

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

June 24, 2008
1:06 p.m.

MEMBERS PRESENT

HOUSE RULES

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 Kim Elton
Senator Lyda Green
Senator Joe Thomas
Senator Bill Wielechowski
Senator Fred Dyson
Senator Thomas Wagoner

MEMBERS ABSENT

HOUSE RULES

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

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Lyman Hoffman
Senator Lesil McGuire
Senator Donald Olson
Senator Gary Stevens

OTHER LEGISLATORS PRESENT

Senator Gene Therriault; Senator Joe Thomas; Representative Bob Buch; Representative Mike Chenault; Representative Sharon Cissna, Representative Nancy Dahlstrom; Representative Andrea Doll; Representative Mike Doogan; Representative Carl Gatto; Representative Wes Keller; Representative Mark Neuman; Representative Bill Stoltze.

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

SENATE BILL NO. 3001

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- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(H)	READ THE FIRST TIME - REFERRALS
06/03/08	(H)	RLS
06/03/08	(H)	WRITTEN FINDINGS & DETERMINATION
06/04/08	(H)	RLS AT 9:00 AM CAPITOL 120
06/04/08	(H)	Subcommittee Assigned
06/05/08	(H)	RLS AT 9:00 AM TERRY MILLER GYM
06/05/08	(H)	House Special Subcommittee on AGIA
06/06/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/06/08	(H)	House Special Subcommittee on AGIA
06/07/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/07/08	(H)	House Special Subcommittee on AGIA
06/08/08	(H)	RLS AT 1:00 PM TERRY MILLER GYM
06/08/08	(H)	House Special Subcommittee on AGIA
06/09/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/09/08	(H)	House Special Subcommittee on AGIA
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06/13/08	(H)	House Special Subcommittee on AGIA
06/14/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/14/08	(H)	House Special Subcommittee on AGIA
06/16/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/16/08	(H)	House Special Subcommittee on AGIA
06/17/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/17/08	(H)	House Special Subcommittee on AGIA
06/18/08	(H)	RLS AT 9:00 AM ANCHORAGE
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06/19/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/19/08	(H)	House Special Subcommittee on AGIA

06/20/08 (H) RLS AT 9:00 AM ANCHORAGE
06/20/08 (H) House Special Subcommittee on AGIA
06/24/08 (H) RLS AT 1:00 PM MAT-SU

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
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06/20/08 (S) ENR AT 9:00 AM ANCHORAGE
06/20/08 (S) 9am - 5pm - Testimony <Invitation
Only>
06/24/08 (S) ENR AT 1:00 PM MAT-SU

WITNESS REGISTER

Pat Galvin, Commissioner, Department of Revenue; Tony Palmer, Vice President, Alaska Business Development, TransCanada; April Moore, April Moore for State House; Donald Benson, Board Member, Alaska Natural Gas Development Authority, Palmer; Jean Woods; David Cheezem, Candidate for State House, Business Owner; Noel Woods; Bert Cottle, Mayor, City of Valdez; Chairman Alaska Gasline Port Authority; Jim Sykes, Alaska Public Interest Research Group; Nikki Campbell; James A. Harpsen; Annette Harpsen; Lucille Frey; Curt Maynard, Mayor, MatSu Borough; Tom Lakosh; Ralph Buzard, Houston; Mark Richards, M.R. Ducks Mining; Darrel Nelson, Chugiak; Bonnie Nelson, Chugiak; Andrei Buckareff; Gabrielle LoRusso, Palmer; Stew Graham, Palmer.

ACTION NARRATIVE

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

CHAIR SENATOR CHARLIE HUGGINS called the joint meeting of the House Rules Standing Committee and the Senate Special Committee on Energy to order at [1:06:40 PM](#).

[1:09:05 PM](#)

PAT GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, observed that the intent of AGIA was to engage the power of the free market to spur the project ahead. He observed that AGIA provides competition in the form of projects that would contend for state value. The state believes that the project is economical and the market would drive the project to completion.

[1:10:57 PM](#)

[NOTE: Audio missing from 1:11 PM to 1:16 PM; minutes taken from Gavel to Gavel]

COMMISSIONER GALVIN spoke to the TransCanada application and the conclusion that going forward with TransCanada maximizes the benefits for Alaskans. He explained that there is always a counterweight for comparison. Jobs, affordable in-state gas, and revenue must be considered in making the choice. He believed TransCanada's application maximizes the state's resources and merits issuance of an AGIA license.

COMMISSIONER GALVIN thought that issuing the license to TransCanada would be more beneficial to Alaskans than pursuing an LNG (liquid natural gas) project or the producer's project.

[1:14:29 PM](#)

COMMISSIONER GALVIN stressed that the state's interest is primary. Getting a pipeline requires a feasible project plan, sponsored by a capable pipeline company. It is a long term project. He thought TransCanada was proposing an economic project that was likely to attract firm transportation commitments and secure finances.

[1:18:03 PM](#)

COMMISSIONER GALVIN spoke to jobs and affordable gas to Alaskans. He observed that any pipeline would result in a spike in employment associated with construction, but the real prize would be new jobs and long-term careers created by the exploration and development of new gas resources. The structure of the proposal of the gas pipeline will affect the amount of future exploration.

COMMISSIONER GALVIN said there was focus on two different time frames. The most cost effective transportation will be based on volume. The second issue is timing. Alaskans want gas as soon as possible. It is important to move the big pipeline forward in a way that allows Alaskans to pursue gas in a timely manner.

[1:20:16 PM](#)

SENATOR HUGGINS asked when Alaskans on the road network and the Railbelt could expect to have in-state gas.

COMMISSIONER GALVIN clarified that gas could be available in five to seven years. The economic issues could be addressed by through-put, increasing the amount of gas traveling through the pipeline in order to share the costs of that line, which would take time, or by having the state front the money to allow quicker distribution. The decision before the legislature is whether to advance the TransCanada application. Nothing in that license would hinder the state's pursuit of in-state gas.

[1:22:35 PM](#)

SENATOR HUGGINS referred to modifications requiring the volume of gas that could be transferred in the state.

