slide 5, "The State's Obligations":

AGIA Requires the State to:

- Provide a Matching Contribution of up to $500 million
- Provide an AGIA project coordinator

COMMISSIONER GALVIN explained that it is important to recognize the state is not required to support and defend a licensee's application before a regulatory body, such as FERC. He noted, however, that there is an expectation that the state would act as a good partner and recognize the value of such a partnership.

11:19:03 AM

COMMISSIONER GALVIN addressed Slide 6, "If the State Wants Out":

- If the State Provides Financial Benefits to a Competing Project:
    - The State must pay three times the Licensee's expenditures
    - Licensee's expenditures do NOT include amounts reimbursed by the State as part of the $500 million match

COMMISSIONER GALVIN explained that AGIA provides a separate, commercial mechanism for the state to get out of a license. To provide the assurance necessary to attract applicants, the state is required to pay back the applicant three times their expenditures, not counting the amount the licensee has been reimbursed from the matching contribution. He called it a clear, legal question and noted that TransCanada and the state agree on the provision.

11:20:26 AM

COMMISSIONER GALVIN addressed Slide 7, "If the Licensee Wants Out":

If the Licensee breaches the License, the State receives:

- Recoupment of all funds paid, with interest
- All work product related to the project acquired by Licensee during the term of the License
- Any other remedies provided by law or equity

COMMISSIONER GALVIN explained further that in the event of a breach, the above obligations go with the license, even if the license is purchased by another entity. The obligations also apply to equity partners.

11:21:48 AM

COMMISSIONER GALVIN addressed Slide 8, "Request for Applications (RFA)":

- Similar to Role of Regulations
- Clarifies Statutory Language for the Application Process and Terms of License
  - Assumptions to be used in providing cost and tariff estimates in the Application
  - Definition of "Project" – Allow expansions to be at less than 70 percent debt (page 19)
  - Definition of "Project Plan" – What changes will require Commissioner Approval (page 42)
  - Includes Contractual Terms of the License

COMMISSIONER GALVIN explained that the RFA functions similar to regulations. It further defines the terms of the statute and establishes the general contractual terms of the relationship between the parties. He explained that the state provided the assumptions to be used in providing cost and tariff estimates as part of the application. Within the RFA the definition of the term "project" is clear in terms of the debt ratio. The debt ratio does not carry forward to expansions. Similarly, the term "project plan" is defined in the RFA and establishes what changes require the commissioner's approval.

11:24:59 AM

COMMISSIONER GALVIN addressed Slide 9, "Contractual Relationship":

- "The License constitutes the final contractual agreement between the state and the Licensee." (RFA page 40)
- The License consists of the AGIA statute, the RFA, and the TC Alaska Application including all responses to additional information requests.

COMMISSIONER GALVIN explained that the RFA clearly defines the contractual relationship and further designates the makeup of the license.

COMMISSIONER GALVIN ended his presentation and took questions from the members of the legislature.

11:26:19 AM

REPRESENTATIVE ANNA FAIRCLOUGH referred to Slide 7, "If the Licensee Wants Out," and questioned how the information regarding a breach of license would come through.

TONY PALMER, VICE PRESIDENT, ALASKA BUSINESS DEVELOPMENT, TRANSCANADA, responded that the items mentioned on the slide are one mechanism. He cited abandonment as another. If the project is abandoned it would revert to the state.

COMMISSIONER GALVIN added that the information on Slide 7 is not a statement of when the state can acquire the information, but rather that there are multiple places the state can acquire the data. He cited abandonment as an example. If there is agreement to abandon the license, it can be purchased by the state at the net cost, not duplicating what was already reimbursed.

COMMISSIONER GALVIN explained that in relation to post certification, there are two potential scenarios. If there are firm transportation commitments sufficient to finance the project, the Licensee has one year to sanction the project and move forward; otherwise, they have to give everything to the state without additional payment. If there is no financing, they get two years to sanction the project. At that point the state has the option to purchase at cost.

11:29:20 AM

REPRESENTATIVE FAIRCLOUGH queried as to whether the upfront costs would be an asset and if they would be made public.

COMMISSIONER GALVIN replied the state has access to the data; whether or not it is made public would be subject to laws intended to protect the proprietary interests of TransCanada. He suggested getting further clarification from legal counsel.

REPRESENTATIVE FAIRCLOUGH wondered about a $500 million investment that is not public but that the state holds as an asset. She referred to Slide 5, "The State's Obligations," and noted that the state is not required to support and defend the licensee's application. She asked if TransCanada believed the state should support the application before the regulatory bodies.

MR. PALMER responded that TransCanada expects the state to act as a partner, but the company also recognizes that defending the licensee application before a regulatory body is not a legal requirement.

11:31:56 AM

REPRESENTATIVE MARK NEUMAN referred to Slide 6, "If the State Wants Out," and stated that he expects the state to do everything it can to help every business and industry that wants to explore and develop in Alaska.

COMMISSIONER GALVIN commented that the state is responsible, as a sovereign, to grant permits and authorizations, and to provide an approval process so that every project can move forward. However, when it comes to providing state financial assistance or concessions, the relationship with TransCanada has to be recognized. Providing additional financial assistance to a competing project would undermine that relationship. In that way, the state sees value in the TransCanada Alaska project and will hold firm and continue to move forward. If a competing project wants to move forward, the state will not get in its way. The state will provide the standard procedural authorizations to make the decision-making process as efficient as possible. If the state is going to provide financial assistance, however, it will do so at the cost laid out in the provision.

REPRESENTATIVE NEUMAN stated, “The line in the sand starts and stops with financial assistance.”

COMMISSIONER GALVIN agreed.

REPRESENTATIVE NEUMAN referred to Pages 5 and 6 of EconOne’s presentation. He referred to the dozen items that TransCanada is asking of the state, and wondered whether the requests are “off ramps.” He questioned what would happen if TransCanada did not move forward. He maintained that there are items the members of the legislature know nothing about.

11:36:34 AM

COMMISSIONER GALVIN responded that the items referenced in EconOne’s presentation are not seen as “off ramps” but as statements of how to work with the state as the agreement moves forward. He explained that the state does not see them as conditions or requirements on the license. If they were conditions, he would want to see a more formal, written agreement between the parties.

11:38:20 AM

REPRESENTATIVE NEUMAN verified that the state would not be held to any obligation of the terms detailed in EconOne’s presentation. COMMISSIONER GALVIN agreed with his assertion.

MR. PALMER reiterated that TransCanada expects the state to act as a good partner, if granted the license. He clarified that TransCanada was asked to set out a number of obligations pursuant to the AGIA license and RFA in its application. He recognized that the obligations are not legal requirements but hoped that the state and TransCanada would stand “shoulder to shoulder.” TransCanada made the decision to file under AGIA believing that once the license was granted, the state would do what it could to make the project a success.

REPRESENTATIVE NEUMAN reiterated that the obligations set out in EconOne's presentation are not requirements of the state.

REPRESENTATIVE NEUMAN queried the status of an agreement on fiscal terms with Alaska North Slope (ANS) producers.

