

**ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RULES STANDING COMMITTEE
SENATE SPECIAL COMMITTEE ON ENERGY**

June 8, 2008

1:06 p.m.

MEMBERS PRESENT

HOUSE RULES STANDING COMMITTEE

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

SENATE SPECIAL COMMITTEE ON ENERGY

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

MEMBERS ABSENT

HOUSE RULES STANDING COMMITTEE

Representative John Harris (AGIA Subcommittee, Chair)
Representative David Guttenberg

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Lesil McGuire

OTHER LEGISLATORS PRESENT

Representative Buch
Representative Chenault
Representative Crawford

Representative Dahlstrom
Representative Doll
Representative Doogan
Representative Edgmon
Representative Gara
Representative Gardner
Representative Gatto
Representative Gruenberg
Representative Holmes
Representative Johansen
Representative Joule
Representative Kawasaki
Representative Kelly
Representative Lynn
Representative Meyer
Representative Neuman
Representative Olson
Representative Ramras
Representative Roses
Representative Seaton
Representative Stoltze
Representative Wilson

Senator Bunde
Senator Davis
Senator Ellis
Senator French
Senator 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)	Heard & Held; Assigned to Subcommittee
06/04/08	(H)	MINUTE(RLS)
06/04/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/04/08	(H)	Heard & Held
06/04/08	(H)	MINUTE(RLS)
06/05/08	(H)	RLS AT 9:00 AM TERRY MILLER GYM
06/05/08	(H)	Heard & Held
06/05/08	(H)	MINUTE(RLS)
06/06/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/06/08	(H)	Heard & Held
06/06/08	(H)	MINUTE(RLS)
06/07/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/07/08	(H)	Heard & Held
06/07/08	(H)	MINUTE(RLS)
06/08/08	(H)	RLS AT 1:00 PM TERRY MILLER GYM

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)
06/06/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/06/08	(S)	Heard & Held
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06/07/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/07/08	(S)	Heard & Held
06/07/08	(S)	MINUTE(ENR)

06/08/08

(S)

ENR AT 1:00 PM TERRY MILLER GYM

WITNESS REGISTER

TOM IRWIN, Commissioner
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Presented a summary of the findings and determination of the TransCanada Alaska Company, LLC ("TransCanada") project.

PATRICK GALVIN, Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered questions related to the proposed TransCanada project during the hearing on HB 3001/SB 3001.

CLARK "CLICK" BISHOP, Commissioner
Department of Labor & Workforce Development
Juneau, Alaska

POSITION STATEMENT: Offered an introduction preceding a PowerPoint presentation regarding jobs and training related to the TransCanada project.

GUY BELL, Assistant Commissioner
Director
Central Office
Division of Administrative Services
Department of Labor & Workforce Development

POSITION STATEMENT: Gave the first part of a PowerPoint presentation regarding jobs and training related to the proposed TransCanada project.

BRYNN KEITH, Research Chief
Research & Analysis
Central Office
Division of Administrative Services
Department of Labor & Workforce Development

POSITION STATEMENT: Gave the second part of a PowerPoint presentation regarding jobs and training related to the proposed TransCanada project.

CONRAD MULLIGAN, Consultant
ARCADIS
Denver, Colorado

POSITION STATEMENT: Presented a PowerPoint on modeling of short- and long-term employment generated by construction and operation of an Alaska Natural Gas Pipeline Project.

G. ALLAN VAN FLEET, Attorney
Greenberg Traurig, LLP
Houston, Texas

POSITION STATEMENT: Presented legal issues affecting producer participation in TransCanada's proposed gasline.

SPENCER HOSIE, Attorney
Hosie McArthur LLP
San Francisco, California

POSITION STATEMENT: Presented legal issues affecting producer participation in TransCanada's proposed gasline.

ACTION NARRATIVE

CHAIR 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 [1:06:01 PM](#).

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

[1:06:59 PM](#)

CHAIR HUGGINS announced the joint committees would commence today's presentations by hearing an overview from Commissioner Tom Irwin, followed by an overview of the labor process by Commissioner Clark Bishop.

[1:07:51 PM](#)

COMMISSIONER TOM IRWIN, Department of Natural Resources, presented a summary of the findings and determination of the TransCanada Alaska Company ("TransCanada") project. He stated that it is known that development of Alaska's natural resources is the cornerstone of the state's economy. The North Slope is a world-class natural gas basin. He said, "Right now, we're looking at 224 trillion cubic feet of undiscovered, technically recoverable reserves, in addition to all the known reserves." There are significant volumes of natural gas, which Commissioner Irwin described as "economically clean energy for Alaska, for the United States, for the world." He said the following factors are "right": time, quantities, and clean material.

COMMISSIONER IRWIN offered an historical review. In the '70s and '80s, he relayed, Alaska "worked hard and dreamed of getting natural gas to market." Considered at the time were an overland route, an "over-the-head" route from Alaska to Canada, and liquefied natural gas (LNG). He said, "Frankly, gas prices stopped it all - drum price." In 1998, he continued, the Stranded Gas Development Act was passed, which Commissioner Irwin said was a good Act. At the time, gas was around \$2 per thousand thousand British thermal units (MMBtu). The idea behind the Act was to work with interested companies to bridge the economic gap. Five groups submitted applications in 2004, one group was selected, and, through negotiations, a draft fiscal contract was released in May of 2006. At the conclusion of the negotiations, he recalled, the major North Slope producers essentially committed to only considering a gas pipeline, in exchange for substantial concessions by the state, which included: more than \$10 billion in future royalty revenues from the state to the producers on quantifiable losses of production taxes, and conceding sovereignty of state in judicial, legislative, and administrative issues. Nothing in that contract ensured development. By 2006, the price of natural gas had gone up to \$6 per MMBtu - a significant value. He stated that it seems incredible that gas was at that price, huge volumes of it were available, there was a market for clean energy, yet "nothing was moving forward."

COMMISSIONER IRWIN reviewed that the Alaska Gasline Inducement Act (AGIA) was passed by the Alaska State Legislature in 2007 with a nearly unanimous vote. The purpose of AGIA was to encourage an expedited construction of a natural gas pipeline through an open, transparent process that allows competition. In exchange for commitments required in AGIA, the legislature offered a package of inducements. The legislature made the inducements available to an AGIA licensee, if that licensee would agree to meet the requirements and make the commitments that the legislature deemed necessary to protect the state's interest, which Commissioner Irwin said he believes was a wise decision.

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COMMISSIONER IRWIN recollected that in July 2007, when AGIA became law, the state issued a request for application for a license to be issued under AGIA. Five applications were submitted, and only the TransCanada application was found to be complete. Commissioner Irwin said he and Commissioner Pat Galvin decided that TransCanada's net present value and

likelihood of success could not be evaluated fairly without also looking at the LNG option and the BP, ConocoPhillips Alaska, Inc., Denali projects.

COMMISSIONER IRWIN said technical, legal, commercial, financial, and hydrocarbon reserves team[s] were formed in order to make clear, fair evaluations of the projects. He stated that the teams were counted on to independently review the existing information and issue an opinion. He emphasized the integrity and expertise of those involved, and said all the reports are available to the legislature. He also emphasized that the job of [the administration] is not just to study all the information, but to make itself and its consultants available to each legislator to ensure "right answers" are provided.

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COMMISSIONER IRWIN said he and Commissioner Galvin found that the "path" offered by TransCanada is likely to succeed. That company presented a work plan that is technically reasonable, feasible, and specific, he said. The plan would include the use of technology that TransCanada is currently using to operate pipelines in climates similar to Alaska's. Regarding the schedule, he said, "Including the timing of U.S. and Canadian regulatory approvals is aggressive but reasonable and appropriate." He stated that TransCanada has the financial ability to contribute equity to the project, as well as to obtain the financing necessary for construction. TransCanada has a strong record of performance in developing other large projects, and positive records of integrity and business ethics. Commissioner Irwin said commissioners also considered whether sufficient natural gas exists on the North Slope to fill the capacity of TransCanada's proposed pipeline for 25 years.

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COMMISSIONER IRWIN relayed that the conclusion made is that Alaska has enough natural gas resources to fill the TransCanada pipeline for 25 years and "for decades longer." He added that this is true even though Point Thompson natural gas may not be available for any project during its initial years "due to the area geology." Commissioner Irwin said the state hired PetroTel, Inc. to do modeling to evaluate what is really going on at Point Thompson. He said the modeling showed that not only are there likely several million barrels of liquid condensate at Point Thompson, but there are also several hundreds of millions of barrels of oil. He mentioned the way that the Alaska Oil and

Gas Conservation Commission (AOGCC) works, and said, "Any reasonable state or sovereign would want that recovered first." Commissioner Irwin said, "What we have been told in the past and what we know today is significantly different. We have learned this state needs to continue to understand things from its own basis." He talked about being honest and letting [the legislature] know when things have changed. He continued:

Now, let's say we, as a sovereign, said, "We will waste that energy; we will waste the liquids from the gas condensate; we will waste the oil; we'll just pull the gas off." Our problem is this field is called a retrograde field. [There are] over 10,000 pounds per square inch pressure. The experts say if we start dropping that pressure, the liquid condensates start falling out; we can literally plug the field where we'll certainly lose the liquids, but we can also start plugging conductivity so we lose the gas. Point Thompson is a tremendous area. We have a lot of liquids. We need to recover them first.

But let me tell you, when that news hit the gasline team, it was a shock. We immediately thought, "Do we have a gasline project? What are we going to do?" And we went back to the modeling. We modeled different volumes, different timelines, different scenarios. Our conclusion: we have significant gas for the producers, for the [federal government], for the state, and for TC Alaska to make significant money and to move this project forward.

COMMISSIONER IRWIN said additionally the commissioners considered the claim by the major North Slope producers that TransCanada cannot succeed because of the risk that if it builds a project it would be sued by former partners. He said after speaking with TransCanada, the commissioners had their own consultants consider whether this is a legal issue and what the ramifications might be, including whether or not the issue would impact financing. The commissioners found that the potential claims against TransCanada and its affiliates are "extremely weak," and that the producers have "failed to support their speculative theory." As a result, the commissioners concluded that the risk litigation of this issue "does not present the significant barrier" to the likely success of the TransCanada project, including its ability to obtain financing.

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COMMISSIONER IRWIN stated that the commercial terms proposed by TransCanada are reasonable. The proposal provides the major North Slope producers with several significant, commercial opportunities. He said, "They can construct and own the gas treatment plant in the North Slope; they can own an equity share in the TC Alaska pipeline." Although there are project risks, he noted, none of them are significant enough to outweigh the TransCanada project's likelihood of success. Natural gas prices are not likely to climb enough to make the project uneconomic, he said. Furthermore, he related that the risk that there are insignificant resources on the North Slope to fill the proposed pipeline is low. He stated that the commissioners anticipate that the state's current fiscal structure will allow companies that develop North Slope gas and transport it on TransCanada's pipeline to earn a significant profit.

COMMISSIONER IRWIN stated that the TransCanada project is viable, will provide positive economics to the state and federal governments, as well as the North Slope producers and TransCanada, and "is clearly, and in our minds, likely to succeed." He noted that the legislature has "seen those numbers through other presentations." To help determine whether TransCanada's pipeline proposal maximizes benefits and is in the best interest of the state, the commissioners felt that LNG project options needed to be evaluated. He noted that later in the hearing schedule experts would testify. He mentioned the North Slope, an LNG plant in Valdez, and "the producer plant." He continued:

Using the same assumptions used to analyze the TC Alaska project, all LNG project options resulted in less value to the state and the major North Slope producers. In cases, it showed clearly economic, but all cases were less than the North Slope producers' route.

COMMISSIONER IRWIN said that although an LNG project would be able to tap the higher prices that are seen in Asian markets, the LNG projects have significantly higher costs, and thus result in lower market potential value (MPV) to the state or to the major North Slope producers. He said he and Commissioner Galvin did not find comparative benefits in either timing or costs associated with an LNG project. He highlighted that even if LNG had demonstrated MPV comparable to that of the TransCanada project, the LNG projects would still not be preferable to the TransCanada project. He explained, "Our

analysis reveals that the LNG projects have a much lower likelihood of success compared to TC Alaska's project." An LNG project, he continued, will face unique financing and commercial challenges for several reasons, including the need to negotiate multiple and concurrent agreements for the purchase, pipe transport, liquefaction, shipping, "regasification," and the sale of natural gas. He said LNG also faces significant challenges, and the North Slope producers have stated clearly that the Asian market is not their preferred market. Additionally, the LNG project will face significant risk of not being permitted to export the gas to its primary market in Asia. He stated, "That's a clear and evident, real risk, getting that type of export license, particularly if we don't have energy going to the United States - to the Lower 48 - first."