COMMISSIONER GALVIN answered that the issuance of the

license would require the state to not support a competing gasline project during the TransCanada project. "Competing project" is defined in statute as a pipeline larger than 500 Mmcf/d. For comparison, he discussed the size of the market in the Southcentral region, which is currently 252 Mmcf/d. In addition, approximately 190 Mmcf/d was exported out of the Nikiski plant. The Agrium plant was consuming about 150 Mmcf/d. That is the total market in the Cook Inlet region. Cook Inlet is still a producing basin with a significant amount of gas potential. Therefore, the entire demand of the Cook Inlet area would have to be doubled to exceed the amount allowed. He concluded that the capacity is unlikely to exceed the demand.

[1:26:36 PM](#)

COMMISSIONER GALVIN looked at the TransCanada license in comparison to the Denali project and other options to the state. He stated that the Denali project has no commitment to move forward under any particular timeline and no commitment to structure tariff and expansion terms in a way that will protect the state's long-term interests. In addition, proponents of the Denali project require additional state concessions in regards to taxes and a fiscal framework. The extent of the additional requirements is unknown. It is not in the state's interest to close its options. He concluded that the TransCanada project is in the state's long-term interests, is economically viable, and is sponsored by a very attractive pipeline company.

[1:29:55 PM](#)

COMMISSIONER GALVIN discussed the TransCanada license related to LNG projects the state could pursue. He reviewed different LNG project designs and considered economics to the state and producers. He referred to barriers to an LNG project. He concluded that LNG projects are economic, but not as attractive as an overland project. He maintained that Alaska's long-term goal is to have both, but that it would be best to start with the overland project since it would help the LNG project succeed.

[1:33:26 PM](#)

COMMISSIONER GALVIN reiterated that the pipeline project proposed by TransCanada's application merits issuance of an AGIA license. Issuing the license to TransCanada maximizes benefits to Alaskans more than pursuing an LNG project or the producer's project.

[1:34:28 PM](#)

COMMISSIONER GALVIN introduced his PowerPoint presentation, "AGIA: Summary of Commissioners Findings and Determination"

(Copy on File). He asserted that getting a pipeline is a priority, but emphasized the need for a feasible project plan sponsored by a capable pipeline company and an economic project likely to attract firm transportation commitments and secure financing. In terms of jobs and long-term careers, the pipeline should maximize competitive exploration and development on the North Slope. This would require a true open access pipeline.

COMMISSIONER GALVIN defined open access pipeline. He explained that under AGIA the licensee is obligated to:

- Solicit for additional demand for gas to go into the pipe on a regular basis, at least every two years.
- If there is sufficient demand, they have to commit now that they will expand the pipeline when that gas is ready to get into the line.
- When they charge the rate to those who want to expand and get gas into the line, they will do so on the basis of rolled-in rates. This means they will spread the cost of expansion across all shippers, and not just across the newcomers.

[1:37:11 PM](#)

COMMISSIONER GALVIN pointed out that the opportunity for Alaskans to enjoy affordable gas comes down to access. Gas must be able to come off the line, with rates that are appropriate for the distance the gas travels. There must be true open access, because Alaska's ability to use gas will change over time. Expansion provisions are crucial. Any large project will take time to build; Alaskans may want to pursue a smaller, quicker line. AGIA provides for that.

COMMISSIONER GALVIN described Alaska as a resource development state; its primary source of revenue is from oil and gas development. The revenue derives from a high net-back value on oil and gas. Net-back is the market price less transportation cost. The state cannot control the market price, but it can control the transportation cost. AGIA is designed to provide the lowest transportation rate or tariff.

COMMISSIONER GALVIN stressed the enormity of Alaska's gas reserves. There is more than 30 trillion cubic feet of known gas reserves on the North Slope, plus 5 trillion in Point Thomson. There are a couple hundred trillion cubic feet of expected gas resources that would be economic to produce if there were a gas pipeline.

[1:41:39 PM](#)

REPRESENTATIVE FAIRCLOUGH questioned how distance sensitive

rates under FERC will affect tariffs in Canada.

TONY PALMER, VICE PRESIDENT, ALASKA BUSINESS DEVELOPMENT, TRANSCANADA, explained that there are two significant and separate components of the pipeline: the Alaska portion and Canada portion. Both will collect through their own tolls. In the Alaska component, there will be some gas that goes to the border or to Valdez, and some gas that will be consumed within Alaska. He maintained that the Canadian toll would not be affected by Alaska's distance sensitive tariff.

REPRESENTATIVE FAIRCLOUGH asked for information regarding the through-put and how it would affect the tariff.

MR. PALMER answered that until there was an open season where customers were solicited, it would not be known how much gas would use the Alberta destination on the way to the lower 48, how much would go to Valdez, and how much would be consumed in Alaska. As one possible scenario, in the event that 4 bcf/d goes to Alberta, and 2 to 4 Mmcf/d is consumed within Alaska, then the pipeline in Alaska would be constructed in order to transport 4.2 bcf/d down to the location where Alaskans wanted to take off their portion. The capacity beyond that point would have 4 bcf/d all the way to the destination. The amount of compression on the pipe would be adjusted accordingly. If additional volume were required in the future for Alaska or elsewhere, compression would be added to the pipe.

SENATOR HUGGINS added that the Canadian National Energy Board and other governmental agencies had been invited to testify, but they had declined to participate.

[1:46:48 PM](#)

COMMISSIONER GALVIN observed that under AGIA, the state looked at the TransCanada application using two primary sets of criteria: net present value (NPV) to the state, and likelihood of success. He summarized that NPV reduces payments to the value of current dollars in order to compare the value of different projects. The NPV to the state was looked at, and the NPV to the producers, which is a measure of the likelihood of success in terms of attracting gas commitments in order to finance a project. In addition, many factors that would affect the project were reviewed to measure likelihood of success, some specific to TransCanada and their parent company. Included were technical abilities, track record in completing large projects, financial stability, and potential hurdles such as permitting.

[1:51:25 PM](#)

REPRESENTATIVE NEUMAN referred to issues brought up by Econ One, particularly TransCanada's expectations of the state

persuading ANS producers to commit gas and dedicating state resources to the project. He stressed that a specific plan needs to be in place to address these issues.

COMMISSIONER GALVIN replied that the TransCanada expectations referenced are not obligations on the part of the state. TransCanada has requested these things from the state. The gas pipeline process is composed of a series of gates that the state must go through. More information will be available as the process progresses. The issues can be considered in the future, though the state can identify the decision junctures. For instance, on the issue of gas commitments: What if there is an unsuccessful open season? The state can anticipate such issues and expect the parties to think about them.