COMMISSIONER GALVIN replied that the state has not had any formal discussions with ANS producers in relation to the TransCanada project. He did not think the discussion would take place until the license was issued.

REPRESENTATIVE NEUMAN received clarification that the discussion would take place sometime between approval of the license and open season.

CHAIR SENATOR HUGGINS remarked that the administration had spent $10 million on consultants over six months putting together the information, while the people have had only a quick snapshot of that information. He cautioned against the pull to produce a boilerplate contract that reduces the broad scale of the information.

11:42:35 AM

REPRESENTATIVE CARL GATTO referred to Slide 7, "If the Licensee Wants Out," and questioned whether lost revenues would include penalty and interest.

COMMISSIONER GALVIN said that would depend on the circumstances, but there is potential to include those items.

11:43:11 AM

REPRESENTATIVE BERTA GARDNER referred to Slide 8, "Request for Applications (RFA)," and asked if different assumptions were used in analyzing the application and, if so, why.

COMMISSIONER GALVIN explained that more than one point of assumption was used in the application process as part of the analysis. In the end, the mid-point probability was reported.

11:45:35 AM

REPRESENTATIVE MIKE CHENAULT referred to Slide 6, "If the State Wants Out." He wondered whether a bullet line in Alaska would be considered a competing project.

COMMISSIONER GALVIN replied that it would not, as long as the project is below 500 million cubic feet per day (MMcf/d).

REPRESENTATIVE CHENAULT asked whether an all-Alaska liquefied natural gas (LNG) line would be considered a competing project.

COMMISSIONER GALVIN replied that most likely it would be considered a competing project, as it would probably be of a larger capacity in terms of cubic feet per day.

11:46:11 AM

REPRESENTATIVE LES GARA observed that the state's interests might not always be in line with TransCanada's. He gave the example of producers asking for a tax break, since their shareholders pressure them to pay as little tax as possible. TransCanada might then advocate for smaller tax breaks. He wanted assurance that a difference of opinion in this area would not be considered a breach on the part of the state in terms of moving the project forward.

MR. PALMER pointed out that taxes would be the business of the state and the producers.

REPRESENTATIVE GARA further hypothesized that the producers might approach TransCanada with a request to lobby for a 50 percent tax reduction, and asked for TransCanada's assurance that it would not intervene in the tax debate.

MR. PALMER replied that regarding upstream taxes, not taxes on the pipeline, TransCanada has been on the record as stating that the tax debate is between the state of Alaska and the parties that hold the lease, not between Alaska and TransCanada.

11:49:19 AM

SENATOR KIM ELTON asked whether TransCanada agreed that issuance of the license would not obligate the state to pay anything more than what is codified in AGIA.

MR. PALMER affirmed the statement.

11:50:36 AM

REPRESENTATIVE RALPH SAMUELS referred to Slide 7, "If the Licensee Wants Out." He questioned what would happen if, at the end of an open season, TransCanada opted out of AGIA after concluding that their best option was to reach an agreement with the producers to collectively build a line. He asked how much liability there would be beyond returning the state's money.

MR. PALMER stated that TransCanada believes that once they are granted a license, they lose the freedom to act in the manner described. TransCanada believes they must act under the AGIA license, and would need the consent of the state, as a partner, in order to act otherwise.

REPRESENTATIVE SAMUELS reiterated his questions.

MR. PALMER replied that TransCanada would have obligations to the state as a partner to pursue the project under AGIA. There are various ways to abandon the project, which have been discussed. TransCanada feels it cannot renegotiate a deal without the consent of the state, even if the project was considered uneconomical.

11:54:54 AM

SENATOR CON BUNDE stated concerns about the $500 million figure and questioned how the amount was calculated.

COMMISSIONER GALVIN answered that the figure was derived before there was a particular applicant with a particular budget. A number of different sources came up with estimates of approximately $1 billion for a project from starting point through to FERC certification. The intended 50-50 split made the number $500 million. He further commented that some of the applicants may be able to get to FERC certification at a less expensive rate, in which case they would get more out of the $500 million match.

11:56:44 AM

CHAIR SENATOR HUGGINS confirmed that the original AGIA proposal included a 50 percent reimbursement rate. He asked how the rate was changed to 90 percent.

COMMISSIONER GALVIN replied that potential applicants had testified that in the event of an unsuccessful open season, the cost-benefit would shift. The recommendation of 90 percent was made and approved in order to attract bidders.

11:58:31 AM

CHAIR SENATOR HUGGINS asserted that the 90 percent reimbursement was explicitly requested by TransCanada.

COMMISSIONER GALVIN acknowledged that TransCanada could very well have testified to that issue explicitly.

CHAIR SENATOR HUGGINS asked that Commissioner Galvin research the issue further, and report back at a later date.

11:59:02 AM

SENATOR BILL WIELECHOWSKI asked whether TransCanada would be taking on other equity partners.

MR. PALMER replied that TransCanada would seek to take on equity partners as allowed within the AGIA framework, but not outside of it.

SENATOR WIELECHOWSKI asked if Mr. Palmer could envision a scenario in which the equity partners assumed more than 50 percent of the voting power.

MR. PALMER said he was not in a position to answer the question; there have not been extensive discussions with potential partners at this point in time.

SENATOR WIELECHOWSKI expressed concerns and commented that many people would like to see an independent pipeline project. He asked if TransCanada would continue to move forward towards FERC certification if the license were rejected.

MR. PALMER acknowledged concerns regarding equity levels. He said there had been an inaccurate statement in the “Calgary Herald” indicating that TransCanada would somehow proceed regardless of the granting of the license. He stated that if TransCanada were not granted the license, they would carefully consider whether or not they should continue with the project, and if so, how they would proceed.

12:02:20 PM

REPRESENTATIVE MIKE HAWKER commented on the ambiguity of TransCanada’s expectations of the state. He noted that some of the expectations force the state to coerce the producers to provide gas to the TransCanada project. He referred to indications by Commissioner Galvin and Mr. Palmer that there are clear limits on the state’s commitments; there are not expectations of the state beyond the scope of AGIA.

REPRESENTATIVE HAWKER asked if it were the intent of the administration to acknowledge a request for a good partnership and to pursue each of the expectations.

COMMISSIONER GALVIN replied that it is the intent of the administration to evaluate each of the expectations to determine which would be appropriate and would provide value and further the interest of the state for the project. He pointed out that a number of the expectations would require legislative action. Part of the analysis will be determining what to advance through the legislative process, which would include public discussion.

12:06:53 PM

REPRESENTATIVE HAWKER agreed that there should be a willingness and good faith effort to look at each expectation and determine which are in the best interest of the state. He reiterated concerns about committing the people via legislative action without a more defined contractual arrangement.

12:08:18 PM

COMMISSIONER GALVIN replied that the commitments on behalf of the state and TransCanada are clear; there is no need for further documentation. The question is more in relation to the uncertainties in advancing the project. He pointed out that statute invites participation in the evaluation process to encourage creative ideas. As examples, he cited issues relating to the use of federal loan guarantees and bridge shippers.

COMMISSIONER GALVIN asserted that he views expectations offered by TransCanada as potential ideas to pursue. He asked that members not confuse those expectations with what the state is legally obligated to pursue and with what TransCanada is expecting the state to pursue.