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COMMISSIONER IRWIN stated that when compared to an exclusive LNG project, the overland gasline proposed by TransCanada provides an opportunity for a successful LNG "Y" line. The big line, he explained, takes care of the upstream gas pipeline plant, as well as a big line to Delta Junction. He stated, "The door is wide open to someone who wants to come in and do an LNG project." The likelihood of success in an LNG project, he noted, is greatest when it is constructed as a "Y" line.

COMMISSIONER IRWIN stated:

The dynamics of a producer-owned and operated pipeline are very different, as you've heard in the last few days, than those of a third party-owned pipeline. An entity that produces natural gas and owns the pipeline, like the producer project, earns revenues through sales of natural gas and shipment of the natural gas. Such an entity is not necessarily as driven to keep costs low. We have learned that. We have learned that all the way through the Supreme Court. If you own the pipeline and the costs are high, you pay yourself if you're the upstream producer. If the upstream producers own the pipeline, as we have seen, we pay the higher tariff, and we pay the producer. We've heard about all the exploration potential. We can get to a point, as you've seen on the charts: Why would someone come explore in this state for those type of high tariffs?

COMMISSIONER IRWIN continued:

Consequently, there's a reduced economic driver to explore for and develop additional resources until such time in the producer's [emphasis on "producer's"] mind it is necessary to maintain shipping volumes through the pipeline.

Now, we heard a bit of talk yesterday about, "Well, they might want to go bigger; they might want to move gas from somewhere else in the world and do their part here later." A pipeline company is in sync with the goals of the state; it is not necessarily true with a producer-owned pipeline.

As the state, as I've mentioned, has experienced with [the Trans-Alaska Pipeline System] (TAPS), combining pipeline and shipper responsibilities can truly cause significant harm to the state's interest. This is significant. For many of the same reasons, the producer project suffers the risk of being stalled by anti-trust challenges. It's reality.

COMMISSIONER IRWIN stated that AGIA clearly was not designed to preclude the major North Slope producers from owning and operating the natural gas pipeline; its goal was to ensure that "if they did, they would act like an independent pipeline company, rather than an integrated gas producer and pipeline company."

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COMMISSIONER IRWIN said, "We were told negotiations of fiscal conditions were a precondition to moving forward with the project. What are those conditions? We do know what the conditions were from stranded gas." He said the administration chose to continue the competitive AGIA process, in favor of exclusive negotiations. He suggested the legislators ask themselves why BP and ConocoPhillips Alaska, Inc. announced the pursuit of another gas pipeline project, Denali, and to question the timing of that announcement. He asked, "Why are they running so many ads to convince the public this is a good thing?" He asked the legislature to respectfully ask the following question: "Is their goal to destroy AGIA in the competition, or is their goal to get gas to market in the favor of the state's interest?" He said "we" tried to analyze the Denali plan, using the same "12 pages" that the legislature has seen. He related that none of the important commercial terms of

the producer plan are defined. Furthermore, unlike TransCanada, the producer plan makes no enforceable commitments, such as adhering to a state timeline or achieving additional milestones, such as applying for a Federal Energy Regulatory Commission (FERC) certificate. He said there is no information on tariffs, let alone an enforceable commitment to provide genuine, open access. He said, "This makes their option, currently presented, extremely risky for the state. The producer plan was offered outside the AGIA process and may continue ... parallel to TC Alaska's efforts. We love it; the competition is great."

COMMISSIONER IRWIN said someone suggested that the state should save its \$500 million, because the producers are going to spend their \$600 [million]-plus and don't need the state's money. He asked:

Have you ever been around a business that has to make money - for its board, its stockholders, their individual pay, their bonuses - that would turn down \$500 million? I would propose that they feel that if - and I can't speak for them - if AGIA fails, they are in a position to get much more. But no one would turn down \$500 million.

COMMISSIONER IRWIN said the key is for the state to invest in its resources and start "moving things forward." He warned the legislators not to forget history. He stated, "This state rudely threw out a bunch of companies and negotiated behind closed doors." Regarding the \$500 million, he said an important factor is risk and reward. He opined that the risk is so small compared to the reward, which is so huge.

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COMMISSIONER IRWIN summarized his presentation, by reviewing the following points: the TransCanada project is economically viable, sound, and feasible; TransCanada has a proven track record; extreme positive economics of TransCanada's project, combined with the legal and political context, provide favorable conditions for attracting shipping commitments; and overall the TransCanada project is likely to succeed. Exclusive LNG projects do not compete, but a "Y" line is significant and is an opportunity for the state to "work between market options." He stated, "The key for adding the real long-term jobs for Alaskans is a pipeline that encourages exploration and development. The TransCanada project will not preclude construction of a smaller pipeline." He stated that if anyone wants to challenge his

numbers, he would encourage them to look at a report by Econ One, which is available to LB&A.

COMMISSIONER IRWIN said that similar to the failed Stranded Gas Development Act contract, the producer plan is not guaranteed to continue to advance the project. He stated that it is his and Commissioner Galvin's conclusion that "this is clearly a correct way to go." He encouraged the legislature to consider that this is the right thing to do for the state.

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COMMISSIONER IRWIN stated that ultimately the matter comes down to a decision of "yes" or "no." He continued:

Here's what you get with "yes": a company that I believe is the best in Northern America doing pipelines. It's a company that works with these other companies every day; they know how to get gas into their pipeline. And remember Mr. Palmer saying, "We don't own any gas, and yet we have 36,000 miles of pipeline." We get a premier company in North America. We get firm timelines to open season; we get firm timelines to FERC certification. We are clearly moving forward. Now, when Alaska makes a new law, and in effect, by saying yes, you have told the whole world, "Alaska is now going to protect open access," companies adjust, companies understand. But until you do that, they will rather defeat AGIA, because then you get to the no answer.

What happens if it's "no?" In simple terms, last week I said, "They own us." That's what you get if you say no. We will wait and hope they do something, but understand ... they're not here because they love Alaska. They're here to make money. And they will look worldwide at their decisions. Alaska, it's okay to stand up for what's right for Alaska - it's business. We have a clear path. But "no" means we're subservient to them; they own us.

COMMISSIONER IRWIN expressed appreciation for the time the legislature is giving to this matter.

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CHAIR HUGGINS noted that he did ask one of the proposers of the aforementioned Denali project "why they were doing that," and their answer simply was, "The price of gas." He stated that it appears that in talking with some of the consultants that no matter what the scenario, "the price of gas is the variable that is the most different."

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REPRESENTATIVE FAIRCLOUGH stated that she is present to listen to facts and figures in order to make a successful decision on moving a project forward. She said she wants to know why the Monte Carlo approach was chosen over the Wood Mackenzie report if "best practice" is involved, and whether the Wood Mackenzie report "was not using as safe type of criteria."

COMMISSIONER IRWIN said the administration's consultants are qualified to answer that question and could address it during their upcoming testimony.

REPRESENTATIVE FAIRCLOUGH indicated that [the legislature] was told during this special session that the administration gave TransCanada a 1 [to] 2 percent inflation factor, but in Anchorage, the administration's consultants spoke of a 4 percent cost inflation factor. She questioned the discrepancy.

COMMISSIONER IRWIN explained that the administration asked TransCanada for specifics in order to compare one project to another "on the same basis." He continued:

When we went to our consultants, we wanted to expand that analysis for huge ranges, so in a Monte Carlo system we can see the variances of best-case/worst-case, and there's hundreds of items - maybe thousands of items - that have to be evaluated. We wanted to check all the permutations, combinations of best-case/worst-case, and that's what a Monte Carlo system allows you to do. One was to compare applicants; the other was we didn't, frankly -- let me put it this way: trust and verify. We're learning as a state, no matter what you're told, trust and verify, and that's why the significant difference with our consultants.

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PATRICK GALVIN, Commissioner, Department of Revenue, expanded upon Commissioner Irwin's response by noting that the

assumptions that TransCanada used in its application were the same assumptions used by all the applicants. The reason, he said, is because [the administration] asked the applicants to do "a project planning effort" - to identify what their costs were according to a single point assumption given to them by the administration. He explained that the administration was not asking its experts to determine what gas would cost on a particular day and determine the economics from that, but rather "to look at the sensitivities across a number of these variables." He said the administration was trying to convey the range of possibility to the legislature. The consultants present the "mid-case" and then "explain the sensitivities around that."

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REPRESENTATIVE FAIRCLOUGH said she understands the sensitivities, but she stated concern that the public may not, through the media, get an in-depth definition of a 4 percent cost inflation factor versus a 1 percent cost inflation factor. She said the legislature also has the understanding that construction costs have been rising at close to 30 percent every year for the last four years. She said, "As you're turning those toggles, we need a sense of reality on where the gas is coming from."

REPRESENTATIVE FAIRCLOUGH asked whether the commissioners have sent a letter of inquiry to the Alaska Oil and Gas Conservation Commission (AOGCC) about "what could be extracted off of Prudhoe Bay," and whether there is an answer related to the 2.5 billion cubic feet (bcf) amount that was "presented in Anchorage as a way to make this project successful."

COMMISSIONER IRWIN responded as follows:

We have asked, and that is not complete, but from all of the information we have: Point Thompson ... will be out for years; Prudhoe Bay will be available for draw down. ... All of our expert advise we've been given is: we have the gas resources to make this project happen.

REPRESENTATIVE FAIRCLOUGH noted that Commissioner Irwin has had the TransCanada application in his possession since November, and she asked him when he asked AOGCC "how much you could draw down for your economic analysis."

COMMISSIONER IRWIN said he does not have that information at hand.

COMMISSIONER GALVIN stated his belief that the inquiry was started a year ago, after the AGIA bill passed, because at that time, the issue had surfaced regarding potential off-take. Continual efforts have been made to "try to refine that." He said the issue faced by all is the fact that AOGCC doesn't operate along the decision-making framework where it chooses what the off-take should be; it is an adjudicatory body that merely grants a yes or no to requests that may come in. He continued:

And so, the exercise that they've been sort of undertaking is providing us with ... the range of what they think may be within the possibility of what might get a yes vote, but it would be based upon the request and the data that would be presented.

... Kathy Forrester, I think the current chairman of AOGCC, has spoken publicly about ... her comfort level with discussion of an off-take in the 3.5 range that we discuss in our finding. And so, that's, I think, the furthest AOGCC is likely to go before they get an actual application.

COMMISSIONER IRWIN added that the producers, with their proposal, certainly feel comfortable that they can move forward. Furthermore, TransCanada really understands "this information" and feels comfortable to move forward. He stated, "When it comes close to a gasline really moving forward, the exploration we'll have in this state will significantly increase gas availability." He named the Wyoming and British Columbia charts as examples of that growth. He added, "And don't forget, most of our gas is found in oil basins, not in the gas basins."

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REPRESENTATIVE FAIRCLOUGH said she is trying to make an evaluation on the licensee before the legislature. She said although she can appreciate hearing about the readiness of producers, the purpose of the legislature currently is to find out why the administration is supporting [TransCanada]. She said TransCanada has convinced her that it is qualified to undertake a gasline project. Additionally, she said, the administration has convinced her that a \$10 billion liability is a remote possibility. She clarified, "But what I don't want to

hear is spin - telling me where product is available." She indicated having been told by Ms. Forrester that AOGCC was "getting ready to retract a previous statement that they had gas available." She continued:

Again, I just would ask everyone who's presenting to talk about the project that's before us and not throwing darts at a project that we don't know anything about, as has been said by the producers. I don't care why the producers are moving a project forward; I care that this administration is saying, "This is the next step for Alaska." And I want to, on behalf of the people that have chosen to put me in my seat, ... make the best decision possible for Alaska. And so, it is important whether we have gas on the line to go into the line. ... I'm not trying to be disrespectful; I want to be able to push the green button and vote yes for what you're presenting, but please tell me why we have gas from our position going forward and not about other people's.