[1:56:48 PM](#)

SENATOR NEUMAN observed that it would be better to have specific ideas of how the state moves forward, perhaps in the form of a contract.

SENATOR HUGGINS explained that the contract would incorporate the legislation of AGIA, the request for proposal, and TransCanada's application. Some are concerned about voting without knowing if any of those components has precedence. He said there would be a round table with legal counsel to walk through those issues.

SENATOR STEDMAN asked for an explanation of the gates or decision junctures. He understood that AGIA does not require that the pipeline be built and then open to first gas; it consists of earlier gates to accomplish first gas, such as permitting.

COMMISSIONER GALVIN responded that AGIA focuses on an open season, which is an opportunity the pipeline provides to the market to make commitments to ship gas through the line. Financing would be based on those commitments. In addition, the permitting process under the federal regulating commission FERC is a drawn out process, aimed at getting the certificate. There is a similar agency and process on the Canadian side. These two permitting processes are the primary gates on which AGIA is premised. He concluded that the project needs to get going through those particular gates, in order for the market to pick the project up and ultimately get it in operation. Within those parameters, there are a number of junctures where decisions will need to be made.

[2:01:16 PM](#)

COMMISSIONER GALVIN continued that in the application, TransCanada says the state may want to consider other paths.

He spoke to problems that could occur if the open season is not successful. The federal government has stated that they are interested in the project; they have threatened that they could take the project over and build it themselves if it did not advance quickly enough. TransCanada said that perhaps the offer to the federal government should be that they don't have to build it themselves, but could allow the project to move past that hurdle. This has been called the bridge shipper proposal. The TransCanada application also mentions that the state may want to look at the possibility of allowing TransCanada to enter into commitments with others for the project to be feasible. Those kinds of ideas were solicited in the application.

[2:03:40 PM](#)

SENATOR HUGGINS spoke to the \$500 million and asked for more information.

COMMISSIONER GALVIN observed that the key to AGIA is the motivation to drive the project forward to an open season. The state will match up to \$500 million of the cost to do that. In return, the state receives a commitment for a viable project with true open access to go forward in a timely manner.

[2:05:29 PM](#)

SENATOR STEDMAN clarified that AGIA is tasked with getting the pipeline project through its initial gates, not completion.

COMMISSIONER GALVIN agreed.

SENATOR STEDMAN stressed the difference between what is available under FERC and what is added by AGIA. He thought it made sense to deal with federal requirements first as FERC is the ultimate decider on many of the issues, not the state.

COMMISSIONER GALVIN pointed out that AGIA would result in a proposal to FERC in the state's interests, which is of tremendous value to the state. He emphasized that open access is a key component. The state has tried to get as much out of FERC as possible in terms of pipeline expansion and rolled-in rates as the primary method of establishing the tariff. FERC regulations and AGIA are significantly different. The administration feels strongly that the commitments included in AGIA by TransCanada will give the state a greater likelihood of achieving an open access pipeline than FERC would provide through an adjudication process. The ultimate decision makers on the value will be the explorers, who need the confidence that they will receive a return on investment.

[2:12:14 PM](#)

REPRESENTATIVE SAMUELS questioned statements made by Commissioner Galvin. First, he maintained that FERC has already testified that the project would be open access. Second, he said that the project is ten times the size of any previous project taken on by TransCanada, so they have no track record on projects of this size. Lastly, he contested remarks by the Commissioner related to the bullet line needing AGIA to go forward.

[2:14:40 PM](#)

COMMISSIONER GALVIN responded that regarding open access, the explorer will ultimately have to make a decision whether to invest. The FERC process could discourage them. He believed that was the ultimate determinate of whether it was open access. The administration believes that what they get under AGIA is more valuable than what they could expect under FERC. Regarding the comment on "projects of this size," he said he was talking about track record on the technical aspects of building a pipeline and bringing it in on budget. In that regard, TransCanada's track record can be analyzed and projected. Finally, he agreed that the bullet line issue would not be improved or disadvantaged by a decision on AGIA.

[2:17:40 PM](#)

SENATOR GREEN asked for clarification regarding the \$500 million. She pointed out that the state would not be matching dollar for dollar but TransCanada would put in \$111 million to match the state's \$500 million.

[2:18:25 PM](#)

COMMISSIONER GALVIN concurred; it is dollar for dollar up to open season, and the state bears the larger share after that, up to 90 percent if the project is within the budget, and less than that if they go over budget. The cap is \$500 million.

SENATOR GREEN asked for clarification regarding the amount.

[2:19:12 PM](#)

SENATOR STEDMAN asked for elaboration regarding the players involved before FERC.

COMMISSIONER GALVIN replied that FERC makes a decision on the public interest and would define public broadly to include consumers in the Lower 48, producers if the subject is initial shippers, existing shippers and expansion

shippers if the subject is expansion, the pipeline, the state, and the federal government itself.

SENATOR STEDMAN asked if FERC had testified that they would weigh the state's concerns.

COMMISSIONER GALVIN thought that they had. He explained that under AGIA the state would gain an applicant who would forward the state's interest, as opposed to FERC injecting it into an applicant's proposal. That has value.

SENATOR STEDMAN reiterated that he wanted a balance. He stated that there would be a multitude of interests in front of FERC, each arguing their own case. The state may or may not prevail. FERC will make the call.

COMMISSIONER GALVIN pointed out that it was beneficial to have allies.

[2:22:57 PM](#)

SENATOR THERRIAULT addressed confusions surrounding the \$500 million figure. He asked if the lowering of the tariff resulted in a \$1.2 billion future revenue stream to the state that is discounted to get \$500 million back plus \$200 million.

COMMISSIONER GALVIN answered in the affirmative.

[2:23:56 PM](#)

SENATOR THERRIAULT reiterated that the state would get back the \$500 million plus another \$200 million, in discounted dollars.

COMMISSIONER GALVIN explained that the overall value of the project to the state is up to \$200 million.

SENATOR THERRIAULT referred to water and sewer issues. He understood that when the government contributes in that manner it is called a transparent asset. There is no debt, so debt service cannot be built into the rate base. It is not equity money. He asked if TransCanada would benefit from the state's investment of the public's money.

MR. PALMER answered that the amount would not be included in TransCanada's assets. It would be a deduction from the total value of the project. TransCanada receives value because the state is sharing risk during the development period.