12:12:33 PM

REPRESENTATIVE HAWKER expressed concerns related to transferring management and control of the project to another entity. He wanted a contractual commitment from a company to not transfer ownership and control, for example, to Exxon Mobile.

12:13:17 PM

COMMISSIONER GALVIN answered that many provisions set out in AGIA are what the state would expect from any owner, either an applicant who succeeds in becoming the licensee or as a complete owner or equity partner. All of the terms and values in regards to the open access provisions are legally required commitments on the part of the licensee regardless of the owner. For example, if Exxon Mobile were to buy out TransCanada and become the sole owner, it would be legally bound to the obligations and subject to the provisions set out in statute, including those provisions related to breaches.

12:15:36 PM
REPRESENTATIVE MIKE DOOGAN asked Commissioner Galvin whether the $500 million match would be dealt with through a billing procedure with a series of expenditures as opposed to providing a one-time check.

12:16:28 PM

COMMISSIONER GALVIN pointed out that the Department of Revenue has promulgated the regulations that define a qualified expenditure for reimbursement from the state in relation to the license.

REPRESENTATIVE DOOGAN asked Commissioner Galvin to provide him a reference to those regulations for further review.

12:17:27 PM

RECESSED: 12:17:35 PM

RECONVENED: 1:39:10 PM

COMMISSIONER GALVIN said he had copies of the regulations relating to qualified expenditures. CHAIR SENATOR HUGGINS asked for them to be distributed to the members.

1:41:32 PM

MR. PALMER provided members with a handout entitled, "TransCanada's AGIA Application: Presentation to the Legislature" (Copy on File). He provided a brief history of the company and himself.

1:45:53 PM

MR. PALMER stated that TransCanada believes the project is economically strong. They have examined the supply/demand fundamentals for the project, for North American gas as well as global gas. They have examined commodity price expectations. He called TransCanada a conservative company that would not give the state imprudent estimates. In filing, TransCanada used the assumptions given in the RFA. The administration used different assumptions, but he would present using the assumptions TransCanada used.

MR. PALMER believes Alaska is committed to getting a gas pipeline project and is acting accordingly. He pointed out that AGIA sets out the rights and responsibilities of the licensee. TransCanada views those from a business standpoint. TransCanada believes that it provides value to the state and is getting value back from the state. He called it a fair business deal.

MR. PALMER asserted that TransCanada views the project as a very large investment opportunity in relation to its core competency. They see no conflicts with operating, owning or expanding the pipeline. In addition, the company still holds the rights and responsibilities from the government of Canada; there is no sunset date on the rights. He avowed it is the business of TransCanada to complete a pipeline and successfully operate it over the next 30 or 50 or 100 years.

MR. PALMER acknowledged that AGIA does not require the construction of a pipeline and that no single party owns the rights to the land along the 1,715 miles between Prudhoe Bay and Alberta, Chicago, Boston, or Seattle. He emphasized that cooperation and collaboration will be needed, as well as compromise.

MR. PALMER believes that TransCanada is in alignment with the state's objectives. Both are in favor of long- and short-term basin development. He cited Western Canada (Alberta) as an example and noted that fostering upstream competition is critical to success. TransCanada believes that the project is commercially viable. The company already has a large U.S. business, and the Alberta example has striking parallels to the circumstances in Alaska. He added that TransCanada owns over 12,000 miles of natural gas pipeline in the United States; if granted, this project would increase its U.S. pipelines by 6 percent. He pointed out that TransCanada is already constructing a longer oil pipeline for the Keystone project.

MR. PALMER described similarities between Alaska and Alberta. At one time, Alberta was the furthest gas from a major market; it started with three customers and today has over 300.

1:56:42 PM

MR. PALMER noted that TransCanada moves 20 percent of North American gas, which equates to one in five molecules of gas being moved on the continent each day. TransCanada also moves two-thirds of Western Canadian gas every day, through 36,000 miles of pipe. He stated that no other party has that kind of record, and noted that its operating costs are 25 to 35 percent lower than competitors. He also stated that TransCanada does not overcharge its customers.

MR. PALMER referred to the construction part of the project and noted the regulatory, community, First Nations, environmental, commercial and financial issues associated with construction. Since 50 years ago at the inception of its corporation, TransCanada has developed billions of dollars of pipeline and power projects. He pointed out that TransCanada has raised about $3 billion of equity in a very unstable financial market, and has raised $2 billion in debt in the last 15 months because of a successful track record, financial capacity, and good projects. He also noted that the federal loan guarantee will assist any party in obtaining the debt in both the coupon rate and acquiring the debt to help the financial ability of the project.

MR. PALMER added that TransCanada has undertaken to move the project forward in both Alaska and Canada by putting forward an LNG alternative in the event of insufficient gas in Canada, or via a Y-Line. He did not think it would be the preferred project or the best alternative for Alaska and TransCanada, but stated that TransCanada is open to such an alternative.

2:03:11 PM

MR. PALMER spoke to employment opportunities. About 50-75 people would be needed to run the pipeline, which equates to about 10 people per mile. There will be construction jobs, but operating the pipeline takes relatively few people. More employment opportunities come from drillings and expansions.

2:05:57 PM

MR. PALMER addressed Slide 2, "TransCanada's Objectives – Alaska Project":

- Early in-service
    - Largest investment opportunity in core business line and geographic footprint
    - Utilize spare capacity on existing North American pipelines
    - LNG market as alternative investment opportunity
- Encourage long-run basin development
    - Serve In-State and other markets
    - Increase market and supply diversity
    - Growth investment opportunities
        - Pipeline expansions can create "virtuous circle"
            - Pipeline expansions promote more exploration and drilling which, if successful, leads to more pipeline expansions
- Equitable treatment for all customers
    - 50-year successful track record of balancing interests
        - Initial and future
        - Large and small

MR. PALMER stated that TransCanada expects the spare capacity to grow away from Alberta for the entire Alaska volume in about ten years. He noted that the Canadian government does not punish TransCanada on a throughput basis for having lower volumes, but it is a critical factor for its customers as the costs will be spread over a bigger base and result in lower tolls.

MR. PALMER assured the members that TransCanada wants to move gas to where the customers want it both now and in the future. TransCanada is in favor of increasing supply and expanding market diversity.

2:08:58 PM

MR. PALMER addressed Slide 3, "TransCanada's Credentials." He highlighted the Keystone pipe. The map also depicts the proposed Alaska pipeline, TransCanada-owned pipelines, and other natural gas pipelines in North America. He compared TransCanada's miles of pipe, compression horsepower, and throughput volumes, and discussed TransCanada's expansion over the years in relation to Alaska's pipeline project.

2:10:51 PM

CHAIR SENATOR HUGGINS asked Mr. Palmer to provide the members with the contracts relating to TransCanada's largest pipeline project.

MR. PALMER offered to find out what information is available for public review.

2:11:59 PM

MR. PALMER addressed Slide 4, "Proven Basin Developer – Alberta Example." He described the regulatory structure of the Alberta example, highlighting the independent pipeline model, rolled-in tolls, and the growth of customers from three in 1958 to over 300 today. He noted that there are now 15,000 miles of pipe and 1,100 delivery points.