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COMMISSIONER IRWIN expressed appreciation of Representative Fairclough's study of the issue and her desire for Alaskan's to hear the facts. He said his intent was not to convey "spin," but to convey, from his position, why he feels Alaska has enough gas. He explained that he shared other issues that he and Commissioner Galvin had to address in getting to their present position, because he thinks not talking about why they don't think the Denali project is better or mentioning LNG would be hiding information from the legislature.

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CHAIR HUGGINS requested that Commissioner Irwin provide a visual aid that shows risk allocation related to the TransCanada project timeline and decision-making process, and to include downsides or conflicts, not just "the positives."

[1:52:09 PM](#)

COMMISSIONER IRWIN said he thinks he can readily do that with the information at hand.

CHAIR HUGGINS clarified for those listening that he is requesting from the commissioner an overview of risk allocation

and "where you allocated those in your consideration," and is requesting that the commissioner "reemphasize that as we go through the points in the documents."

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SENATOR STEDMAN said there was a reference made - not only by Commissioner Irwin today, but by other presenters in the last couple days - to \$10 billion "on gives from the state to the major oil producers under the previous administration's proposal in the Stranded Gas Act." He recalled that quite a bit of that calculation had to do with a 20 percent capital credit. He asked if that is correct.

[1:54:34 PM](#)

COMMISSIONER IRWIN responded that "all of those numbers are defined in" the Econ One report. He said he remembers the amount of \$10 billion specifically, "because when we calculated ourselves we came up with \$13 billion, but we chose to go with Econ One."

[1:55:02 PM](#)

COMMISSIONER GALVIN offered further information:

Econ One, at the time, as they are now, was working for the legislature and [on] the legislative analysis of that contract. And that was the number that they came up with, in terms of the value of the project under the existing scenario versus the value of the project under what was proposed in the contract.

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SENATOR STEDMAN reiterated that part of that calculation had to do with a 20 percent capital credit, which he noted is in place currently. He remarked, "So, ... I'm not quite sure that a tight parallel with those numbers to what we're dealing with today is even a legitimate issue to have."

COMMISSIONER GALVIN said he agrees with Senator Stedman that "it does change when you compare it with where we are today." He continued:

Because when we look at the issue today, what we recognize is that under that analysis there actually

was a gas production tax that was based on a gross rate ... in the neighborhood of, I think, 7 percent. If you compare that to, for example, the ACES end result, you're going to end up with probably a larger cost that would be associated with the Stranded Gas contract from what we have in place today than the \$10 billion. And we wanted to use the \$10 billion just because it was the number from ... that particular time, based on legislative consultants.

SENATOR STEDMAN, regarding the last administration's dealing behind closed doors, recollected, "The Stranded Gas Act was set up to do just that - to get a stranded gas basin and oil basin open."

COMMISSIONER IRWIN told Senator Stedman he is correct.

1:57:02 PM

SENATOR STEDMAN, regarding FERC, recollected that there had been a reference to TAPS. He said a majority of legislators feel that it would have been nice if the state had been in a better position dealing with TAPS over the years, because there are concerns regarding the tariff. He said, "We all understand: the higher the tariff [is], the lower our net back to us as a state [will be]." He asked, "How correlated is the gasline to oil line in dealing with access issues?"

COMMISSIONER IRWIN replied that the two are not regulated the same; "one is common carrier and one is a contract carriage."

SENATOR STEDMAN asked if that is a substantial difference, one that the legislature should tune in and pay attention to, or if it is just a minor technicality, in which case the legislature could only have TAPS to think about.

COMMISSIONER IRWIN responded as follows:

It's actually much more important, in my mind, for a pipeline - in the gasline. In an oil line, ... if the line is full, room can be made for others on a proportional basis. On a gasline, when it's full, room isn't made for the new individuals. So, that's a critical step.

The reason I referenced TAPS is because of the cost of the tariff, also. Getting into the line, if it's

full, is one major issue for our future gas exploration, but also, the value of what it's costing to put gas down the line. And this, here, is now a similar circumstance: If you have an upstream producer who owns ... an oil line, and if you have an upstream producer who owns a gasline, they are not incented, as a pipeline company, to keep low tariffs, because at the end of the year, the extra tariffs they paid go back ... to the producers. If it's a pipeline company, their incentive [is] to keep it low for new exploration.

SENATOR STEDMAN offered his understanding that this matter would be covered in a few days by means of representation of FERC. He indicated that future discussion would attempt to answer why, for example, ExxonMobil Corporation does not "own all the pipelines in the world if it's such a sweet deal." He said it is his impression that mid-stream players like TransCanada concentrate in building and managing gaslines in a regulated return environment, while other companies - for instance, BP or ConocoPhillips Alaska, Inc. - enjoy the arena of unregulated returns and seek higher rates of return than they would get in an unregulated pipeline.

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COMMISSIONER IRWIN echoed Senator Stedman's remarks that a company like ExxonMobil Corporation - one that is so capable of making money - most likely chooses not to do small projects or projects with low rates of return, because it can invest its money other places to get a much higher return.

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SENATOR STEDMAN recalled that Commissioner Irwin had warned that if the legislature does not adopt the proposal before them, the three major companies - ExxonMobil Corporation, BP, and ConocoPhillips Alaska, Inc. - will, in affect, own "us," and that subsequently he had said the state would be subservient to those companies. He stated that he personally does not agree with that sentiment. He said he has "two oil people" in his entire district.

COMMISSIONER IRWIN clarified that he is not talking about any individual legislator, but rather is talking about the state. He said the state knows that its oil production is declining. He predicted that Alaska, as a state, is going to become

increasingly desperate to figure out how to pay its bills. He emphasized:

When you're in a desperate situation, and someone comes to you and says, "I will get your gas to market, but you need to help me," you're position at that time is much, much harder than it is today with the competition we're seeing.

[2:04:03 PM](#)

SENATOR STEDMAN issued a reminder that roughly half of the state's tax is coming from progressivity, "... which the last administration didn't like, and the current administration wanted to lower." The legislature is the entity that stood up for [progressivity].

[2:05:00 PM](#)

REPRESENTATIVE ROSES, regarding Commissioner Irwin's previous description of what the state would get by saying yes versus no, asked what the state would gain or lose if, should it vote yes, TransCanada subsequently is not able to get firm commitments and says no to the state.

[2:05:41 PM](#)

COMMISSIONER IRWIN responded, "That is why we felt so firm in AGIA that we develop past open season toward certification." He offered further details, concluding that it is obviously the choice of the company, but he thinks rational companies will participate.

[2:08:10 PM](#)

REPRESENTATIVE ROSES said he would like Commissioner Irwin to state for the public's benefit, what Alaska may stand to lose if TransCanada says no.

COMMISSIONER IRWIN said the biggest risk would be if Alaska bails on TransCanada, in which case it risks \$875 million. Furthermore, he said, the state would lose an open-access pipeline and basin, which he said would be a tremendous loss.

REPRESENTATIVE ROSES noted that Commissioner Irwin had said he is "relatively comfortable that they are going to come to an open season and that they will make a commitment." Regarding

that commitment, he recollected discussions related to AOGCC - that "what they recommend be taken off" has a direct impact on whether or not the pipe will be built. The amount of bcf determines not only financial success and the viability of investment, but also has a direct impact on "whether or not they're going to be able to get the financing in order to be able to do the project." He said he heard Commissioner Irwin say this morning that he is not considering the undiscovered gas that will be brought on through new exploration. He asked, "How is TransCanada going to be able to take that unexplored, undeveloped, unfound gas when they go to try to get money to finance this pipeline? That's a speculative issue; that's not a firm commitment."

COMMISSIONER IRWIN responded that because of the potential in the basin, and in addition to the large known reserves, "their board has made the decision, based on significant spending, that it's worth the risk to be here." He continued:

I think it's important to note that we have asked for and have the money - through the governor's request through the legislature - that we will also be modeling Prudhoe Bay as we did Point Thompson. We need to know, and we're pursuing, those issues, but to the very best knowledge of our team - the experts - we feel ... TransCanada is voting - with their talent and with their money that they also could go elsewhere with - ... that it's worth being here and it's worth taking that risk.

REPRESENTATIVE ROSES said the legislature has heard repeatedly that what drives the economics is the commitment; therefore, if there is a lower commitment than anticipated, the only way to build capacity is through "the proposition of the undiscovered gas being put into that pipeline." He asked how much the economic specialists with whom the administration has held discussions are willing to finance based on speculation on what may be put in the line.

COMMISSIONER IRWIN replied that the determination was that "it can be financed."

COMMISSIONER GALVIN said this issue is one that has been discussed in relation to Point Thompson, as well as both the off-take and total reserve at Prudhoe Bay. A 4 bcf line, financed over 25 years, results in 40-50 tcf, "whether you're 4 or 4.5." He asked, "We only have 24 known in Prudhoe and 5 or 6

outside of that - outside of Point Thompson - where's the rest of the gas? Are these guys ... betting on the come?" He said the answer to that is yes - "if they want to assume maximum profit." He described a scenario in which no additional gas is found or nobody else finds additional gas that "they can sell their capacity to," and "they end up with unused capacity as the Prudhoe Bay production ends up going through its normal decline." He concluded, "They'll still make sufficient profits on this to justify making that investment, even if they do not find any additional gas." Commissioner Galvin said that was a significant finding.

REPRESENTATIVE ROSES said he is glad Commissioner Galvin brought up the Point Thompson issue, because he thinks it shows how "that point and that field plays into all of this."

COMMISSIONER IRWIN said the administration was very surprised to discover how economic the gas at Prudhoe Bay is, but he explained that it makes sense because so much of the development is there already. He said he suspects that when individual companies, such as TransCanada and others "look at that," they know "there's a real strong foundation to make those risk decisions."

[2:15:43 PM](#)

COMMISSIONER GALVIN, in response to Representative Roses' previous question regarding what the risk to the state would be if, during open season, TransCanada decides it will walk away, offered two answers. The first answer would be determined by answering what the obligations are that TransCanada's making in its application and what remedies are available to the state if that company should breach those obligations. If that should happen, he said, the state would get back not only all its money, but also all the work product the company provided, and it would be able to "pursue other remedies available at law for damages and breach of contract." Second, as Commissioner Irwin pointed out, TransCanada has significant commercial interest in participating in the project that would continue to "drive them to live up to their obligations."

COMMISSIONER GALVIN, regarding financial risk exposure, said if the state wanted to "jump off of the AGIA track ... and go in a different direction," it is important to recognize that treble damage exposure will grow only as the expenditures that are actually made to the project grow. He continued:

Given that it's tied to the TC Alaska expenditure separate from what the state reimburses them for, and after an open season, as it has been discussed, the expenditure profile changes to 90 percent state/10 percent TC Alaska. But that treble damages exposure goes down as well; they're expending much slower. ... At the end of the day ... [when] we get the first certificate and all the money's been expended by both the state and TC Alaska, ... the total exposure to the state, including the \$500 million, plus the treble damages, is ... \$875 [million]. But ... when we get to an open season, at that particular point in time the state will have expended our ... \$42 million, half of the \$84 [million] that's been projected, the costs to get to that point, and our treble damage exposure's been three times the 42. And so, our total exposure at that point is \$166 million across the board. That's everything. That's our investment; that's our contribution and our treble damage amount. So, I think it's important for the folks at home and legislators here to understand that we don't immediately get on the hook for our \$500 million, plus some calculation of three times the same amount.

[2:18:57 PM](#)

REPRESENTATIVE ROSES offered his understanding that in the event that TransCanada withdrew, the state would be reimbursed by the company only if a mediator determined that the project was economic and thus the company should not have been allowed to back out of the contract.

COMMISSIONER GALVIN confirmed that is correct. He said a year ago there was much debate to determine when a project would be deemed uneconomic. Various factors go into the determination. He stated, "The world would have to change dramatically in order for them to conclude that this project is uneconomic." He clarified that if, during the open season, TransCanada were to conclude that the project was uneconomic, then the State of Alaska would have to seriously consider the project as worth pursuing.

REPRESENTATIVE ROSES stated:

The amount of commitment you get for the gas is going to determine whether or not they get the financing; whether or not they get the financing and how much

risk is involved determines the interest rate that they're going to have to pay on that money. So, even though you say that you're going to have people out there that are willing to finance on the speculation, the more speculative it is, the higher the interest; the higher the interest, the higher the cost; the higher the cost, the less economic it becomes. So, this is all tied together. So, when people in the audience hear us talking about whether or not ... companies will commit, how much gas is available from the North Slope - with or without Point Thompson, how much we're going to have to depend on that speculation drilling to be able to fill that pipe, it's all tied to the economics which drive whether or not this is going to be a pipeline that will succeed or a pipeline that will fail. All of those dynamics play together; even though they appear to be separate issues, they aren't.