[2:25:32 PM](#)

SENATOR THERRIAULT asked if development costs are subtracted off the total if TransCanada applied for a tariff.

MR. PALMER answered yes, although TransCanada would not apply for that from the FERC, because they are required by AGIA to exclude it from the cost.

SENATOR STEDMAN asked for a break out of the numbers including the benefit to the producers and TransCanada.

[2:26:45 PM](#)

COMMISSIONER GALVIN continued with his presentation. One of the complications of the economic analysis is that AGIA would allow TransCanada to provide alternate designs based upon certain events that they cannot anticipate. TransCanada has provided a design that will accommodate a pipeline that could be anywhere from 3.5 bcf/d capacity up through 5.5 to 5.9 bcf/d.

COMMISSIONER GALVIN stated that their report tried to focus on two primary base cases. The first is the proposal based case, which has the assumptions that TransCanada made in its analysis in their application. The other is a more conservative based case, based on less gas being available at the initial open season. He emphasized this was an important starting point to understand the economic analysis. The RFP asked for two different types. The first one asked for a project specific economic profile, a planning effort for a project with expected costs. The applicant was to provide input about cost expectations. The state then took those numbers and did a sensitivity risk assessment analysis. Rather than assuming a particular price and have technical experts make price estimates, the state gave probabilities for various factors. Each of the cost components had a high and low case. From this a mid point was established and then various scenarios considered, resulting in a range of potential project costs. The state was interested in assessing risk within a large variety of scenarios.

COMMISSIONER GALVIN explained that presenting such an array of information was a challenge. The report is detailed and specific and reflects a wide range of analyses. The finding is narrower than that and considers primarily the base cases.

[2:32:49 PM](#)

REPRESENTATIVE FAIRCLOUGH referred to the proposed base and conservative base cases in Slide 10. She pointed out that neither proven reserves nor allowable off-take would fill a 4.5 bcf/d pipe or a 4.0 bcf/d one.

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COMMISSIONER GALVIN acknowledged that the issue of allowable off-take causes confusion. He explained that typically the off-take would be established by the operator of the field making a request to the Alaska Oil and Gas Conservation Commission (AOGCC). The commission will look at the proposal, analyze the impact it would have on ultimate gas recovery, and make a determination whether they agree to the amount of gas to take off at that time. At this point, the standing order for Prudhoe Bay is to off-take 2.7 bcf/d. None is taken off for marketing or selling the gas; about 700 Mmcf/d is taken off for energy consumption within the field itself and the pump station.

COMMISSIONER GALVIN admitted that the question remains regarding how much gas would be available when the time comes to take gas off for a gas pipeline. The AOGCC commissioner, Kathy Forester, provided her own assessment in the Anchorage presentation. Based on current trends of production of oil, she expects there to be sufficient gas available to fill the pipelines under consideration by Denali or TransCanada. He pointed out that the producers for the Denali project have been referring to the same range of 4 to 4.5 bcf/d. He was comfortable that there would be enough gas. The 3.5 bcf/d scenario was also considered and found economic. He emphasized the picture he was providing was not an actual picture of what would happen, but a window into sensitivities.

[2:38:16 PM](#)

REPRESENTATIVE FAIRCLOUGH appreciated how difficult it was to know. She opined that TransCanada is a good, financially stable and capable company, but she thought the cost should decide if the project was economic. Construction costs are at historical highs. She agreed there were many reserves and great potential for discovering more. She asked when TransCanada appropriately sized the pipeline for potential shippers.

[2:40:08 PM](#)

MR. PALMER stated that he had not to date heard that parties would only expect 2.0 bcf/d committed for the project. He acknowledged that AOGCC had not put a definitive number forward, but the expectations were that there would be sufficient capacity for 3.5 to 4 or more per day. TransCanada would be pleased to build a larger pipe but the tolls will be high. Neither the volume nor the destination of the gas is known. He pointed out that this is normal in the business; those answers always come during the open season. He did not expect there to be a restriction to 2.0 bcf/d off the North Slope.

[2:42:00 PM](#)

REPRESENTATIVE FAIRCLOUGH said she was pushing the 2.0 bcf/d to prepare Alaskans for a failed open season. She wanted to assess the risks of the TransCanada proposal, the NPV calculations and how to make it cost effective. She stated concerns about the unexposed liability for treble damages. She asked if that could be limited. She said Alaskans she had talked to believe the state's liability cannot exceed \$500 million. She worried that the liability could be greater. She wanted it on the record that the liability was limited to \$1.5 billion.

[2:43:28 PM](#)

COMMISSIONER GALVIN commented that the off-take is unknown, but he proposed that 2.0 bcf/d is of no more value as a data point than 4.0 bcf/d. Producers would ultimately propose an amount to AOGCC.

[2:44:26 PM](#)

REPRESENTATIVE NEUMAN referred to sensitivity risk analyses and cost overruns with the gasline. He asked if there were a 30 percent overrun on construction. He also asked the effect on tariffs with different sized pipes.

[2:45:36 PM](#)

COMMISSIONER GALVIN clarified that REPRESENTATIVE FAIRCLOUGH was talking about cost escalation factor on an annual basis, not the cost overrun that could be the ultimate end of the project. He said pipeline cost escalation at 30 percent a year for ten years would not be sustainable. If costs go up higher than the projected \$30 billion, he thought that first the question would be what drove that. The costs could go up parallel to the price of oil, which would not have a significant overall effect. The second scenario is if the cost goes up but the price does not, then the project may not be economic. That raises the question of whether to approve this project. However, the same challenges would be in place for other companies. He emphasized the primary goal of getting the pipeline moving.

[2:49:10 PM](#)

MR. PALMER added that a 30 percent escalation was not sustainable in any industry. At that rate, costs would double every two and a half years, which would make the costs 10 times higher than projection. Oil and gas prices would also have to increase by that amount. If that were to occur, every possible substitute energy would become economic. That would not happen.

[2:50:14 PM](#)

REPRESENTATIVE NEUMAN pointed out the projection of \$1 billion for Trans-Alaska Pipeline System, but the cost was \$9 billion. He stated concerns that costs were going up faster than prices.

COMMISSIONER GALVIN said that costs had to be looked at from a variety of vantage points. For instance, were all costs going up or has the project been underestimated. The analysis tries to separate out factors. The risk of the cost of materials going up is a significant factor. He did not believe it made the project unworkable. The design was a lower risk with lower impact to the state.