2:15:38 PM

MR. PALMER addressed Slide 5, "Proven Basin Developer – Mainline Example 1960." He highlighted the cross-continent system that is being converted.

2:16:43 PM

MR. PALMER addressed Slide 6, "Proven Basin Developer – Mainline Example 2008." He pointed out the loops and partial loops illustrating how increments are made when necessary.

2:17:29 PM

MR. PALMER turned to Slides 7 and 8, which list AGIA "Must Haves" alongside TransCanada's responses to each. He maintained that TransCanada has committed to AGIA "must haves."

REPRESENTATIVE PEGGY WILSON noted that the initial benchmark of licensure by the year 2008 has not been met and wondered how the project timeline has changed.

MR. PALMER deferred the question to a later slide with an updated schedule.

2:18:43 PM

SENATOR WIELECHOWSKI expressed concern about the billions of dollars the state would lose because of the 70/30 project debt ratio split.

MR. PALMER did not agree that the state would lose billions of dollars from the proposed split. He stated that the initial project would have access to a federal government loan guarantee of $18 billion or up to 80 percent of the initial capital costs, whichever is lower. There is no loan guarantee for future expansions; he asserted that TransCanada does not want to fund future expansions without a loan guarantee on a basis that is not a fair balance between risk and reward.

2:20:08 PM

SENATOR WIELECHOWSKI wondered whether TransCanada planned to put in an expansion off the initial build or build the expansion into the initial project if there were Alaskan demand in the initial open season of .5 billion cubic feet a day (Bcf/d) to a full Bcf/d.

MR. PALMER explained that if there were 4.5 Bcf/d nominated to Alberta and an additional .5 Bcf/d for in-state use, TransCanada would design and construct the pipeline as the initial project. It would not be viewed as an expansion.

2:21:18 PM

CHAIR SENATOR HUGGINS referred to the issue of federal loan guarantees, and asked if it would be unreasonable to request some sort of tax guarantee from the Canadian government.

MR. PALMER replied that the U.S. federal loan guarantee applies to expenditures within both Alaska and Canada. He did not believe Canadian government officials thought they needed to provide an incentive for Alaska to move U.S. gas through Canada on the way to the continental U.S. Most Canadians believe that the treaty agreed to between the United States and Canada thirty years ago to facilitate the movement of gas gives both nations rights and responsibilities. The treaty remains valid and in place today. He noted, however, that he cannot speak for the government of Canada or its people.

2:23:04 PM

CHAIR SENATOR HUGGINS stated that the Canadian government has direct involvement in the regulatory process of this project because the Canadian National Energy Board (NEB) has oversight.

MR. PALMER replied that the Northern Pipeline Agency (NPA) would have responsibility for the construction of the pipeline, and the NEB would have responsibility for all the commercial issues in relation to tolls and tariffs, and other commercial terms. Therefore, NEB would be involved as a regulator. Canada has promised through the treaty to treat U.S. gas through property and other taxes on the same basis as domestic gas. He suggested that relationship and the treaty should be attractive to Alaska as a means of resolving any issue between the two countries.

CHAIR SENATOR HUGGINS asked how much money the country of Canada expects to gain from the success of the Alaska pipeline project. MR. PALMER deferred the question to a later time.

2:24:45 PM

SENATOR LYMAN HOFFMAN mentioned the 25 to 35 percent lower construction costs proposed by TransCanada. He asked how those costs compare to other construction companies in the gas pipeline industry.

MR. PALMER replied that it is relatively easy to get a benchmark on operating costs, but very difficult to get a benchmark on construction costs because of the different nature of projects.

MR. PALMER added that in undiscounted dollars, based on the assumptions in the application, the Canadian federal government, as well as the governments of Yukon and British Columbia, would have a total tax take of approximately $8 billion (US) over the 25 year life of the pipeline, assuming no expansions.

2:25:56 PM

MR. PALMER continued his presentation with Slide 9, “TransCanada’s Competitive Response to AGIA”:

- TransCanada bid to win – competitive enhancements
    - Initial system design with inexpensive expandability
    - Gas treatment plant ownership, if no 3rd party willing to build
    - Equity opportunity for shippers committing gas in initial open season
    - 75 percent debt vs. 70 percent minimum limit in AGIA
        - Toll reduction of $0.09/mmBTU

  - o TransCanada's return reduction in event of capital cost overruns
  - o Fort Nelson Option upside
    - ▪ Toll reduction of $0.13 - $0.18/mmBTU
  - o LNG alternative if insufficient gas commitments through Canada, or via Y-line

MR. PALMER noted that TransCanada believes the initial system design with inexpensive expandability is valuable to the state, but noted that the final design will depend on the ultimate volumes committed to the pipeline.

MR. PALMER stated that TransCanada does not intend to own the gas treatment plant unless no third party is willing to own, operate, and manage facilities of that nature. In the event that producers wish to own those, it would cost $6 billion of a $26 billion project, or 22 percent of the project. If those parties do not wish to own the facilities, or other parties, TransCanada is prepared to construct those facilities in order to have a complete project, although that would not be their first choice.

MR. PALMER pointed out that there are a number of producers in the basin that have an interest in owning a piece of the pipeline. TransCanada does not own the gas moving through the pipelines. In the event the parties commit their gas in an initial open season, they will have an investment opportunity. It is their prerogative to take it or not. In many basins, producers do not wish to invest their money in interstate natural gas pipelines. That may not be the case in Alaska.

MR. PALMER stated that TransCanada has been required to have a minimum of 70 percent debt at the initiation of the project. TransCanada proposes, upon completion of the project, to refinance the project at 75 percent debt. This equates to a 9 cent per million British thermal unit (mmBTU) savings to customers. This translates to a $150 million reduction in the toll per year at 4.5 Bcf/d.

MR. PALMER indicated that TransCanada would reduce its rate of return in the event of capital cost overruns. He said it is unusual for pipeline companies to offer a rate of return reduction for a capital cost overrun, but that type of capital cost risk element was in the original structure. He listed the reasons TransCanada does not want to have a capital cost overrun. They want long-term growth, not short-term gain from an additional investment.

2:34:17 PM

REPRESENTATIVE SAMUELS spoke to the risk passed to the shippers. The entire tariff would increase by 40 percent and the shippers would assume the risk, which would lock them up.

MR. PALMER reiterated that TransCanada did not want to see a forced investment of 7 percent for five years. He acknowledged that the shippers would bear the most significant component of the risk. However, they are not restricted to the regulated rate of return. He stated that because of his investors, he must look for return within certain boundaries.

REPRESENTATIVE SAMUELS understood how the risk is allocated; however, even 7 percent is a good profit. The risk is nominal compared to that of the shipper. He asked if TransCanada could negotiate a rate on a new project, setting a cap on what cost overruns could be built into the tariff, so that the risk is taken on by the pipeline company, rather than the shipper.