COMMISSIONER IRWIN said Representative Roses is absolutely correct. He continued:

I took the top number that were at risk. Pat mentioned 166. This depends on spending rate, obviously. We hope it goes faster, ... but on what we anticipate, that 166 goes to 2007. The next year, 376. I should round these off in big quantities: 550, 725, and the 873.60 I round off to 875. So, that gives you an idea as you're asking the progression on it.

COMMISSIONER GALVIN clarified that the information Commissioner Irwin was citing was from slide 38 of the commissioners' findings packet distributed a couple days ago.

[2:22:54 PM](#)

REPRESENTATIVE GARA expressed concern that in waiting until the end of the 60 days of the combined special sessions, the legislature may delay the start of a gasline. He asked the commissioners by which date the legislature would need to vote in order not to miss another field season.

COMMISSIONER GALVIN noted that two days ago, Tony Palmer had "put the schedule that's in his application out 10 months," because of the trade-off of the lost summer schedule from April to August. He relayed that yesterday morning Mr. Palmer said

that if the decision was made in July, that would save time. He said Mr. Palmer's knowing now that a decision will be made in July is much more valuable than knowing on July 1 that a decision is going to be made that day.

COMMISSIONER IRWIN added, "We will also take that opportunity to work with TransCanada and reaffirm with Mr. Palmer so he can also speak for his company."

REPRESENTATIVE GARA requested a follow-up in writing from the commissioners showing the following: when a vote would save time, how much time might be saved, and "when knowing when that vote's going to be would also help." He said then the legislature can make a decision, and he would be encouraging that decision to happen sooner than later.

[2:26:19 PM](#)

CHAIR HUGGINS asked the commissioners for the original objective the administration had in bringing its proposal to the legislature, and when that actually happened. He explained that he would like to "see what's happened to the timeline."

COMMISSIONER IRWIN said he believes the date was in April. He continued:

Understand when we had the issue of determining the LNG contract was not complete, we understood we would be delaying the project or the timelines, but we just determined it was absolutely critical before we could come to the legislature and to Alaskans and say we made a determination without evaluating the LNG options. We felt it was appropriate to do that, and it also required time.

[2:27:24 PM](#)

SENATOR GREEN stated that she does want anyone to think the legislature would in any way delay hearings. She suggested that if anyone is to be blamed, it could be the process and extensions on various dates. She opined that the legislature has been forthright in the amount of time taken for its hearings. She indicated that information requested by the legislature was never received. She stated, "So, I don't think we're at a point where we need to expedite our hearings in light of the schedule we've been placed on." She said she thinks the legislature's reason for having these hearings is not only to

get the legislators up to speed on this issue, but also to ensure that the public has access to all the information available, as well as the opportunity to testify and ask questions.

[2:28:30 PM](#)

SENATOR FRENCH, regarding gas ownership, said he knows a lot of Alaskans believe that choosing TransCanada as a pipeline builder is a bad idea, because the company does not own any gas. He said he would like to know how many miles of existing pipelines were built by resource owners versus pipeline companies, and whether higher gas prices shift the balance and make pipeline construction and ownership more attractive to a resource owner, or whether the regulated rates of return always serve as a disincentive to a production and exploration company when it comes to building pipelines.

SENATOR FRENCH stated that the North Slope is a separate and isolated basin. He asked:

How will the fact that there will ultimately probably only be one tube of steel - one gas pipeline - coming out of that basin to bring that gas to market ... lead to anti-trust problems should the producers elect to build the pipeline ..., particularly given that they've chosen to operate outside the framework of AGIA?

SENATOR FRENCH said he would like the answer to that question made available to everybody present.

COMMISSIONER GALVIN said Senator French's first set of questions would be answered by "the folks who are actually in the pipeline business," while his anti-trust questions would be answered by the administration's legal counsel.

[2:30:50 PM](#)

SENATOR WIELECHOWSKI, regarding availability of gas and gas off-take, asked the commissioners if they put any weight in the fact that the producers put in a bid under the Stranded Gas Act and are now preparing their Denali project, which is similar to the bill before the joint committees. He asked if that gives the administration any sort of confidence that there is enough gas and gas off-take available.

COMMISSIONER IRWIN said it gives him a lot of confidence. He said he takes comfort in seeing a company like TransCanada looking at this proposal and being willing to take such risks itself after have its board discuss the issues at great length. Furthermore experts involved with the United States Geological Survey (USGS), from the Division of Geological & Geophysical Services (DGGS), and some company representatives are saying huge gas amounts are available.

[2:32:28 PM](#)

CHAIR HUGGINS stated that in the request for application (RFA) is a sentence that read: "The provisions of the license may not be explained, supplemented, or qualified through parallel evidence."

CHAIR HUGGINS said that after a break he would like Commissioner Galvin to explain what that sentence means and what effect it has on what the legislature is doing here today.

The committee took an at-ease from [2:33:04 PM](#) to [2:52:47 PM](#).

CHAIR HUGGINS noted that Commissioner Galvin had asked during the break to defer answering Chair Huggins' question.

CHAIR HUGGINS announced that the joint committee would hear next from Commissioner Clark Bishop.

[2:53:19 PM](#)

CLARK "CLICK" BISHOP, Commissioner, Department of Labor & Workforce Development, offered an introduction preceding a PowerPoint presentation regarding jobs and training related to the TransCanada project. He spoke of his experience in his field. He noted that when AGIA was passed, AS 43.90.470 mandated that a workforce must be trained. He stated that he brought together industry, labor, education, state government, and federal government to pull a training plan together that was presented to the legislature in February. That is phase one. Phase two, he explained, is the project implementation by schedule/time and by strategy. Phase three, yet to be completed, will be training capacity throughout the state. Phase three, he indicated, will help identify training centers and define "what their exact training capacity is for a very specific area of expertise."

COMMISSIONER BISHOP announced that another thing that is being done inside the AGIA training plan is the integration of training programs. He said he is accomplishing this task by bringing training providers together in the state that have never communicated with each other. He said it will take everybody pulling together in a unified front to accomplish the mission of having the best educated, best trained workforce in the state. He concluded, "I can't do it alone; I need your help; I need everybody's help to pull this assignment off."

2:57:02 PM

GUY BELL, Assistant Commissioner, Director, Central Office, Division of Administrative Services, Department of Labor & Workforce Development (DLWD), gave the first part of a PowerPoint presentation regarding jobs and training related to the proposed TransCanada project.. He stated that the workforce goal for AGIA is: "a trained and available workforce for gas pipeline-related occupations." He relayed that with the help of the steering committee and the research and analysis section, the department identified 113 occupations that are the focus for the gas pipeline training plan.

MR. BELL described the workforce development process, as shown on slide 4 of the PowerPoint presentation. He said the first step is to identify "skills gaps," which are occupations for which there are no Alaska workers available. He said Brynn Keith would expound on that issue. He said the department makes efforts to minimize those gaps by various means, including: awareness; effective labor exchange, including web-based services and the job center network; and making training services accessible and affordable.

MR. BELL directed attention to slide 5, "Training System at a Glance," which he described as a collaborative, dynamic system." He said that as Commissioner Bishop noted, it takes a number of partners to develop a workforce, starting with partners involved in the secondary education system and proceeding into the postsecondary education system, and including those in employment services. Often, he said, workers find it necessary to return to postsecondary training in order to enhance their skills while they are working.

MR. BELL turned to slide 6, which address "Challenges." Economic cycles are one challenge. While Alaska has had 20 years of consecutive and steady employment growth, he said, there has been significant fluctuation within industries during

that period. Another challenge is the ebb and flow of workers. Mr. Bell reported that 70,000 people move in and out of Alaska each year. 113,000 Alaskans are Baby Boomers, ages 51-65, and will begin leaving the workforce, while 11,000 Alaskans turn 18 each year - an indicator of the number of people entering the workforce. A third challenge is basic awareness, the understanding of the jobs available, not just professional but significant opportunities in blue collar jobs, as well. A fourth challenge is the cost and accessibility of training. The last challenge relates to job barriers. For example, employees need to be drug-free, often a driver's license is required, basic skills are necessary to be employable, and certification needs to be meaningful and transferrable.

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MR. BELL noted that Commissioner Bishop had mentioned the AGIA training plan, which was derived with the assistance of a high-level steering committee; phases one and two of which have effectively been completed. He referred to information on slides 7-11 of the PowerPoint, which addresses and describes the "Four AGIA Strategies." The first strategy, he noted, is to increase awareness of and access to careers in natural resource development. The second strategy, he said, is to improve the career and technical education system. Regarding the second strategy, Mr. Bell said the state needs to do the following: ensure that by the time Alaska's students graduate from high school, they are "work ready," with a career plan, and basic employability skills, as well as applied skills in math, reading, and locating information; improve vocational technical education opportunities, to add basic skill development; and to work towards "comprehensive and consistent industry skill standards to guide training entities, so that students have the skills to enter employment once they exit training." He noted that there is a program that is funded this year and next, which offers basic skills training in the construction industry to in-school and out-of-school youth and adults.

MR. BELL said the third strategy is to increase registered apprenticeships and on-the-job training opportunities. Registered apprenticeship offers a program of work and training, which leads to a skilled and high-paying career. The [department] is working with employers and - through the educational process - workers around the state to meet the goal of the third strategy. He said, "We do offer financial support for training, as well as partial payment of wages, subject to agreement by employers, to train and retain workers." The

department measures the outcomes. Those measurements include the number of people who successfully complete training and pre- and post-training wages. The fourth strategy, Mr. Bell said, is "to increase training for operations, technical, and management workers." He shared that another success story was the almost doubling in size of the engineering program at the University of Alaska, thanks to funding from the legislature. Mr. Bell said other goals toward meeting strategy number four are to do a better job of recruiting Alaskans to high skill training opportunities and to focus on the state's incumbent workers to ensure they have the opportunity to access training for advancement opportunities, as well as to keep pace with technological change.

[3:03:35 PM](#)

BRYNN KEITH, Research Chief, Research & Analysis, Central Office, Division of Administrative Services, Department of Labor & Workforce Development (DLWD), gave the second part of a PowerPoint presentation regarding jobs and training related to the proposed TransCanada project. She stated that the department's charge, as it relates to the AGIA project, is to quantify employment needs. She addressed the issue of focus, as shown beginning on slide 12 of the PowerPoint presentation. She said because it is too early in the process for Research & Analysis to develop solid employment estimates for the gasline project, the department has focused its research efforts on identifying preliminary measures of current and possible skills gaps, as they relate to both the gas line and the economy.

MS. KEITH said that, as shown on slide 13, the department, working with industry partners, identified 113 AGIA occupations, which ranged from those working in the camps, on logistics, safety, or craft, and those operating equipment. The department used a great deal of existing data received from employers around the state, based on unemployment insurance, quarterly reports, and annual employer surveys. Furthermore, it considered data derived from the permanent fund dividend (PFD) to the potential skill sets of individuals in the labor market. As shown on slide 14, Ms. Keith said to determine the current gap, the department looked at the number of nonresidents in Alaska's labor market. She said there are a lot of reasons an employer would hire a non-Alaskan, but one of the primary ones is the lack of a locally available skilled workforce. She noted that in 2006, over 16 percent of workers were nonresidents of the state, which represents a significant opportunity loss for Alaskans. The future gap, she said, is much more difficult to

quantify. She said one factor that can be considered is the age of the incumbent workforce, on the assumption that as workers age they will need to be replaced. Again, looking at the figures from 2006, she noted, more than 37 percent of individuals working in AGIA occupations were 45 years old or older.

[3:06:48 PM](#)

REPRESENTATIVE GRUENBERG asked what percentage of the 37 percent is included within the 16 percent. He clarified that he wants to know whether a majority of the older people are Alaskans or nonresidents.

MS. KEITH said she does not have that statistic at hand. Notwithstanding that, she said younger workers tend to move; therefore, generally speaking, a higher percentage of the nonresidents would be in the younger age groups. In response to a request from Representative Gruenberg, she agreed to provide that information in writing to the members.