COMMISSIONER GALVIN turned to the two base cases for TransCanada's project outlined on Slide 10, "Two Base Cases Reported for TransCanada's Project":

- "Proposal Base Case"
 - 4.5 Bcf/d (including 0.9 Bcf/d from Pt. Thomson)
 - 75/25 debt to equity
 - 14% return on equity
 - 25 year shipping contracts
- "Conservative Base Case"
 - 4.0 Bcf/d (No gas from Pt. Thomson)
 - 75/25 debt to equity
 - 14% return on equity
 - 20 year shipping contracts

COMMISSIONER GALVIN stated that the risk of finding sufficient gas to finance the project is one of the reasons they are analyzing the smaller pipe. The analysis considers a shorter contract to spread the costs, and so reviews a 20 year shipping contract as opposed to the 25 year contract in the proposal based case.

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COMMISSIONER GALVIN discussed NPV. The analysis projected out 35 years. He covered several NPV factors:

- Gas prices. The market price for gas will be the starting point for cash flow analysis.
- Transportation costs. The tariff figured will take into account cost escalation rates and be spread over the initial through-put. The debt-to-equity, the financing and how that financing is captured in the tariff affects how much will be recovered by the

pipeline from the shippers. That will establish the NPV and revenue stream to the state.

- Schedule. The cash flow starts when the gas starts flowing.
- Gas production costs.

COMMISSIONER GALVIN addressed gas prices (Slide 12):

- Gas Price Models
 - Separate price forecasts obtained from:
 - US DOE's Energy Information Administration (EIA)
 - Wood Mackenzie
 - Gas Strategies Consulting
 - Black and Veatch

COMMISSIONER GALVIN turned to Slide 13, covering the technical team, which included:

- Westney Consulting
- Energy Project Consultants
- Pingo International
- AMEC Paragon
- Colt Engineering
- Mustang Management
- Energy Operations Consulting
- Black and Veatch
- Merlin Associates

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COMMISSIONER GALVIN stated that the analysis resulted in a mid-case, probability 50/50, on costs and on schedule (Slide 14).

- Project Cost Estimates - Mid-Range
 - Proposal Base Case
 - \$31 Billion in today's dollars
 - \$3.19 tariff
 - \$45 Billion in dollars spent
 - \$4.73 tariff
 - Conservative Base Case
 - \$29 Billion in today's dollars
 - \$3.59 tariff
 - \$42 Billion in dollars spent
 - \$5.33 tariff

COMMISSIONER GALVIN explained the importance of understanding why these numbers are different from TransCanada's estimates. TransCanada went through a project planning exercise. They looked at the project point of a proponent. They used assumptions for cost escalation for the exchange rate between U.S. and Canada that the state gave them. They used other numbers given by the state. The big difference between the two prices is the result of taking the state's technical team's approach, which was to assume neutral competence and mid-range costs. TransCanada went through a project planning effort. They had to come up with a realistic target.

COMMISSIONER GALVIN said there were differences in how the project was seen to play out, delineated on Slide 15:

- Project Cost Estimates: Why Higher than TC Alaska's?
 - Different Purposes - Project Planning vs. Risk Assessment
 - TC Alaska's Cost Estimates are "realistically aggressive" and appropriate for project planning
 - Analytical team tested sensitivity of estimates to changed circumstances
 - Difference Between Assumptions Mandated in the RFA and the final analysis assumptions
 - Exchange rate, cost escalation rate
 - Assumed "Neutral Competence" of Operator
 - Cost of the GTP
 - One vs. Two seasons of sea-lift

[3:28:49 PM](#)

COMMISSIONER GALVIN addressed the project schedule (Slide 16):

- Project Schedule
 - Mid-range probability put first gas in 2020
 - State's Canadian counsel advised on expected regulatory timeline in Canada, including First Nation issues

COMMISSIONER GALVIN discussed (Slide 17):

- Reporting NPV Results -Proposal Base Case
 - Gas Prices (using Wood Mackenzie)
 - Transportation Costs
 - Pipeline Project Capital Costs (\$13.5 billion)
 - Cost Escalation Rates (4%)

- Initial Pipeline Throughput (4.5 Bcf/d)
- Tariff Terms (e.g. debt to equity ratio[75/25])
- Pipeline Construction Schedule (2020)
- Gas Production Costs

COMMISSIONER GALVIN emphasized that they had focused on the first 25 years of pipeline operation. In that time frame, the state could bring in an additional \$261 billion, in today's dollars. The proposal base case results (Slide 18) and conservative base case results (Slide 19):

- Proposal Base Case Results
 - The State of Alaska would realize an estimated cash flow of \$261.5 billion, and an estimated NPV of approximately \$66.1 billion at a discount rate of 5%.
 - The Major North Slope Producers would realize an estimated cash flow of \$147.4 billion, and an estimated NPV of approximately \$13.5 billion at a discount rate of 10%.
- Conservative Base Case Results
 - The State's NPV decreases by 8% from the Proposal Base Case to \$60.7 billion.
 - The major North Slope producers NPV decreases by 9% to \$12.3 billion.

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COMMISSIONER GALVIN noted that all the numbers are based on no expansion, with no additional gas. He continued with Slide 21, which acknowledges that the project economics are extremely robust:

- It would take a "perfect storm" of worst case scenarios of multiple factors for the Project to be uneconomic to the Producers.
- Indeed, a "perfect storm" of low gas prices and high construction costs together are not enough to generate a negative NPV for the state.

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COMMISSIONER GALVIN explained that when the \$500 million matching contribution is factored in as a lowering of the project costs, the tariff is reduced, which ultimately reduces the cost to ship the gas. This increases the NPV to the state by \$200 million (Slide 22).

COMMISSIONER GALVIN turned to the subject of the likelihood of success (Slide 23):

- TransCanada has submitted a plan for its project that is technically feasible, reasonable, and specific.
- TransCanada has demonstrated the technical and financial ability to construct the project.
- TransCanada has submitted a reasonable commercial plan which, coupled with economic and political factors, should help to encourage firm shipping commitments.