MR. PALMER responded that TransCanada share holders would not agree that a 7 percent return on an overrun is a good investment. He emphasized that TransCanada does not seek that. In order to motivate TransCanada to not earn extra money, they have proposed that the U.S. government loan guarantee should be applied to some degree to cover capital cost overruns. In that circumstance, TransCanada would not earn one penny more; in fact, they would earn less.

MR. PALMER said that it was possible for a smaller project to find a pipeline company that would guarantee the toll, or guarantee it within a range. It was not the norm, but could be done. Pipeline companies generally do that on a “black box” basis, for the rate of return as well as their debt equity ratio. They will have a significantly higher opportunity to earn money if they over-perform. They have more risk if they under-perform.

MR. PALMER referred to the Rockies Express Pipeline, which has 55 percent equity, and a 13 percent return on equity. Comparing 55 X 13 percent with 25 X 14 percent shows that TransCanada has a much lower toll to customers. TransCanada’s risks are lower, which is the trade-off. He maintained that no party would give a fixed toll for the scale of the proposed project in Alaska.

2:40:58 PM

MR. PALMER located Fort Nelson, which is about mid-way through British Columbia, on a map, and continued with Slide 9. He explained that TransCanada, if it refills its pipeline systems in western Canada as a result of moving Alaskan gas into the Alberta hub, will not see a higher return. However, there would be a significant benefit to TransCanada’s western Canadian customers. The benefit could be $10 billion in the first 15 years. Alaska gas would also enjoy lower tolls by entering Alberta's system. TransCanada has proposed a Fort Nelson upside as a mechanism to share some of that $10 billion value from western Canadian producers to Alaskan producers. The toll reduction would be around 13 to 18 cents, which converts to about $3 billion. TransCanada would propose this as an upside. It is not something they can guarantee, but they would sponsor it before their regulators.

MR. PALMER addressed the issue of alternatives to the Alberta hub. The AECO hub, or Alberta hub, is TransCanada's Alberta system. He explained that the hub is not accessible unless the system is entered. A user gets on the system, pays the receipt toll—which is included in the TransCanada proposal—and then trades gas for free. TransCanada's analysis, which is supported by independent analysis by the Canadian Energy Research Institute, indicates that if a user gets their gas to the Alberta hub, not only do they have liquidity and opportunity to go to diverse markets, but a higher net back. "Net back" is pipeline jargon for "more money in your jeans." Going into the system creates a 30 to 40 cents better net back, because of using partially depreciated pipes; the costs are shared with other users. Entering a new pipe costs money, in addition to losing liquidity and market diversity.

MR. PALMER addressed the LNG line, the alternative offered in the event of insufficient gas committed to Canada.

2:45:51 PM

SENATOR WIELECHOWSKI asked when TransCanada would consider the LNG alternative.

MR. PALMER replied that in a scenario where 5 Bcf/d was gotten to China and no volumes to Canada, TransCanada would build a pipeline to Valdez for 5 Bcf/d. TransCanada has not done the economics of that scenario yet, but would look at it.

2:47:21 PM

REPRESENTATIVE BERTA GARDNER referred to other proposals, including pipeline construction beyond Alberta to Chicago. She wondered if it would be advantageous for Alaska to participate in construction of a new pipe to Chicago.

MR. PALMER replied that he had not seen economic analysis that would support that as being a good outcome for Alaskans. For example, the cost risk of capital cost overruns would be accentuated.

2:48:27 PM

REPRESENTATIVE CRAIG JOHNSON asked for clarification regarding access to the Alberta hub if a producer pipeline were to be built.

MR. PALMER replied that if they do not interconnect with Alberta's TransCanada system, a producer will not have access to the Alberta hub. In the event that TransCanada did not build the pipe from Prudhoe Bay to Alberta, if producers built a pipe and connected into (Alliance?) for example, or built a new pipe all the way to Chicago, they would not have access to the Alberta hub unless they integrate with TransCanada.

REPRESENTATIVE JOHNSON asked if a producer could be shut off if they built a pipeline to the Alberta hub.

MR. PALMER emphasized that they would have to physically interconnect with the Alberta hub. He further stated that TransCanada has the right to build the first pipeline through Canada to transport Alaskan gas. In the event that a producer solved that issue, and built a pipe from Prudhoe Bay to the Alberta border, they would have to physically interconnect with TransCanada Alberta system or they would not have access to the hub.

2:50:54 PM

REPRESENTATIVE JOHNSON asked if a producer pipeline could be allowed to connect.

MR. PALMER replied that the NEB has the power to require TransCanada's system to expand, but he would have to get more information on whether NEB could require the system to interconnect.

2:52:00 PM

SENATOR HOFFMAN referred to Slide 9 and asked whether the statement regarding capital cost overruns would still hold if the overruns were not covered by the federal guarantees.

MR. PALMER replied in the affirmative. TransCanada thinks that applying the federal loan guarantee to overruns would assist the project and takes away any possible incentive for TransCanada overruns. In the event that the overrun guarantee was not extended by the U.S. government, TransCanada would still have the risk of a lower rate of return.

2:53:12 PM

CHAIR SENATOR HUGGINS referred to the LNG alternative and questioned the timing of first gas.

MR. PALMER estimated 2018.

CHAIR SENATOR HUGGINS described a hypothetical of an independent bullet line project taking gas as far as Homer at a volume of 1.5 Bcf/d. He asked if the agreement would be violated if the state then participated in that project.

MR. PALMER replied that in the event that the state is supporting a project that is in excess of the limitation under AGIA, it would be in violation. If the state or other parties wish to advance a bullet line within the limitations for the volumes as stipulated in AGIA, and if TransCanada is the licensee, then there would be no opposition. Going outside the bounds of AGIA, on the other hand, would take gas away from the larger project.

CHAIR SENATOR HUGGINS clarified that TransCanada would object to a project with a volume of 1.5 Bcf/d.

MR. PALMER replied he would be surprised that the state would put forward something in direct contradiction to the existing law.

RECESSED: 2:57:08 PM

RECONVENED: 3:22:04 PM

COMMISSIONER GALVIN commented on bullet line parameters. He thought the previous discussion reflected Alaska's dual interests: first, assuring the state maximizes its opportunities to get in-state gas going as quickly as possible, and second, recognizing the long-term desire to have a large capacity gas line getting Alaska gas to an outside market. The structure of AGIA allows a bullet line, by which he means a line that satisfies in-state demand. This does not include an LNG project that would ship out of state from a terminal in the state.

COMMISSIONER GALVIN added that any projection of the potential market within the state for the next 10 years caps out below the 5 MMcf/d that has been established as a threshold. The question raised addresses a situation in which a bullet line within those parameters results in Alaskans paying more for in-state gas than they would pay through alternative means, and the only way to make it affordable would be not a bullet line but a small capacity LNG project that can be set up more quickly and have spur lines off for in-state consumption. The decision was made a year ago through AGIA that a line that moved more than .5 Bcf/d would undermine the viability of the main line. In the end, it was recognized that the reserves are one of the important variables in terms of viability. We are making assumptions regarding how much gas might come out of existing fields and how much additional gas would be discovered and put into the pipeline in the future. A small capacity export line is truly in competition with a major pipeline to markets. There is a risk of drawing out just enough capacity in the small line to never get the big line over the threshold to make it economically viable.