MS. KEITH turned to slide 15, which lists seven of the core occupations involved in the gasline project, and "arrayed the data that we've been discussing for the last couple of slides." She said she used the PFD definition to determine whether or not an individual is a resident, which is a restrictive definition of residency. The column referring to worker age is taken from 2006, as previously noted. The hourly wage data shown on slide 15 was gleaned from surveys produced with Alaska employers annually. The occupations listed range from relatively highly skilled, to very skilled, to high wage. She noted that the reason there is no wage listed for surveyors in 2007 is because the survey response was not adequate; however, she noted that the 2006 wage was approximately \$28.00 per hour. In terms of nonresident workers, Ms. Keith said an interesting point is that Alaska has always borrowed or stolen workers from the Lower 48 when needed, whether it is due to the seasonality of its labor market or employment growth needs. However, the aging of the state's workforce is not a problem unique to Alaska, but rather is a national and global occurrence. She said that depending on what goes on in the economic scene, globally and nationally, Alaska may find it much more difficult to meet the state's labor needs by recruiting workers from out of the state or country. She said that indicates a need for Alaska "to grow our own." Assuring that Alaskans have the skills needed for the occupations not only helps residents find good career options

and make a living wage, but ensures, to some degree, that the needs of Alaska's employers are being met.

CHAIR HUGGINS said there are multiple engineers concerned that the state currently has an initiative to modify the licensing of Canadian engineers to operate in Alaska, but without reciprocity. He asked what the status is of that initiative.

MS. KEITH said she does not know the status of that initiative. She said she could try to get the information, but explained that that is something her office does not follow.

[3:10:33 PM](#)

CONRAD MULLIGAN, Consultant, ARCADIS, presented a PowerPoint on modeling of short- and long-term employment generated by construction and operation of an Alaska Natural Gas Pipeline Project. He relayed that ARCADIS was asked to complete a modeling exercise to determine short- and long-term employment impacts of the construction and operation of a natural gas pipeline project in Alaska. He pointed out that any time he references the pipeline, he will be referring to the 48-inch pipe or larger pipe and not a bullet line within the state. He offered that the figures are those generated by ARCADIS and not DLWD. He opined that this early in the process it is difficult to generate employment figures for a project of this size that will not start for several years. Thus, he stated that the figures he is providing are estimates and not "by any stretch of the imagination, an exact number."

MR. MULLIGAN, in response to a question by Chair Huggins, explained that ARCADIS is neither an acronym nor an abbreviation. He offered his belief that ARCADIS is derived from the Greek name, "Arcadia," which is a place in Greek mythology in which earth and water were in harmony and balance. He stated that ARCADIS is an engineering consulting firm.

MR. MULLIGAN referred to slide 2 and stated that ARCADIS projected employment for the following three phases: the construction phase of the pipeline, including the installation of compressor stations, the gas treatment plant, and LNG facility; the operation phase; and the exploration and development phase, to include work on the North Slope that would be spurred by the operation of a natural gas pipeline. He referred to slide 3, labeled "Sources of Data/Model Used," and reviewed the sources of its data. He stated that ARCADIS used information from TransCanada's AGIA application, from the

state's consultants, and from the state Division of Oil and Gas. He noted that the model used is called "Implan" and was originally developed by the U.S. Forest Service, which has since been privatized.

[3:14:34 PM](#)

MR. MULLIGAN stated that "Implan" is a cost-driven model that uses Alaska-specific labor factors. Thus, it did not rely on information from the Lower 48 to assist in generating its figures.

MR. MULLIGAN referred to slide 4, labeled "Construction Phase Assumptions," and reviewed his assumptions. He stated his assumption that the gas treatment plants in Prudhoe Bay and any LNG facility would be constructed outside the state and sea-lifted in, and that major equipment and materials would be purchased outside the state, primarily to eliminate any chances for "shadow" or "false returns" on large expenditures for items such as turbines and the pipe itself. He highlighted that the labor force for construction of an LNG facility in Valdez would be constrained by the size of the camp that could be installed in Valdez, since the area is a geographically limited area. He referred to slide 5, labeled, "Construction Phase Employment Results," and stated that any natural gas pipeline project will create thousands of short-term jobs throughout the state. He offered that the largest numbers of these construction jobs would be available during a very brief peak period. He suggested that for an overland pipeline, the peak would be approximately three years long. He opined that the state could expect three to four years of "employment in the hundreds range," followed by a couple years of employment "in the low thousands," followed by a massive spike in employment reaching a peak, after which the numbers would drop off suddenly. He relayed that the state might expect a peak of 16,000 jobs in the year in which construction of the LNG project took place, which would consist of a 48-inch pipeline from Prudhoe Bay to Valdez and construction of an LNG facility to handle 4.5 bcf per day. He pointed out that the LNG would have a longer peak construction period due to the sequential installation of the processing trains that go into an LNG facility. He explained that for an overland pipeline, as proposed by TransCanada or the producers, there would be slightly fewer jobs - approximately 15,000 jobs in the peak year - with approximately a 3-year peak period.

MR. MULLIGAN referred to slide 5, labeled "Operations Phase Employment Results," and estimated that the state could expect 200 operations jobs on an overland pipeline to run the pipeline itself within Alaska and operate the gas treatment plant in Prudhoe Bay. He opined that the LNG facility would be a large, world class facility and ARCADIS estimates that approximately 400 jobs would be created for a facility of its size. He noted that an LNG option would offer approximately 600 operations jobs in Alaska.

[3:17:59 PM](#)

SENATOR WIELECHOWSKI inquired as to whether Mr. Mulligan could provide a breakdown of the jobs in Canada versus the jobs in Alaska for each one of his projections.

CONRAD MULLIGAN answered that all of the jobs he is referring to are jobs in Alaska and that ARCADIS did not project any jobs in Canada.

[3:18:19 PM](#)

CHAIR HUGGINS inquired as to whether including LNG would create five times as many jobs in Alaska.

MR. MULLIGAN answered that from an operations standpoint, approximately 600 jobs would be created in Alaska versus 200 new jobs for an overland pipeline. In response to a further question by Chair Huggins, Mr. Mulligan clarified that the estimated 400 jobs at the LNG facility are included in the overall 600 jobs figure.

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MR. MULLIGAN, referred to slide 6, labeled "E&D Employment - How we generated our results - Scenarios," and stated "that the modeling really shows the crown jewel exists." He stated that ARCADIS developed two scenarios. One scenario was based on a non-open access pipeline, which assumed no capacity expansions from the initial 4.5 bcf per day capacity. That scenario also assumed no new natural gas production for associated exploration and development work on the North Slope until currently producing fields began to fall off their plateau. The second scenario was based on TransCanada's plan which includes capacity expansions and also assumes that the pipeline would offer reasonable tariffs. He opined that ARCADIS deduced that this project would incite explorers to work on the North Slope in

search of new natural gas to ship on the pipeline. Referring to the graphs, he stated that the green area in the graph on the left shows production from current fields at 4.5 Bcf per day, while the blue area shows the gas under each scenario. Thus, under a non-open access pipeline, new natural gas would begin production in approximately 2031, while under an open access pipeline - which assumes reasonable tariffs and a vibrant natural gas exploration and development industry beginning in the North Slope - exploration and development jobs could be generated to produce the larger blue shaded area [illustrating some jobs beginning in 2020, with the bulk of the new jobs commencing in 2037].

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CHAIR HUGGINS asked for clarification of non-open access. He offered his understanding that under FERC, the gas pipeline would be open-access.

MR. MULLIGAN, using an LNG project as an example, offered his understanding that FERC would not require the liquefaction facility at the end of pipe to be operated in an open-access manner; therefore, "it would serve as a bottleneck to the pipeline capacity." He said, "And so, we assumed no ... capacity expansions on the pipeline upstream of the LNG facility in that case." In response to a follow-up question from Chair Huggins, he said non-open access would apply to "any pipeline that was not operating capacity expansions as amended by new explorers and/or that did not offer tariffs that were sufficiently low to encourage folks to ... explore for new natural gas and request expansions."

CHAIR HUGGINS advised that during the first day that the legislature will meet in Anchorage, Alaska, further discussions would delineate this and bring greater definition to these two courses of action.

[3:22:27 PM](#)

REPRESENTATIVE NEUMAN noted that some people might be confused as to whether this refers to TransCanada's proposal or the Denali proposal. He pointed out that each one is an open-access pipeline and would have negotiated terms. Thus, in reviewing the scenario of transporting natural gas from Alaska, he said he felt it was important to note that both the TransCanada and Denali proposals are for open-access pipelines.

MR. MULLIGAN explained that ARCADIS is trying to convey, from an employment point of view, a best-case/worst-case scenario and a best-case scenario.

[3:23:29 PM](#)

REPRESENTATIVE NEUMAN related his understanding that Mr. Mulligan's presentation is based on the assumption that value-added processing plants would not be created in Alaska. He pointed out that value-added processing plants would create many long-term jobs. He inquired as to whether Mr. Mulligan could also include some information based on [value-added processing plants]. He further inquired as to Mr. Mulligan's perspective if an in-state gas pipeline was developed to provide cheaper gas to Alaskans.

MR. MULLIGAN answered that ARCADIS did not consider any employment impacts from industries that may be developed as a result of the development of a natural gas pipeline.

REPRESENTATIVE NEUMAN inquired as to what effect an instate gasline would have on employment.

MR. MULLIGAN answered that he would hesitate to answer the employment effects of an in-state gas pipeline since he did not examine that aspect. He offered to examine exploration and development jobs on the North Slope for members.

[3:25:19 PM](#)

CHAIR HUGGINS related his understanding than any gas-to-liquids, value-added jobs would potentially happen in Alberta. He opined that "we owe it to Alaskans" to find out how having that sort of facility in Alaska might affect its job base. He asked Mr. Mulligan to look at that so the legislature would understand the numbers for the labor force.

COMMISSIONER BISHOP said he believed that his department could provide that information before the body reconvenes.

[3:26:15 PM](#)

MR. MULLIGAN referred to slide 6 labeled, "Operations Phase Employment Results," and noted that ARCADIS assumed that new production facilities would be constructed on the North Slope. He reiterated that fields would be brought on line to keep the pipeline full at a given capacity, which for the best case

scenario assumed 5.9 bcf per day and for the worst case scenario used 4.5 bcf per day.

MR. MULLIGAN referred to slide 7, labeled "Results: E&D Employment," and explained that the results from the modeling runs were - for the TransCanada scenario assuming a 5.9 bcf per day throughput - approximately 72,000 exploration and development jobs during the 2015 to 2045 timeframe. He offered that a non-open access project with a 4.5 bcf per day throughput would produce approximately 47,000 exploration and development jobs over the 2015 to 2045 timeframe. He opined that job creation may be delayed in a non-open access pipeline due to the characteristics of natural gas production and fields coming off plateau that could extend as late as 2026 versus a more optimistic timeframe of 2015 as exploration development begins in anticipation of that pipeline being available to carry the natural gas to market.

[3:28:16 PM](#)

CHAIR HUGGINS asked for the rationale for the 2026 date.

MR. MULLIGAN answered that the date is a function of when natural gas fields on the North Slope would begin their gradual decline. The non-open access project scenario assumes that exploration and development work would not begin until the fields began to fall off of plateau. He referred to that point as a "capacity wedge" that would be available in the pipeline. Thus, that is how the timing of the exploration and development jobs was assessed.

[3:29:10 PM](#)

MR. MULLIGAN referred to his final slide labeled, "Results: E&D Employment," and opined that the timing of exploration and development job creation is likely to be a function of a pipeline's characteristics. Thus, an open access pipeline with reasonable tariffs and capacity expansions is likely to translate into jobs sooner, rather than a more restrictive scenario, which could cause a delay in job creation as noted in the previous slide. He stated that the importance of creating the new natural gas basin related jobs in Alaska is to help offset job losses likely to occur as existing oil fields decline. He pointed out that Prudhoe Bay production continues to decline. Additionally, he offered that creation of new jobs will also help to maintain the existing skill sets and talent pool in Alaska.

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REPRESENTATIVE FAIRCLOUGH inquired as to whether law enforcement will be geared up and ready to combat crime since it takes a long time to train Alaska State Troopers or train law enforcement personnel.

COMMISSIONER BISHOP answered that the department has identified occupations, including law enforcement, fire safety, and health as part of AGIA.