[3:34:29 PM](#)

COMMISSIONER GALVIN stressed the importance of looking at getting gas commitments, which will ensure success of the project. It will also provide the state with opportunities to enhance the likelihood of getting the gas. Producers are looking for an attractive project to put their gas in, one that will make them money. His analysis shows that this project will do that. He also thought TransCanada was a company that would attract producers to the pipeline. He thought AGIA provided additional value to the producers if they commit to the project. Inducements include the ten year tax certainty and royalty valuation. He described things that the state is considering that will become relevant if gas is not committed: lease requirements, anti-trust issues, congressional attention, and answers for shareholders.

[3:38:47 PM](#)

SENATOR HUGGINS asked for a brief overview of what would happen if producers committed gas to the Denali project.

COMMISSIONER GALVIN described a scenario: an open season for the TransCanada project where the producers don't commit the gas because they'd rather put it in their own pipeline without state concessions, and that project moves forward. He said this was a possibility and he thought the state was better off if the TransCanada project moved forward.

[3:39:52 PM](#)

SENATOR HUGGINS asked what would happen to TransCanada if the producers did not go with them.

COMMISSIONER GALVIN answered that the issue would be if the producers see a potential role and the state wants to form a project outside of AGIA.

[3:40:24 PM](#)

COMMISSIONER GALVIN raised the issue of contingent liability on the part of TransCanada towards former partners. The risk has two components (Slide 25). If the liability is pursued and recognized by a court, tariff costs will increase. The second concern is that an outstanding liability will keep partners away for fear of assuming the liability themselves. Legal and financial experts have analyzed that risk and concluded that the tariff will not be affected under rules currently in place. Regarding the second concern, experts concluded that it should not be a barrier to the project. The risk of litigation and potential exposure is very small.

[3:43:39 PM](#)

SENATOR GREEN asked if under those circumstances the state would be willing to indemnify producers. She wondered if the state would be willing to ensure it would not be a problem.

COMMISSIONER GALVIN thought the issue could be looked at. If producers came forward and expressed willingness to join the project if the state took a particular action relating to the liability, the state would consider it.

[3:44:41 PM](#)

REPRESENTATIVE SAMUELS asked if TransCanada would ensure against liability, knowing that could not be rolled into the tariff.

[3:45:18 PM](#)

MR. PALMER answered that would be discussed with partners as appropriate, and not in a public forum. TransCanada has had ongoing discussions with all producers for years on this and other matters. TransCanada's position has been put on the record. They are taking action to dissolve the partnership. TransCanada has committed that any costs to TransCanada for that process will not affect the tolls.

[3:46:12 PM](#)

REPRESENTATIVE DOOGAN conjectured that if AGIA passed, in order to get people to put gas into the pipeline, either TransCanada or the state might be negotiating with producers to offer them a deal different than anything on paper now.

[3:47:31 PM](#)

COMMISSIONER GALVIN stated that TransCanada has seen opportunity for the state to analyze what can be done to enhance the attractiveness of the licensed open season. Any such discussion would be public and would be subject to

public, legislative approval through a cost benefit analysis of what is being gained and what is given up. The cornerstone of AGIA is providing transparent benefits through a transparent process. An AGIA licensed project would enhance that process.

[3:48:49 PM](#)

MR. PALMER added that the issue of an equity offer is already on table in the AGIA application. TransCanada understands that customers may negotiate for improved terms. Any further concessions by TransCanada would only improve the economics for the state. He stated TransCanada is not in a position to go higher as they would have committed under AGIA to do so.

[3:49:52 PM](#)

COMMISSIONER GALVIN continued with his presentation, pointing out that the analysis did comparisons with the Denali project and LNG option. Slide 27 lists reasons why the Denali project is more risky for the state:

- Lack of commitments create risks for the state
- No certainty on project schedule
 - Likely Anti-trust Challenges
- Undefined tariff terms
 - Example, 50/50 debt to equity increases the tariff by \$1 compared to 75/25, costing the state over \$8 billion in NPV
- Undefined state fiscal concessions needed for Denali
 - SGDA concessions worth over \$10 billion
- No Certainty on Expansion Provisions
 - Producer Incentives to exercise basin control
 - Stifles North Slope basin development
 - Loss of long-term jobs and careers
 - Loss of potential LNG development

COMMISSIONER GALVIN emphasized the importance getting the project moving. He said there are significant differences between the two projects.

[3:53:00 PM](#)

SENATOR HUGGINS pointed out that the risks of the Denali project have been outlined. He asked for an update regarding what Denali has done.

COMMISSIONER GALVIN answered that Denali has publicly stated that they will commit to \$600 million to get to an open

season in two and a half years. They have begun field work on some of the right of way issues near the Alaska- Canadian border. They opened a field office in Tok and named a president of the joint venture.

[3:54:09 PM](#)

SENATOR HUGGINS asked what they had done related to FERC.

COMMISSIONER GALVIN said Denali had sent a letter to FERC beginning the pre-filing process to establish what is needed for the full application. In this process they communicate what kind of studies will be needed and how to flesh out the whole application. He said they indicated that while they were announcing that they were beginning the pre-filing process, they were still gathering the information needed.

[3:55:11 PM](#)

REPRESENTATIVE FAIRCLOUGH referred to undefined fiscal concessions from a third party. She described how low bidders secure positions and asked for needs later for cost overruns. She asked if TransCanada would come back to state for additional money or terms.

MR. PALMER answered that in the event the state decided to review upstream tax, TransCanada would not lobby to participate.

REPRESENTATIVE FAIRCLOUGH asked if anyone [at a hearing they had gone to] had argued in favor of progressivity.

[3:58:06 PM](#)

SENATOR HUGGINS answered no.

REPRESENTATIVE FAIRCLOUGH asked, regarding the procurement process, if the administration would propose any new tax structures for gas once a project is chosen.

[3:59:18 PM](#)

COMMISSIONER GALVIN reported that Denali had stated that they would ask for concessions. He said there would be a number of procurement processes. In this case, the state's obligation is limited to \$500 million. TransCanada's obligations remain the same if project costs go up. Regarding potential changes to the state's upstream tax structure, he acknowledged there may be interest in transferring some of the value to producers to get their commitments to the TransCanada project. He could imagine that discussion taking place because there is so much at stake in getting the gas committed.

[4:01:53 PM](#)

REPRESENTATIVE FAIRCLOUGH referred to her experience with government cost overruns, with low bidders coming to the state.

COMMISSIONER GALVIN clarified that the contract depends on the rights of the various parties. In situations where there are contracts and costs go up, the contractor has to absorb those costs.