COMMISSIONER GALVIN stated that the administration is very sympathetic and committed to getting gas to Alaskans as quickly and economically as possible, but that could end up eliminating any opportunity for a large capacity line and the benefit of long term revenue streams associated with projects that are the key to Alaska's financial future.

COMMISSIONER GALVIN emphasized that although the smaller capacity line is a potential short-term fix to the local energy issue, it could cost the state tremendously in the long term. This was the tradeoff established within AGIA.

3:27:47 PM

COMMISSIONER GALVIN noted that the one caveat is that competition is allowed as long as the state does not provide economic assistance to the competing project. If it is economic on its own, then it can continue to move forward and will ultimately compete with TransCanada project. He emphasized that there is no quick fix.

3:29:00 PM

CHAIR SENATOR HUGGINS noted that the state is potentially creating a scenario that will increase the cost of gas in Alaska. He wanted to guarantee that the state is not signing up for reduced flexibility.

REPRESENTATIVE NEUMAN agreed that the residents of Alaska want access to low cost energy as soon as possible. He stated concerns that if the state agrees to the terms laid out regarding the state incentives, gas for in-state use could be delayed by five years.

COMMISSIONER GALVIN responded that the process regarding both the TransCanada project and the LNG project has many unknowns. He warned against making a choice based on faulty information or perceptions. For example, there has been a perception that we had to choose between an overland project that could take ten years and an LNG project that could be done in five to six years. After more study, it became apparent that an LNG project could take as long, or longer, than the overland route. He urged Alaskans to make choices based on accurate facts.

3:34:08 PM

REPRESENTATIVE GARA stated concerns about a 1.5 Bcf/d bullet line eliminating prospects for a large diameter gas line. In the case of a 1.5 Bcf/d in-state line, if .5 Bcf/d goes to in-state use, in-state use has been exempted from taxation. This would make the revenue from an in-state line questionable. He asked for an assessment of what state revenue would be lost by choosing an in-state line that eliminated a large diameter line.

COMMISSIONER TOM IRWIN pointed out that since AGIA was passed, exploration for gas has taken place for the first time. Until now, all know gas has been found while looking for oil. As the project moves forward, more opportunities would be found. There may be many opportunities for in-state gas. The process of switching to gas would take time.

CHAIR SENATOR HUGGINS commented on limiting development.

3:37:25 PM

MR. PALMER pointed out that there is some component of the Keystone contractual terms in the response provided to Legislative Budget and Audit (LB&A) request number eight, filed on May 27, Page 6.

3:38:05 PM

MR. PALMER continued with Slide 10, "Alaska Pipeline Project," which contains a map showing the projected Alaska pipeline connecting to the Alberta hub. He expected that by 2018 there would be spare take-away capacity sufficient to move all Alaska volumes to the continental U.S. markets. One third of that pipeline is already built.

MR. PALMER understood the difficultly of the in-state gas issue. He assured the members that TransCanada hoped to serve that market, although it would 2018 until that could happen.

3:39:12 PM

MR. PALMER gave an overview of the project, using Slide 11, "Project Description":

- Gas treatment plant at Prudhoe Bay
  - 5 Bcf/d initial capacity
  - TransCanada will develop/own only if necessary
- Natural gas pipeline from Prudhoe Bay to Alberta Hub
  - 4.5 Bcf/d initial capacity
  - Expansion to 5.9 Bcf/d with compression only
  - More than 1700 miles

- o 48-inch diameter; 2500/2600 psig [pounds per square inch gauge]
- Alberta Hub to Lower 48
  - TransCanada's existing pipeline system in Alberta is the "Alberta Hub"
    - o TransCanada's Alberta pipeline is both a physical and commercial system
    - o Largest natural gas trading hub in North America
  - By 2018, downstream pipelines projected to have spare capacity for full Alaska volumes

3:39:46 PM

MR. PALMER presented Slide 12, "Project Economics." These figures are based on information provided by the state and current TransCanada estimates, including exchange rates and capital cost escalations. The slide highlights the cost to get to open season, regulatory certification, and the tolls that derive from those numbers:

- Capital costs
  - o $26 billion (2007 $US excluding AFUDC [Allowance for Funds Used During Construction])
    - ▪ Approximately $0.6 billion for Open Season and regulatory certification
- Tolls
  - o $US 2.76/mmBTU in 2018 to the Alberta Hub
    - ▪ Levelized negotiated toll for 4.5 Bcf/d in Nominal dollars, including fuel
  - o Expansion Tolls
    - ▪ Rolled-in tolls in Canada
    - ▪ Rolled-in tolls in Alaska up to 115 percent of initial tolls, including fuel

3:40:28 PM

REPRESENTATIVE SAMUELS referenced Slide 11 and the subject of the gas treatment plant. He thought if TransCanada did not own the gas treatment plant, if the oil companies owned and operated it, one of the upsides of a third party pipeline is access. He wondered about the gas treatment plant becoming the bottleneck.

COMMISSIONER GALVIN asked that the issue be deferred until the 6/7/08 discussion.

3:42:03 PM

REPRESENTATIVE DOOGAN referenced Slide 12 and the subject of the toll estimates. He asked why TransCanada had different toll numbers than another estimate prepared for the administration.

MR. PALMER answered that the other estimate included a higher Canadian/U.S. exchange rate. There were also higher capital costs for the gas treatment plant and a higher escalation of capital costs. The last significant item was a different interest rate.

REPRESENTATIVE DOOGAN wondered which set of numbers was more accurate.

MR. PALMER thought the TransCanada assessment was fair. There may be some variation regarding the exchange rate. TransCanada was provided with a relatively low escalator. The historic escalation of capital costs is very changeable, making it difficult to predict what the actual average will be over a dozen years. The administration consultants came up with an average of 3.6 percent. The numbers could change.

3:48:21 PM

MR. PALMER reviewed "Financial Parameters" on Slide 13:

- Debt/Equity Ratio
  - 70/30 during construction
  - 75/25 upon completion of initial project
  - 60/40 for all expansions
- Return on Equity (ROE)
  - U.S. 10-year Treasury Note plus 965 basis points
  - TransCanada's ROE will be adjusted downward in first 5 years by up to 200 basis points in the event of CAPEX [Capital Expenditure] overruns
- Fuel
  - 7.9 percent including gas treatment plant (GTP) from Prudhoe Bay to Alberta Hub
  - $US 0.35/mmBTU in 2018 @ 4.5 Bcf/d

MR. PALMER elaborated on equity return and debt/equity ratios for other pipelines projects in Canada and the U.S. over the last several years. He emphasized that it is critical to look at items together.

3:50:37 PM

MR. PALMER continued with Slide 14, the project schedule, which is subject to the AGIA license being issued by August 2008:

- Open Season

    - o Concluded 24 months after AGIA License issuance –July 2010
- FERC Application
    - o FERC pre-filing by April 2011
    - o FERC Certificate application by October 2012
- FERC Approval
    - o CPCN [Certificate of Public Convenience and Necessity] by Q2 2014
- In-service
    - o September 2018

MR. PALMER emphasized the changghes that had to be made because TransCanada had originally assumed a license date of April 2008.