3:32:11 PM

REPRESENTATIVE FAIRCLOUGH noted that all types of crime spiked during construction of the Trans-Alaska Pipeline System. She inquired as to whether the planning process outlines educational opportunities to offset unemployment issues that arise at the end of the construction cycle.

COMMISSIONER BISHOP answered that some jobs will be transferable from construction to the exploration field. He noted that future training of incumbent workers is part of the plan.

REPRESENTATIVE FAIRCLOUGH pointed out that some of the infrastructure, such as the Haul Road, needs massive improvements. She further pointed out that Alaska's ports will need additional infrastructure.

CHAIR HUGGINS inquired as to the number of new jobs that are anticipated to be filled by non-Alaskans, which he opined will be necessary.

3:35:06 PM

SENATOR STEVENS expressed his concern that Alaska has had a pretty poor record with assisting students with financial needs. He acknowledged that the state has done a reasonable job assisting high achievers. However, he recalled that the National Conference of State Legislatures (NCSL) gave Alaska the grade of an "F" in terms of fiscal assistance for its students. He offered his desire to provide grants and scholarships to assist students and adults. He inquired as to what the department plans to do to help students financially.

COMMISSIONER BISHOP answered that his department will ask the legislature for financial assistance. He agreed with Senator

Stevens that students seeking an Associate Degree or Vocational Education have not received much assistance. He stated that providing that assistance is one of his priorities and plans will be forthcoming that will expand scholarships for post-secondary students in the state.

SENATOR STEVENS acknowledged that the present system does not work. He pointed out that if the state continues on this same path, the problem will not get solved. He opined that it will take an enormous amount of money.

COMMISSIONER BISHOP summarized that this legislature, administration, and training plan all are coming together at a point in time in Alaska in which the state has the ability to set an historical standard. He pointed out that this training plan is not just about a pipeline. He noted that the funding this legislature appropriated for the training plan is good for mining and health care. This funding has been well spent by the department, he opined. He thanked the legislature for its action. He offered that this plan is not unlike "the Marshall Plan," which provided good foreign policy in its day. He asserted, "I think this training plan can be ... the legacy of our work here going forward." He noted that much work is yet to be accomplished. He further opined that the one reason this country is the most successful country on the planet is that it provides the best educated and best trained workforce on the planet. He asserted that - with the legislature's help, with his help, and with his staff's help - "we're going to put Alaska back on that map." He further pledged that Alaska's 8,000 high school seniors and 1,500 general education development (GED) recipients will "get the first shot at these jobs."

[3:38:48 PM](#)

REPRESENTATIVE DOLL applauded Commissioner Bishop's efforts. She expressed concern with the timeframe and noted that it takes time to complete apprenticeship programs. She inquired as to whether the department can address that issue. She further inquired as to whether the workforce needs could be met even if the programs were fully functioning right now since the state might only be eight years out.

COMMISSIONER BISHOP acknowledged that the state is behind the curve. He related that the "baby boomers" represented a large labor force which has been diminishing. Furthermore, he urged that collectively Alaska needs to encourage employers to allow Alaskan children the opportunity to gain entry level jobs. He

stressed the need for Alaska to make every effort for its kids, incumbent workers, older workers, and all races of people to have a shot at the pipeline jobs. He agreed with Representative Fairclough, that Alaska must train its workers to be eligible for upstream jobs in exploration and development, petrochemical jobs, or distribution jobs in Fairbanks. He stated that it should be Alaska's job to train its workers so that they can acquire the long-term legacy jobs.

[3:41:15 PM](#)

SENATOR DYSON, with respect to reciprocity for engineering credentials, noted that [the United States/Canadian forum], Pacific NorthWest Economic Region (PNWER), has been performing some work on reciprocity. He opined that some progress has been made on engineering reciprocity and credentials. He indicated a degree of reciprocity exists for welder certification. To Commissioner Bishop he offered to provide contacts for people who have been working on this issue. He opined that organized labor will provide a huge asset to help facilitate that process. He noted that Alaska's Canadian neighbors have large construction projects in process and are very interested in working together on projects.

[3:42:42 PM](#)

CHAIR HUGGINS challenged Commissioner Bishop to assist the state in facilitating cross-border projects.

COMMISSIONER BISHOP noted his plans to meet with the Premier of the Yukon Territory to seek ways in which Alaskans can work in the Yukon Territory and vice versa.

[3:43:55 PM](#)

CHAIR HUGGINS inquired as to whether the Commissioner Bishop sees the potential for the Alaska to be able to get the U.S. Jobs Corps to modify its training approach if necessary to produce workers for a pipeline proposition.

COMMISSIONER BISHOP answered, "Yes, absolutely." He offered that he has personally been involved in the U.S. Jobs Corps for over 17 years. He said, "They are definitely on the radar screen for sources." He noted that he has already held discussions with the organization.

[3:45:03 PM](#)

CHAIR HUGGINS announced that the next presenters would be Spencer Hosie, Hosie McArthur LLP, who is online, and Allan Van Fleet, Greenberg Traurig LLP, for a panel discussion.

[3:45:47 PM](#)

G. ALLAN VAN FLEET, Attorney, Greenberg Traurig, LLP, presented legal issues affecting producer participation in the proposed TransCanada gasline project. He stated that the panel would focus on, "How do you get the gas?" Mr. Van Fleet proffered that asking how to get the gas is kind of like asking for the recipe for bear stew: For the stew, first get a bear; for the gas, first get a pipeline proposal that is attractive and can offer transportation services at commercially reasonable rates. He said although TransCanada was on the schedule to address the issue, Mr. Palmer has addressed all the questions about TransCanada's ability to build a pipeline that can offer transportation at commercially reasonable rates. He noted that along with Spencer Hosie, he would address legal issues that he is assured the producers will have in mind when making their decisions. He noted that he and Greg Hopper would provide information regarding producer and pipeline relationships and, in particular, would address some of the previous questions that Senator French asked the body. Mr. Hosie, he related, would discuss the issues that affect the relationship between the state as the owner of the land and the producers as the lessees of that land. He provided some background information on Mr. Hosie, such as that he has advised many state governments on the aforementioned relationship between the state and the producers. He said he believes it is fair to say that Mr. Hosie is the country's expert on these issues. He offered further details regarding Mr. Hosie.

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SPENCER HOSIE, Attorney, Hosie McArthur LLP, presented legal issues affecting producer participation. He stated that he has practiced oil and gas for over 25 years. He noted that he was the lead trial lawyer for the State of Alaska for what was then known as the Alaska North Slope (ANS) royalty litigation, which established the "right method" for computing royalties on North Slope oil. He offered that for the past 10 years he has been the lead outside lawyer for the State of Louisiana in energy matters, and that he has worked with state attorneys general and the federal government. He said that it is fair to say that he has been involved in dozens and dozens of oil and gas matters,

not just in Alaska, but throughout the Lower 48. He asserted that through those cases, he has had the opportunity to read millions of pages of oil company documents. He opined that this has given him a fairly detailed knowledge of how the oil industry thinks about upstream decisions, what factors matter, which ones don't, and why the producers are willing to spend money in certain locations. He stated, "It's that sort of gritty, real-world, in-the-trenches experience I bring to this very important question of the North Slope gasline."

MR. HOSIE asked to begin with the "duty to develop." He offered that 40 years ago, producers came to Alaska with the suggestion that oil might exist on the North Slope. He stated that the producers recognized that the landowners did not have the expertise for exploration and development, to market hydrocarbon. However, the oil companies had that expertise. Thus, the oil and gas producers reached an agreement captured in the oil and gas lease. The oil companies committed to the state to use their expertise to diligently explore, develop, and market any hydrocarbons found. As a consequence, he pointed out, the oil companies are entitled to 87.5 percent of the value of any oil and gas found and sold. The state's royalty share is 12.5 percent. He acknowledged that they got the "lion's share of the royalty stream" due to the very promises just outlined. Under the oil and gas leases for Alaska, which is true of oil and gas leases, generally, the parties have what the courts call "a relationship of mutual benefits." Once the oil companies entered into the lease, they were no longer free to make decisions based on their unilateral economic best interests. Instead, the law is clear that the companies have an obligation to make decisions, including investment decisions, based on the mutual interests of the oil companies and the state as landowner. Thus, in making decisions, the producers must demonstrate due regard for the interests of the state as the royalty owner. He offered that to conceptualize this is to appreciate that the oil companies don't have any obligation to treat the state better than they treat themselves, but they should never treat the state worse.

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MR. HOSIE pointed out that in many situations the economic interests of the oil companies and the state are aligned, such as that everyone benefits from higher oil prices. He stated that the one key area in which the economic interests of the oil companies tended to verge from those of the landowner is related to ongoing or future development and the obligation to spend

money. He opined that a landowner almost invariably wants the field developed in production immediately since the landowner benefits through royalty share of the hydrocarbon sale. Sometimes the oil companies may not want to develop a field immediately, due to a cash problem or the opportunity to put investment dollars in more lucrative projects elsewhere in the world. For example, if an oil company's return is 40 percent in Qatar and 20 percent in Alaska, it would rather make the investment in Qatar and, in doing so, act as a rational economic business. However, under existing oil leases the oil companies are not free to make decisions on their interest alone and must consider the state, their partner.

MR. HOSIE offered that the courts have addressed this inherent conflict through a court rule, which is straightforward, such that if a given project in a given field is economic, based on its own merits, the oil companies have an obligation to move forward. He asked, "Why is that?" He answered, "Because that's the deal they made to get the lease. When they came to Alaska 45 years ago, they promised to use their expertise and their money to develop the field." Thus, he explained, the courts review the question of whether additional development dollars had to be spent and weigh in that if it is economic and reasonably profitable, the oil companies have an obligation to move forward. He noted that given the producers' duty, the Alaska gasline or any Alaska project does not have to be the most profitable project available to the producers. The state is not in competition for the development dollars given the pre-existing lease obligation. He opined that if the state was attempting to initially attract the oil industry, it would be a different question. Under Alaska leases, the oil companies agree to take risks, which is why the companies are entitled to 87.5 percent [of the value of the oil and gas] without any guarantee of profitability.

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MR. HOSIE said:

And so, the extent that there's a notion that they're entitled to a reduced risk deal in Alaska - that is contrary to the obligations they undertook so many years ago. ... What's happened in Alaska? Well, many years ago the state went to the producers and said, "We'd like a gasline." And the producers said, "We'd like a gasline, too, but we've looked at it and we don't think it's economic without substantial

concessions - financial concessions from the state." Since they did not find it economic, absent substantial economic concessions, the oil industry effectively said, "We don't think it's economic." That led to the Stranded Gas Act, the protracted negotiations, [and] the contract that was not approved several years ago.

When that contract failed to come to fruition, the state was left with three alternatives, three options, none good. The first option is that they could have simply accepted the producers' insistence for concessions and "sweeten the pot," ... but the state was not willing to do that at the time. The second option is that they could have said, "Well, we will live with your decisions on timing, producers. You tell us when you're ready to build, and we'll wait patiently until you are ready to go forward, for whatever complex of your own reasons might project when it's time to 'pull the trigger'. And since the state wants a gasline, needs the jobs, wants the resource produced - turned into money - that wasn't a very palatable alternative either. The third option would have been to sue the producers to prove the gasline economic and try to compel them to build it. ... Of the three options that was, I think, far and away, the least appealing. You never want to compel someone to be a partner of yours, and a litigation to try to prove a gasline economic would have been extremely protracted, maybe as long as a decade, and it would have given the producers the very thing that some felt they wanted, which was delay. So the notion of suing them to try to make a gasline a reality really was a nonstarter from the get-go.

And so, this administration found a fourth way, and that's AGIA. Essentially they said, "Well, you know, if the producers don't find the line economic, if they don't want to build it, let's find somebody who might think about it differently, who might say, "You know what, we're willing to build that line." And they found that party, and of course it's TransCanada.

Now, the TransCanada bid is - in terms of the "duty to develop" analysis - really a game changer. It really changes everything, and here's why: It moved the entire argument with the producers about whether they

think the gasline is economic. It doesn't matter what their internal hurdle rates are. It doesn't matter, for instance, that Exxon - it was reported in the Wall Street Journal last Friday - has an upstream internal hurdle rate of more than 35 percent. All those questions are moot because there is a third party willing to spend the money and build the pipeline. And that changes everything.