REPRESENTATIVE FAIRCLOUGH stated for the record that she heard that the administration would consider reviewing the tax structure for upstream gas. She did not want other projects to be criticized for being upfront about similar intentions.

[4:03:50 PM](#)

COMMISSIONER GALVIN said there was a clear distinction between a project that says they want concessions for the project to be economically viable and the state's interest in changing the structure to attract gas to a project that is in the state's best interest. He did not think Denali could be considered without referring to experience the state had with them connected to the Stranded Gas Development Act. The same parties said they needed certain changes in the state system across the board, from taxes to royalties to judicial systems, in order to move forward. Nothing has changed in their public discussion to acknowledge that they had overshot; the state has to review the situation carefully.

REPRESENTATIVE FAIRCLOUGH asked if FERC had stated that the state would need to revisit gas taxing policies.

[4:06:10 PM](#)

SENATOR HUGGINS reported that he did not recall that. He understood that under AGIA, after the \$500 million had been spent, the state was precluded from additional investment.

COMMISSIONER GALVIN said that the state is not precluded. The state is not obligated.

SENATOR HUGGINS asked if the state, after spending the \$500 million, could offer additional money to TransCanada if they asked for it.

[4:07:53 PM](#)

COMMISSIONER GALVIN answered that the AGIA license, like any contract, spells out the obligations of both parties. The state is obligated to match up to \$500 million. TransCanada

is obligated to move the project through the open season and complete the FERC certification process. If the costs end up being significantly higher than what TransCanada expected, they remain obligated to complete the certification process. The state has no obligations to provide them with additional funds. The state is not precluded from deciding that, absent any obligation, the state wants to add more money. The state would take into consideration the fact that they have no obligation to do it and TransCanada is obligated.

SENATOR HUGGINS asked how many years the FERC certificate would take.

COMMISSIONER GALVIN answered approximately six years under the current timeline.

[4:09:28 PM](#)

SENATOR STEDMAN asked for an explanation of why TransCanada is not concerned about Alaska's tax structure.

[4:10:10 PM](#)

MR. PALMER answered that TransCanada is interested but will not participate in the review. They see both the leaseholders and the state as capable of deciding.

SENATOR STEDMAN asked the Commissioner to help the public understand TransCanada's stance.

COMMISSIONER GALVIN stated that regarding the gas production tax, there is no tax liability on the pipeline; from a business standpoint, TransCanada is not affected by the tax. They are interested in the sense of attracting gas. Alaska's current tax structure allows the project to be economic. If that changes, if corporate taxes or property taxes were considered, TransCanada would be interested. The current discussion is not about that.

SENATOR STEDMAN wondered if part of the reason was that TransCanada was in a regulated rate of return environment.

COMMISSIONER GALVIN replied that was part of the reason but not the whole.

[4:13:24 PM](#)

SENATOR STEDMAN clarified that Alaska is not 100 percent aligned with TransCanada.

COMMISSIONER GALVIN replied that on gas production tax, where progressivity is a component, TransCanada is a somewhat neutral player in terms of the distribution of money between the state and producers.

[4:14:07 PM](#)

REPRESENTATIVE KERTTULA pointed out that an independent pipeline does not have as much interest in terms of tariff rates, because they don't hold the leases.

COMMISSIONER GALVIN agreed. With regard to the expansion provisions, an integrated pipeline like the Denali project would have different incentives. Expansion folks are competitors. They are incentivized to create barriers.

[4:15:44 PM](#)

SENATOR GREEN referred to a list of the 20 "must haves" that TransCanada agreed to and the request from the state regarding shippers. She wondered why TransCanada was allowed to say what it wanted considered in the future but shippers were not allowed to do the same.

[4:17:25 PM](#)

COMMISSIONER GALVIN clarified that the primary difference is in TransCanada's expectations. They are not obligations on the part of the state or preconditions being placed on the state for the project to be successful or be completed. They are things for the state to consider as the project moves forward. The difference is that the proponents of the Denali project have indicated that there will be preconditions in order for their project to advance. On the one hand, it is in the state's interest to have TransCanada do the project. The producers hold leases and may decide to commit gas to their own project. The question becomes what the price to the state will be. The state has more options with TransCanada.

[4:19:51 PM](#)

SENATOR GREEN asked how Alaska can be assured of what they are approving.

COMMISSIONER GALVIN explained that the language of license clearly spells out obligations to the state. Mr. Palmer has also stated on the record on behalf of TransCanada that the state does not have those obligations.

SENATOR HUGGINS reminded the members that one objective in Juneau is to go through TransCanada's application, which is part of the contract, to determine what is legally binding.

[4:21:52 PM](#)

SENATOR THERRIault addressed the risk of selecting a low bidder that ends up asking for more money. AGIA was written

to give the administration an out. He asked if the TransCanada bid could have been rejected if it had been unrealistically low.

COMMISSIONER GALVIN replied in the affirmative. Part of their analysis was to determine if the bid was too low.

SENATOR THERRIAULT asked if independent evaluation had determined if the project could be successful.

COMMISSIONER GALVIN answered yes.

[4:23:26 PM](#)

SENATOR THERRIAULT wondered if part of the risk of the Denali project was the lack of economic and technical detail.

COMMISSIONER GALVIN said that was a big part of the risk.

SENATOR THERRIAULT queried if it would be difficult to evaluate whether requests from producers for reductions in taxation were legitimate or necessary.

COMMISSIONER GALVIN agreed it would be difficult to evaluate the economic impact to the state or the producers without the information.

SENATOR THERRIAULT asked if the administration would be better equipped to evaluate the necessity of changes to the tax structure with TransCanada.

COMMISSIONER GALVIN answered that TransCanada's work to establish costs was a large part of the administration's consideration of their bid.

[4:24:44 PM](#)

SENATOR THERRIAULT spoke to Denali's request to start the pre-filing process. He observed that in a copy of that document nearly every paragraph indicated they were not yet prepared. He assumed that Denali did not need the administration's permission to start that process and wondered if the company would have to ask permission to stop.

COMMISSIONER GALVIN answered that they could stop at any time.

SENATOR THERRIAULT asked if TransCanada was obligated to everything up through FERC certification once they had the license.

COMMISSIONER GALVIN answered yes.