3:52:45 PM

REPRESENTATIVE SAMUELS asked if there would be any problems with the timing of the application.

COMMISSIONER GALVIN pointed out that the statute does contemplate changes in the schedule that are based on things out of TransCanada's control. There was a discussion about the details of timing.

3:55:00 PM

REPRESENTATIVE DOOGAN commented that the administration had a schedule that included an in-service date later than that being proposed.

MR. PALMER stated that the administration thought TransCanada's schedule was aggressive, but workable. He hoped to achieve the proposed schedule.

COMMISSIONER GALVIN stressed the differences in purpose between the two schedules. Applicants were asked to put together a project plan with point specific estimates. The analysis attempted to allow each variable to slide along a probable continuum to determine the 50 percent likelihood to address all variables. The technical team assumed neutral competence of the developer; no extra benefit would be given to TransCanada because of their expertise.

3:59:06 PM

REPRESENTATIVE GATTO questioned TransCanada's need to use part of a summer season to do the research work.

MR. PALMER responded that TransCanada already has much of the information on the Canadian section. The primary field work required is for the Alaska portion. TransCanada is therefore significantly impacted by the lack of summer availability this year.

REPRESENTATIVE GATTO questioned which section needed work. He thought the section between Prudhoe Bay and Glennallen project should be an easy one due to an existing pipe.

MR. PALMER agreed that there may be significant information available on the section of the pipe from Prudhoe Bay, but the information is not in TransCanada's hands. In addition, it is a different kind of pipeline. New work needed to be done.

4:02:21 PM

MR. PALMER showed Slide 15, a pictorial representation of the project schedule described on the previous slide.

4:02:47 PM

MR. PALMER addressed Slide 16, "Partnership Opportunity":

- TransCanada will offer equity opportunity to shippers in the initial open season that subscribe for a threshold volume
- Should improve likelihood of success and alignment of interest between project sponsors and shippers

MR. PALMER emphasized that TransCanada aims to provide opportunity for parties that commit their gas in the initial open season. TransCanada feels this will increase the project's likelihood of success.

4:03:30 PM

REPRESENTATIVE FAIRCLOUGH referenced Slide 49 from the 6/5/08 meeting presented by Mr. Dickenson. She described the discussion on disincentives for producers to join the TransCanada project. She queried regarding a tax penalty that producers would have to pay.

MR. PALMER replied that he was not in a position to discuss the income tax to the state.

COMMISSIONER GALVIN referenced the issue, brought up during the ACES special session, of the change in the production tax law to allow the Department of Revenue to look beyond the usual tariff tax rate. The implication raised by Mr. Dickenson related to the provision in the context of a new gas line. If the producers were to participate as an equity partner, the state would re-adjudicate an entirely new tariff based on what the state thinks the rate of return should be. The state would second-guess the actual regulatory process. For an initial pipeline, it is highly unlikely that the state would do that.

4:08:15 PM

REPRESENTATIVE FAIRCLOUGH stated that what was specifically in the consultant's report was under new AS.43.55.150(a). The statute addresses shippers affiliated with a transportation carrier, or with persons that own an interest in the transportation facility. Mr. Dickenson had challenged that there may be disincentive for the producers to participate because they would be taxed at a higher rate. She asked for the legal ramifications.

CHAIR SENATOR HUGGINS asked that Commissioner Galvin provide that information.

COMMISSIONER GALVIN said that opinion would be provided.

4:09:11 PM

MR. PALMER reviewed Slide 17, "Upstream Fiscal Terms":

- TransCanada's AGIA obligations are not conditional on a review of Alaska's upstream fiscal terms.
- TransCanada acknowledges that this issue is between the state and natural gas producers.
- TransCanada requests that the state review upstream terms for natural gas prior to the initial open season.

4:09:44 PM

MR. PALMER discussed Slide 18, "Other Project Components":

- Within Alberta
    - o Foothills will construct necessary additional facilities to integrate with TransCanada's existing pipeline system in Alberta and connect to the pre build under the NPA
- NGL Extraction
    - o TransCanada can accommodate NGL extraction in Alaska or downstream
    - o TransCanada's Alberta system is straddled by three NGL complexes owned by third parties
    - o Excess capacity expected at those plants sufficient to process Alaskan gas if Shippers so choose

MR. PALMER emphasized that TransCanada would construct whatever facilities are necessary from Boundary Lake into the pre-build. That is where the most variability is likely to be in the construction; TransCanada anticipates that to cost more than $1 billion, dependent on the situation with Alberta supply and demand. If Alberta supply is lower or demand is higher, it would affect how many facilities had to be built, which would affect costs.

MR. PALMER stressed that TransCanada does not own NGL extraction facilities. TransCanada is a transporter and will move gas. The owners and shippers of the gas have to decide whether they will remove the liquids within the state, fewer BTUs will move down the pipe, raising tolls. The Alberta system is straddled by very large NGL complexes owned by third parties. They have excess capacity, or are expected to have more going forward. TransCanada expects that those parties will vigorously compete for the business.

4:12:03 PM

CHAIR SENATOR HUGGINS asked the names of the parties that own the complexes.

MR. PALMER recalled that BP (formally British Petroleum) is a large owner. He believed Inter Pipeline Fund was a second company.

SENATOR HOFFMAN asked about the extraction indicated on Slide 18. He wanted to know if it included downstream extraction of propane.

MR. PALMER replied that the provision was included, although TransCanada has not contemplated providing that service. TransCanada believes the service should be provided by a third party in the event that liquids are removed from the gas upstream of Alberta. TransCanada will move the gas provided to them, as long as it meets a certain minimum BTU level, generally around 1000 BTUs. He noted that there had been interesting work done by third parties for Alaska Natural Gas Development Authority (ANGDA) several years ago about those prospects. He recommended comments regarding the topic be directed to [Harold] Heinze at ANGDA.

4:14:20 PM

MR. PALMER briefly addressed Slide 19, a continuation of Slide 18, “Other Project Components”:

- Fort Nelson Option
    - TransCanada is exploring options to move its Alberta system receipt point upstream of Boundary Lake to Fort Nelson, BC
    - If successful, this would provide toll savings for Alaska Shippers of $US 0.13-

0.18/mmBTU

- LNG Alternative
  - o TransCanada is willing to offer gas treatment and transportation services from Prudhoe Bay to an LNG terminal should insufficient gas be committed through Canada or via a Y-line

4:14:42 PM

MR. PALMER spoke to Slide 20, "Regulatory Structure":

- Alaska
  - o TransCanada Alaska Company, LLC will proceed under Alaska Natural Gas Pipeline Act of 2004 (ANGPA)
- Canada
  - o Foothills Pipe Lines Ltd. will proceed under the Northern Pipeline Act (NPA)
- Canada/U.S.A. Treaty
  - o The pipeline will follow the route set out in the Treaty and the NPA

MR. PALMER said that TransCanada, the entity that has made the application, would proceed under ANGPA on the Alaskan side. Foothills Pipe Lines Ltd. would operate on the Canadian side under NPA.