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MR. HOSIE concluded that the "duty to develop" question boils down to whether, if TransCanada goes forward, it's producers can say they really don't want a third party to own or operate the pipeline, that they will not tender gas, thereby essentially stopping the project. In other words, Mr. Hosie said, the question is whether the producers have veto power over a third-power pipeline by refusing the tender their gas. He stated, "The answer is: under the duties they have under the leases - no, so long as they have the opportunity to tender to TransCanada on reasonably commercial terms." He said ExxonMobil Corporation has already recognized that it would tender the gas to TransCanada on reasonably commercial terms, and he said he thinks the company has stated as much because "that is its obligation under its leases." He stated that that is equally true for ConocoPhillips Alaska, Inc. and the other North Slope producers.

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SENATOR WAGONER offered that the legislature has heard a lot of talk about a gas treatment plant, who should pay for it, et cetera. He inquired as to whether it is customary industry practice for producers to deliver gas that is marketable gas and meets all pipeline gas quality specifications prior to delivering that gas to the transporting pipeline.

SPENCER HOSIE answered yes.

[4:01:21 PM](#)

SENATOR WIELECHOWSKI offered that the legislature has heard a lot of discussion about instate gas, that an instate bullet line would not provide low-cost gas. He stated that what has happened in Cook Inlet is that producers or gas developers set the gas rate - for example, at Henry Hub. He related his understanding from Regulatory Commission of Alaska (RCA)

hearings that the rate to produce the gas in Cook Inlet is about a dollar per million cubic feet (Mcf), but that the producers sell the gas at \$6.80 per Mcf, which is nearly a 700 percent profit. He inquired as to whether the state can compel producers to provide low-cost gas.

MR. HOSIE answered that the state can take its gas in-kind and then could sell it at whatever price it elects. He noted that it is interesting that Senator Wielechowski referenced Cook Inlet since the producers in the Cook Inlet have publically stated that they are not making enough money from the sales levels at Cook Inlet to warrant future exploration and development. He opined that it is hard to believe this is true, given the figures Senator Wielechowski pointed out, because these are older fields with the current sales realization. He opined that what has happened in Cook Inlet is essentially what has happened with the state in the Stranded Gas negotiations, which are negotiations that say, "We want you to make our economics better and, of course, conversely yours worse."

[4:03:29 PM](#)

REPRESENTATIVE GARA related his understanding that sophisticated companies - the major producers - are not going to tell the state that they are going to sell gas if they have an interest in building their own line or in blocking this gasline. He opined that it is in their corporate best interest not to advise the state affirmatively that it will sell its gas. He surmised that it could lead to litigation and at some point the producers might acquiesce and tell the state they will sell the gas. He further surmised that they would do so because they might not just lose the litigation, but may lose their leases worth possibly 20 billion dollars. He opined that they are "playing with fire by pushing this issue." Thus, he opined that if the state finds a pipeline project that it likes, it seems "smart to us not to flinch when the producers don't necessarily commit to publically selling their gas. It is our expectation that that's what they should be doing." He inquired as to whether that is a fair assessment and, if not, why it is not.

MR. HOSIE answered that Representative Gara makes an accurate statement. He stated that power means leverage and leverage means a better deal for the producers. He opined that one would not expect a party in a negotiation to inform another party of its future plans or true intent, if that knowledge would strengthen its opponent. He pointed out that this process is a negotiation and is all about money. He pointed out the

importance of the state's understanding the preexisting legal relationship and the producers' preexisting obligations. He stated, "No party writes on a clean slate here. They have obligations. The state has rights." He pointed out that one of the state's rights is to insist that a project that is economic on its own terms moves forward. He opined that if the producers, after years of effort, simply decline to do so, without the state substantially "sweetening the pot," the state has every right to find a third party to do the very thing the producers have refused to do. And that third party is AGIA, he opined, and it raises questions, he said, "about what the proper rate of return is and how much money is sufficient and how much money is too much."

REPRESENTATIVE GARA related his understanding that if we dump everything else and just go [the producer's] way, at that point [the producers] have an incredible amount of leverage over the state to try to obtain tax concessions.

MR. HOSIE agreed that Representative Gara's assessment is correct. He opined that once the state has left only one party standing, the party - in this case the producers - would have enormous negotiation leverage. He further opined that what happened to the state in the Stranded Gas negotiations would happen again, with ever escalating requests for concessions.

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SENATOR BUNDE inquired as to the projected length of time litigation would last if litigation were to occur as a result of the producers' refusal to commit gas to the line or to commit to what the state would define as "what's reasonably profitable." Furthermore, he asked if Mr. Hosie could offer examples of how long suits have lasted elsewhere under similar circumstances.

MR. HOSIE answered that the precedent the state should hope to avoid is the ANS royalty case he previously mentioned which spanned a decade of active litigation. The state had the obligation to essentially prove all the economic underpinnings of the producers' business, including what it cost to produce and ship oil. He recalled that it became an enormously complicated factual fight and "that's their sandbox." He opined that that case represents exactly the fight the state would be engaged in if it were to sue the producers to say the state believes the pipeline is economic and wants the producers to move forward. That option would be least appealing because,

after all, if the producers' goal is to delay, then the state's suing them would give them exactly what they want.

MR. HOSIE described AGIA as a "game changer," because if AGIA is willing to spend its money and build a pipeline, to back the project with its equity, the only question for the producer is, "Can I tender in on commercially reasonable terms?" Mr. Hosie said that is a far simpler question than asking whether building the pipeline in the first place is economic or asking about the cost of fuel or the "widget costs" or deciding how many laborers to utilize. He estimated that "that piece of litigation, should the state ever get there, would be much shorter" - perhaps two years rather than ten. That said, Mr. Hosie noted that the larger point is to try to avoid any litigation whatsoever and to try to get a pipeline built. "That," he opined, "is why this sort of public process ... is so tremendously beneficial, because it gives transparency to the process." He noted that Representative Gatto had asked the straightforward question: "Are the producers willing to ship over a third-party line?" He also noted that ExxonMobil Corporation was kind enough to answer, "Yes, we are." He added that the corporation said that because "that is their obligation." Once TransCanada is willing to bid, the question is whether gas can be shipped on reasonable terms, which Mr. Hosie opined is a much simpler and easier question to answer.

SENATOR BUNDE inquired as to whether another governmental agency, such as FERC would intervene in the event that there is not a commitment to ship [the gas] and the state doesn't want to sue.

[4:11:16 PM](#)

MR. HOSIE answered yes and offered that Mr. Van Fleet would address that question.

[4:11:22 PM](#)

SENATOR STEDMAN noted that it appears that BP and Conoco are moving forward with the Denali project - their version of a gasline. He related his understanding that the producers intend to spend up to \$600 million and pre-apply with FERC. He inquired, "So, how does ... this play when it appears that we actually have two of the producers that are moving forward to build a line, versus all three of them just flat not showing up to build the line under your 'duty to produce'?"

MR. HOSIE offered that it represents a "wonderful development" for the state. He echoed Commissioner Irwin's comment that "competition is a wonderful thing." He opined that if the producers are serious, commit to deadlines, and move forward, that is a "good thing," because competition between two pipeline entrants can only benefit the state. He opined that the overarching question is whether the Denali project is real or is an attempt to derail AGIA. He said he does not think that anyone knows the answer to that question, but that it is a relevant one.

SENATOR STEDMAN recalled that Mr. Hosie mentioned the process that did result in a gasline. He pointed out that the legislature did not act on the matter and it did not move forward. He inquired as to whether that would "strengthen or weaken the producer's hand" especially if the state claims the producers are refusing to build the line when the legislature was the entity that "refused to bless that past agreement."

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MR. HOSIE responded that he thinks it would neither strengthen nor weaken the producers' position, since AGIA moved the question, and since the state is not trying to force the producers to build the gasline. He opined that the state has simply accepted the producers' word that [building the pipeline] is not economic and TransCanada is willing build it. He noted that the state can sidestep all those questions about whether it can compel the producers to come forward since TransCanada is willing to do the very thing that the producers have refused to do.

SENATOR STEDMAN inquired as to whether this process of "duty to produce" has ever gone forward before.

MR. HOSIE answered that it has not occurred in Alaska but has happened in the Lower 48, and some cases go back 50 years that ask the question as to when an oil producer has an obligation to move forward. He acknowledged that sometimes it is a small matter such as drilling a couple of development wells. However, he noted that it sometimes has been a matter of installing a line to connect a stranded field to a preexisting pipeline. He pointed out that the legal answer is always the same, which is as long as the project is reasonably economic and measured objectively, the producers have an obligation to proceed. However, he cautioned that he was not aware of any case in which a royalty owner sued producers to try to compel them to spend

\$30 billion. He opined that would be "a recipe for disaster." He offered that the "beauty of AGIA" is that the state has found someone willing [to build the gasline].

CHAIR HUGGINS offered that Mr. Hosie will be available tomorrow to answer questions.

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SENATOR DYSON related that he appreciates that the anti-trust implications will be covered. He recalled his conversations with FERC commissioners, who reminded him that this project is different than any other FERC reviews because Congress has acted and declared that it is in the national interest and in essence "must be done." He offered that the legislators have often heard the threat of delaying lawsuits. He inquired as to whether any venue could compel the shipping of gas while legal questions are still being decided. He recalled that Mr. Hosie said that a refusal to ship would be a breach of contract and far less extended and convoluted than other lawsuits. He further inquired as to whether that might be within the purview of FERC.

MR. HOSIE suggested that Mr. Van Fleet would address that concern.

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MR. VAN FLEET, Shareholder, Greenburg Traurig, LLP, noted that several legislators, as well as Mr. Hosie, identified what are essentially the contract rights between a landowner and a producer who leases that land, although he noted that in this case, the landowner is the state, and the state has responsibilities to its citizens that make the issue much broader. He pointed out that the gasline creates a great deal of interest, including that of those in the Lower 48 who want gas to heat or cool their homes. He offered to speak about the broader public interest that is reflected in federal and state anti-trust laws and also federal legislation that addresses energy market manipulation.

MR. VAN FLEET shared his background practicing anti-trust law for 30 years. He stated that he has represented oil and gas companies and pipelines, and he has sued oil companies for withholding supply from the market. He noted he has defended [companies] and advised them on how to avoid anti-trust laws. He said, "Out of longevity, more than anything, I've been

honored by my peers in the American Bar Association." He announced that he will be chair of the ABA anti-trust section in 2010. He referred to a slide labeled, "Standard Oil Monopoly," and he noted that ironically, 2010 is the one hundredth anniversary of the breakup of Standard Oil.

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MR. VAN FLEET referred to a slide labeled, "Anti-trust Statutes." He explained that the anti-trust acts are the Sherman Act, Sections 1 and 2, which are enforced by the U.S. Attorney General acting through the Assistant Attorney General. The Federal Trade Commission Act (FTCA), Section 5, broadly prohibits all unfair means of competition. He offered that has been interpreted over many years to include violations of the anti-trust laws, and through that vehicle, the Federal Trade Commission (FTC), as well, has the authority to enforce the anti-trust laws of the United States. He pointed out that each state has its own anti-trust laws. The Alaska Restraint of Trade and Monopolies Act, contained in AS 45.50.562 - 596, is largely the same as Sections 1 and 2 of the Sherman Act, and is enforced by the state's attorney general. He further noted that the state's attorney general is empowered to act on behalf of the people of Alaska in bringing actions under federal anti-trust statutes. He said what that means is that Alaska's attorney general can act under state and federal anti-trust laws. Essentially, Section 1 and 2 of the Sherman Act, and AS 45, prohibit exclusionary conduct in order to maintain monopoly power and joint action by competitors to withhold supply from the market. He related as an example that at the turn of the century, Standard Oil controlled 90 percent of the petroleum in the United States. Standard Oil maintained its monopoly through severe exclusionary conduct, such as blowing up its competitors' pipelines.

MR. VAN FLEET referred to his next slide, which shows that in 1910, Standard Oil was broken up into the "Seven Sisters," and action affirmed by the U.S. Supreme Court. The Seven Sisters, as shown on the slide, include: Standard Oil of New Jersey (Esso), Royal Dutch Shell (Anglo-Dutch), Anglo-Persian Company (APOC), Standard Oil Company of New York (Socony), Standard Oil of California (Socal), Gulf Oil, and Texaco. He related that Exxon and Mobil Oil merged to become ExxonMobil Corporation, and Chevron now includes Gulf Oil and Texaco. He pointed out that the reason to break up the monopoly was to turn it into competing businesses. Thus, instead of jointly deciding how much production ought to be on the market to control prices,

companies compete with one another. He offered that with competition in place, if Esso kept its product off market, Mobil Oil could sell its product and make that money.