4:14:57 PM

MR. PALMER addressed Slide 21, emphasizing that Alaska—TransCanada Alaska Company, LLC was never a partner in the original Alaska partnership with Alaska Northwest Natural Gas Transportation Company (ANNGTC), and owes no obligation to ANNGTC or withdrawn partners. TransCanada intends to have a complete new start in Alaska. He referred to earlier questions by Representative Gatto about field work, which will be primarily in Alaska. TransCanada will develop entirely new assets for the project; it has not and will not utilize any ANNGTC assets (certificate, Right-of-Way, 404 permits, engineering, geotechnical, etc.). As an additional safeguard TransCanada has committed to never including any potential ANNGTC liability in AGIA project tolls.

4:16:11 PM

MR. PALMER, highlighting Slides 22-23, "ANNGTC," stressed that the ANNGTC partnership was certificated by FERC thirty years ago under the original legislation, the Alaska Natural Gas Transportation Act (ANGTA), to construct the Alaskan section of a North Slope pipeline project only. Prior to the AGIA deadline for submitting applications, the ANNGTC partnership considered whether it could, or should, submit an application for the AGIA License. ANNGTC holds some assets, the old engineering and geotechnical work, and some regulatory authorizations. However, it also has significant contingent liabilities precluding a viable proposal. Accordingly, ANNGTC did not make an AGIA application, and has played no role in the AGIA application filed by the TransCanada AGIA co-applicants.

4:17:30 PM

MR. PALMER asserted that the partnership agreement for ANNGTC has no non-compete clause, and there is no implied duty to refrain from competing. The withdrawn partners forfeited any right to be treated as a partner when they withdrew from ANNGTC. They have no right to anything unless ANNGTC builds the pipeline, which it cannot do. They were entitled only to contractual right to payment if and when ANNGTC builds the pipeline, and if payment would not pose undue hardship on ANNGTC.

MR. PALMER argued that previous statements are not correct regarding a current liability of $10 billion. That is a contingent liability only occurring if the entity completes the project, puts it into service, and can make the payment without undue hardship on that partnership. He added that the partnership agreement specifically provides that no other remedy is available. The two remaining ANNGTC partners intend to formally dissolve the ANNGTC partnership and dispose of all of its assets because it is no longer a viable enterprise. TransCanada has undertaken discussions with federal regulatory bodies to start that process.

4:18:54 PM

MR. PALMER summarized, referring to Slide 24, "ANNGTC Summary":

- TransCanada's AGIA Application has nothing to do with ANNGTC, its long history or its contingent obligations to Withdrawn Partners;
- No claim has ever been made or even threatened by Withdrawn Partners;
- Additional safeguard – TransCanada's AGIA Application commits to never including any potential ANNGTC liability in AGIA project tolls; and
- Any claims against third parties would also fail because third parties played no role in the TransCanada Partners' decision that the ANNGTC Partnership is no longer viable.

4:19:36 PM

MR. PALMER turned to Slide 25, "Canada – Foothills Pipe

Lines Ltd.”:

- Foothills Pipe Lines Ltd. was certificated under Canada’s Northern Pipeline Act for the section of pipeline in Canada
- Foothills is an entirely separate entity from ANNGTC
- No Withdrawn Partner issues in Canada
- Foothills has no potential future contingent liability
- ANNGTC does not hold any authorizations under the Northern Pipeline Act or otherwise for any facilities in Canada
- Foothills Pipe Lines Ltd. does not hold any authorizations for facilities in the U.S. under ANGTA

4:20:28 PM

REPRESENTATIVE BOB ROSES mentioned an application before the regulatory agency to dissolve the ANNGTC partnership and disperse assets, and asked if it could be denied.

MR. PALMER indicated that there have been discussions regarding turning back some of the federal assets held, like the right-of-way, but TransCanada would not be making an application to those federal agencies to dissolve the partnership. That is something TransCanada would do on its own.

REPRESENTATIVE ROSES asked if the request could be denied.

MR. PALMER did not think that would happen. He offered to look into that concern. He said the issue was the right-of-way and the certificate granted to ANNGTC by FERC.

4:22:20 PM

REPRESENTATIVE GARA acknowledged that he was not qualified to make a judgment regarding the case. He asked the determination of Commissioner Galvin. He also asked if any of the other partners came to TransCanada and offered help in bidding on the project.

COMMISSIONER GALVIN replied that the concern was taken seriously. There were comments raised in correspondence with the North Slope producers, ConocoPhillips in particular, who identified their own legal opinions. They allowed the state’s legal counsel to discuss the issue with their legal counsel.

COMMISSIONER GALVIN reported that the state looked at the issue from two vantage points. First, the question of whether there was a liability and risk that would affect the rate base and transferred on to shippers and ultimately the economic viability of the project. That question was answered conclusively: there is no risk.

COMMISSIONER GAVIN said that the second question related to TransCanada as a potential partner for Alaska, particularly given the potential for a shipper to join as an equity partner. There is also the question of TransCanada's ability to get financing for the project if they were going into it as the sole proponent. The state sought legal advice both from FERC and from other corporate and litigation counsel from the vantage point of the transactional perspective and the risk assessment. The state also received input from Goldman Sachs as a financial advisor, who brought in their own counsel. The advice the state received was that it should not be a barrier for participation in the project and should not result in a hindrance to financing the project. Based on that advice, the administration is very confident that they could move forward in recommending the project.

4:27:38 PM

MR. PALMER added that TransCanada was not approached by any of the withdrawn partners to join the AGIA application. TransCanada has had on-going discussions for many years with a number of parties about potential alignment for the project. LB & A sent specific notification to each of the withdrawn partners about the proposals of TransCanada and none of them have come to TransCanada and said they wanted to be a partner on the project.

REPRESENTATIVE WILSON asked if any of the permitting certificates from FERC that would be turned back were necessary for TransCanada to go ahead with the project.

MR. PALMER acknowledged that that federal right-of-way for federal lands, FERC, and other permits that are held by ANNGTC will be required by TransCanada. However, those will be sought independently with no reliance on ANNGTC or its assets.

REPRESENTATIVE WILSON asked if TransCanada anticipated any problems during that process.

MR. PALMER responded that they did not anticipate any problems. For the Alaska component of the project, the process would start from scratch.

4:30:28 PM

REPRESENTATIVE KURT OLSON asked for verification regarding Goldman Sachs' indication the contingent liability would not go above $250 million dollars.

MR. PALMER recalled that the $250 million dollars was the original monies expended by those partners, including TransCanada subsidiaries (not the AGIA applicant). That was the original money expended in the late 1970s and early 1980s. He recalled that there would be no Allowance for Funds Used During Construction (AFUDC), no cost of money allowable. The cost of money at 14 percent per year compounded is how $250 million becomes a large amount like $10 billion today.

COMMISSIONER GALVIN interjected that even though the risk of success of a claim is miniscule from any legal vantage point, when coupled with the fact that the potential payoff is so huge, people don’t want to participate. When the issues are broken down, however, the potential liability is capped.

[SB 3001 and HB 3001 were held in committee.]

ADJOURNMENT

The meeting was adjourned at 4:33:35 PM.