MR. VAN FLEET said:

If there is an attractive pipeline that is there and available on commercially reasonable terms to ship North Slope gas to the Lower 48 or to Alberta to be sold elsewhere, and the producers say "no," one might ask, "What's going on here?" And if they all do it together, one might ask, "What's going on here? Are they withholding this supply from the market because they're concerned about how that Alaska gas will affect the prices of natural gas and LNG in the Lower 48 and around the world where these three producers have significant ... gas and LNG holdings?" We do know this: they've looked at the question together.

MR. VAN FLEET referred to his next slide, which shows a printout of the web site for ICF International, Inc., a highly respected, large consulting firm. He noted that the web site highlights the firm's projects to attract business.

MR. VAN FLEET referred to his next slide, which shows fuel market studies, and he cited a sentence at the lower portion of the slide, which read as follows:

For producers on the Alaskan North Slope, ICF International evaluated the effect of Alaskan and MacKenzie Delta gas on U.S. and Canadian gas markets, prices, and pipeline flows.

MR. VAN FLEET said, "So, any of these anti-trust enforcers might want to be asking if all the producers together are declining to commit gas to a viable pipeline, what's going on here?"

MR. VAN FLEET moved on to a series of slides labeled, "Market Manipulation Statutes," and said that in addition to the anti-trust laws, Congress, in recently years has passed specific market manipulation statutes. He said FERC, specifically empowered by the Energy Policy Act of 2005, was given enhanced enforcement powers over natural gas and electricity markets to identify and punish any attempts to manipulate those markets. He noted two recent cases which are pending, on appeal. In one case, FERC imposed a \$200 million penalty, and it imposed a

nearly \$100 million penalty in another case, which is in addition to the requirement that the gas companies return the profits that were unjustly earned through market manipulation.

MR. VAN FLEET stated that the Energy Independence and Security act of 2007 prohibits any manipulative or deceptive device or contrivance in connection with the purchase or sale of crude oil, gasoline, or petroleum distillates. It authorizes the Federal Trade Commission (FTC) to investigate those instances and to prescribe regulations.

MR. VAN FLEET referred to his next slide labeled, "FTC Advance Notice of Proposed Regulation." He pointed out that even though this deals with the liquid side of the petroleum market, a recent advance notice of proposed regulations gives some insight into how the FTC looks at these issues and how it might look at the liquids market, or perhaps the gas market, as to what it considers might constitute manipulation. He offered that this notice identifies "potential practices" that might constitute market manipulation. The FTC wants comments on the circumstances, if any, "under which a firm's decision regarding supplying a market - whether to reduce, increase, or ... maintain unchanged the amount it supplies - should be considered manipulative or deceptive." He added, "So, in addition to being a potential anti-trust problem, they're considering that under their new powers to prohibit market manipulation."

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MR. VAN FLEET referred to his next slide labeled, "FTC Advance Notice of Proposed Regulation," and he explained that the FTC notes that regulated petroleum pipelines may not allow new shippers a share of a pipeline's capacity when historical shippers seek to transport more petroleum products than the pipeline is capable of transporting. Thus, the commission is currently seeking comments on whether pre-announcements that pipelines are approaching capacity constraints might be a conduit for market manipulations or deceit. He added, "And it's interesting the commentary that they add to this particular question."

MR. VAN FLEET referred to his next slide labeled, "FTC on BP in Alaska North Slope," and offered that the FTC discusses its investigation of BP's acquisition of ARCO. He recalled that the big three producers in the North Slope used to be ExxonMobil Corporation, BP and ARCO. He noted that BP acquired ARCO and the FTC, in order to approve that merger, required BP to divest

ARCO's North Slope holdings. The holdings were divested to Phillips, which is now Conoco Phillips. The FTC said, in its investigation, that "the commission had reason to believe that BP occasionally had exported ANS crude oil to the Far East in order to increase spot prices for ANS crude on the West Coast, and that BP benefitted from those higher spot prices because of its status as a merchant marketer." He opined that the kinds of things that are being discussed that the state fears might be happening are precisely the kinds of things the federal government, FERC, the FTC, and the U.S. Department of Justice's Antitrust Division are concerned about and review. He offered that these agencies would be the appropriate venues to raise questions about what may be happening.

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MR. VAN FLEET referred to his next slide labeled, "Competition Law 360," and stated that at about the same time of the Anchorage presentations, someone pointed out to him that the U.S. Commodity Futures Trading Commission (CFTC) had announced an investigation. He related that Conoco Phillips revealed it was subpoenaed. The CFTC is investigating possible fraud in the trading of crude oil futures. He acknowledged that doesn't mean the companies are guilty of any wrongdoing. However, he pointed out that the CFTC generally reviews particular trader transactions and investigates any company that it believes is fraudulently bidding up prices on contracts, which is deceptive trading.

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REPRESENTATIVE NEUMAN pointed out that some of the information provided, such as whether ANS crude oil is shipped to the Far East, seems to discredit some of the larger producers. He inquired as to whether Mr. Van Fleet could comment on the effect of lawsuits.

MR. VAN FLEET responded that his testimony is not meant to "bash producers." He related that he has worked with general counsel of major oil companies such as ExxonMobil Corporation and ConocoPhillips Alaska, Inc. He opined that the state does not want to rely on federal or state agencies to force [producers] into taking action on the pipeline. He surmised that the producers will be aware of the possibility of federal or state action if they do not have a rational economic explanation for their actions "except for keeping product off the market or delaying it as long as possible."

MR. VAN FLEET, in further response to Representative Neuman, answered that he is working for the attorney general.

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REPRESENTATIVE OLSON inquired as to whether he could name the two companies that are currently under appeal.

MR. VAN FLEET answered that the producers are not any of the ANS producers.

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CHAIR HUGGINS noted that that in the interest of time, he would bring up that question tomorrow for presenters to address.

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SENATOR BUNDE pointed out that [producers] booking reserves before the U.S. Securities Exchange Commission would be helpful for the producers' stock portfolios. He opined that booking the reserves would represent a de facto acknowledgment that the gas is marketable or profitable. He recalled that some attempt has been made to book reserves. He inquired whether producers could hint at reserves since actually booking the reserves would be illegal unless the producers could bring the gas to market.

MR. VAN FLEET responded that it not his area of expertise, but stated his understanding that the producers cannot book reserves in order to boost their balance sheets while simultaneously acknowledging that it is not economically feasible to get the reserves to market. He recalled Mr. Hosie's testimony such that the prospect of losing the reserves because they are not being developed would have a greater impact on the financial records of the producers. He spoke of an expectation for rationality, "not to lose both the Wall Street benefit as well as the physical gas."

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REPRESENTATIVE GRUENBERG inquired as to whether improvements are needed to update Alaska's statutes.

MR. VAN FLEET answered that he has reviewed the Alaska statutes. He stated that in recent years, Congress has increased penalties to a maximum of up to 10 years in prison and fines of up to \$100

million for violation of federal anti-trust statutes. He said Alaska's statutes provide for a misdemeanor and small fines for violation of anti-trust statutes. He opined that while the civil consequences and civil recovery for violation of Alaska's anti-trust statutes could be huge, the criminal penalties are weak.

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REPRESENTATIVE GRUENBERG related his understanding that a new series of federal laws have been adopted. He asked, "Does that preempt the field; should the state be looking at filling any gaps there?"

MR. VAN FLEET answered that the state could always look at "filling in the gaps." He stated that approximately 15 years ago, the U.S. Supreme Court held that the nationwide purview of federal anti-trust statutes does not preempt the states from enforcing their own laws. He said this occurred in the context of a merger that the federal anti-trust authorities had approved and were not going to challenge. However, he offered his belief that this did not prevent California from raising its own objections under its Cartwright Act, even though that would have had immense national implications. He related that the states are free to act under their own anti-trust laws, regardless of whether the feds act under theirs. Mr. Van Fleet noted that since the Reagan Administration, when there is a matter of national importance that is also particularly important to an individual state or group of states, very often the federal anti-trust authorities will work with the states' attorneys general, either one or several, through the National Associations of Attorneys General, which has a specific anti-trust committee. So, he said, the cooperation of federal and state governments is something that is well entrenched and a tradition in anti-trust enforcement.

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REPRESENTATIVE KERTTULA inquired as to whether Mr. Van Fleet's quote that the FTC believes that BP is occasionally exporting ANS to increase spot prices came from the FTC decision.

MR. VAN FLEET answered that he was not sure if that information was contained in the decision on the merger, whether that information is in the consent order in which BP agreed to divest the ANS holdings of ARCO. He recalled that the information is described in the live request for comments on their advanced

notice of proposed rule making. He offered that the FTC pointed out that that was the type of market manipulation that it saw during its investigation of the merger, and is something it wants to consider as "being within their enforcement powers under the new market manipulation statute." In response to Representative Kerttula, he noted that notices of advance proposed regulations can be found on the FTC web site.

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REPRESENTATIVE FAIRCLOUGH recalled that Mr. Hosie stated that Alaska could take its royalty in-kind in oil and then sell that oil or gas onto the market for any price it so desires. She inquired as to whether that's true since she further recalled that the state previously researched that matter during the closing of the Agrium plant and found that the state did not have that ability.

MR. VAN FLEET answered that he is not prepared to answer that question without first conducting significant research. He said:

Alaska, like other landowners in other states, has the option - and, as I recall, under the Stranded Gas Act was going to have the requirement - to take gas in-kind. Now, if the state has the option or the requirement to take gas in-kind and it can't sell it, well, that's not a very good deal and clearly there must be some opportunity to dispose of that. But as I say, that is not something I've researched and [I] would be misleading this body if I were to pretend expertise on that

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REPRESENTATIVE FAIRCLOUGH recalled that it was on record from Mr. Hosie that Alaska could sell the commodity for any price it wants. She offered her belief that in Alaska it would have to be at a competitive price to others in the market.

CHAIR HUGGINS interjected that he will follow up with the administration and Mr. Hosie.

MR. VAN FLEET elaborated that the anti-trust laws display basic faith in the market. He said that the anti-trust officials don't want to be in the business of setting prices. Thus, it is extremely rare that anti-trust laws will examine the prices at

which a particular company is selling its goods, its products, and its services, he stated. He pointed out that the anti-trust officials become involved only when a company has monopoly power or a dangerous probability of gaining monopoly power and sells its product below cost. He offered that when it is clear that the company's motive is to put someone out of business at that below-cost price, it is then that the anti-trust officials become involved in pricing.

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REPRESENTATIVE FAIRCLOUGH expressed her concern that if the state could offer its gas at below market value, that action might create anti-trust problems for the state. She stated on a separate matter that one of her constituents informed her that the Texas Railroad Commission based an allocation for access to a pipeline off proven reserves. She related her understanding that access to pipelines is based on contract versus common carriers. She inquired as to whether Mr. Van Fleet could speak to the issue of access to pipelines based on proven reserves.

MR. VAN FLEET responded that is not fundamentally an oil and gas lawyer and is not familiar with those commission regulations. He added, "It would be strictly intrastate pipelines, and I don't think we have many of those anymore." He said that regulation would be up to FERC.

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CHAIR HUGGINS inquired as to whether there were other questions and there were none.

MR. VAN FLEET concluded his presentation by offering that he is not here "to bash oil companies and gas producers." He noted that he has worked for them, has advised them, and has many personal friends in the industry. He said:

These are serious matters that come into play beyond the simple private relationship between the state as landowner and the producers as the contracting producer and are something that make this of interest beyond Juneau, beyond Alaska, and of interest to us in the Lower 48, as well, and I do thank you for your time and your attention.

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CHAIR HUGGINS announced that this concludes the presentations for the day. He noted that the meeting would resume at 10:00 a.m. tomorrow and that the committee would take up follow-up questions for Mr. Hosie, followed by regulatory and commercial issues, and LNG economics.

ADJOURNMENT

There being no further business before the committee, the Joint meeting of the House Rules Standing Committee and the Senate Special Committee on Energy was adjourned at 4:47 p.m.