[4:25:53 PM](#)

SENATOR THERRIAULT asked if TransCanada had not started the process because they did not yet have the license.

[4:26:01 PM](#)

MR. PALMER acknowledged that TransCanada is seeking the license and has gone through two stage of the process. The third stage consists of the legislature making a decision. If the license is granted to TransCanada, they have an established schedule which they have already provided. They anticipate a comprehensive pre-filing by 2011 or earlier, before going on to FERC filing. He thought it was early to pre-file, though they were happy to start discussions with FERC. They would not act on that until the license as granted.

[4:26:58 PM](#)

REPRESENTATIVE SAMUELS referred to risks of the contractor going over budget. He wanted to make sure the public understands that in this project, everything goes to the shippers. If there are cost overruns or increases, the tariff goes up to ship the gas. The risk goes on the shipper.

REPRESENTATIVE SAMUELS took issue with several provisions on a slide. He asserted that Congress had spoken on several of the provisions and that AGIA would not over-ride those regulations.

REPRESENTATIVE SAMUELS asked how TransCanada felt about being used to "keep our options open."

[4:28:51 PM](#)

MR. PALMER stated that they would take a component of the risk, which is significant and unusual in the pipeline industry. He said that TransCanada understands AGIA. They believe the state of Alaska is committed to advancing a project. In the event that a license is granted, they expect to meet their obligations, and they expect the state to do the same. They understand there are competitors. If a license is granted, they expect the state to be a good partner. TransCanada is confident they can be a good partner as well, and attract customers and move gas as they have for fifty years across North America.

[4:31:36 PM](#)

SENATOR STEDMAN asked if there was anything precluding TransCanada starting the pre-application process to a FERC

certificate. He referred to the risk exposure of the mid-stream player.

MR. PALMER agreed that TransCanada could make a pre-filing, but noted that it would not be prudent. They would like to see what happens with AGIA.

SENATOR STEDMAN proposed that it was out of the ordinary for mid-stream players to go to FERC without commitments from shippers. He referred to the state's high percentage of reimbursement and wondered how it affected the number of applicants.

MR. PALMER agreed that it was unusual for a pipeline company to go forward to a FERC application if they were not successful in getting sufficient volumes committed in an initial open season. The state under AGIA decided that was an important factor and put forward an overall proposal that included the \$500 million contribution under certain circumstances. That played a role in TransCanada's decision regarding the filing. They looked at the overall value as well as obligations to TransCanada.

[4:35:16 PM](#)

SENATOR STEDMAN pointed out that during the initial AGIA process, at 80 percent there was concern that there would be no applicants; 90 percent was implemented to entice participation. He asked if TransCanada would have been interested at 80 percent.

MR. PALMER noted that even at 90 percent, TransCanada hit the \$500 million cap. They estimated the cost would be \$600 million.

[4:36:41 PM](#)

SENATOR HUGGINS added that the original bill contained 50 percent reimbursement prior to open season, and 80 percent after open season. The 80 percent was changed to 90 percent at TransCanada's request.

MR. PALMER clarified that TransCanada did not want the provision that they would be required to go forward after an initial open season. They did not want the 80 to 90 percent change.

[4:38:01 PM](#)

COMMISSIONER GALVIN addressed the issue raised regarding treble damages. Slide 34 depicts a chart showing how the damage exposure to the state evolves over the course of the project. He observed that calculation is based on the open season split annually minus the state's \$500 million and

the amount spent by TransCanada without state reimbursement. If at that point in time, the state were to end up supporting a competing project, damages would be three times the amount. The expenditure is based on TransCanada's calculated annual spend. 2009 is split between pre- and post-open season time frames because that differentiates the amount of state versus TransCanada spend. At open season, the state's exposure is \$166 even if the state decided to move out. The chart shows that in the longer term, the total exposure could be \$874, which includes the \$500 million initial matching contribution. Damages could be higher if TransCanada spent more than \$625 million.

[4:41:56 PM](#)

REPRESENTATIVE FAIRCLOUGH asked if there was an escalator for interest on invested money.

COMMISSIONER GALVIN replied no.

REPRESENTATIVE FAIRCLOUGH asked if Alaska was locked in for five open seasons, whether TransCanada needs to go to open season every two years after a failed season.

COMMISSIONER GALVIN said that TransCanada would go to an open season every two years but their obligation would end once they had the FERC certificate. Then they would have a certain amount of time to decide whether to sanction the project.

REPRESENTATIVE FAIRCLOUGH questioned if the state should prepare for a failed first open season.

COMMISSIONER GALVIN noted that the first open season would be 2009. TransCanada has an obligation for an initial open season and an obligation to solicit additional demand every two years after that. He estimated that open seasons would be more frequent if they failed. The timeline for the license will be driven not by how many open seasons they have to have, but by how long it takes for them to get a FERC certificate. That starts the final clock. The anticipated time to get to the certificate is 2014. Then TransCanada would have up to two more years to sanction the project. He did not anticipate more work would occur beyond attracting customers. The money will be spent by the time they have the certificate.

[4:44:51 PM](#)

REPRESENTATIVE FAIRCLOUGH queried if there is risk beyond 2013. She observed that the state's review has delayed the timeframe. She estimated that costs, and therefore liability, would continue to rise. She wondered about a cap

to liability.

COMMISSIONER GALVIN explained that the spend on the graph represents the work necessary to get the FERC certificate. There is no obligation to spend once the FERC certificate is achieved. He acknowledged a risk that the number is wrong, but he did not think it would double. TransCanada is motivated to control costs. He did not feel there was a great risk that TransCanada would continue to spend after achieving the FERC certificate.

[4:48:51 PM](#)

SENATOR HUGGINS queried the latest TransCanada could make their decision on sanctioning the project.

COMMISSIONER GALVIN estimated 2015 to 2016 would be the sanction deadline.

[4:50:23 PM](#)

REPRESENTATIVE FAIRCLOUGH referred to the Denali proposal. She observed they estimate costs of \$1 billion to FERC certification and \$600 million to open season. She questioned the state's potential liability, using these numbers.

COMMISSIONER GALVIN responded that if TransCanada spent the \$1 billion to FERC with \$500 million from the state, treble damages would be based on the \$1.5 billion range. It is not directly comparable to what the producers would spend to get to the same place.

REPRESENTATIVE FAIRCLOUGH asked how TransCanada assets would reduce the costs.

[4:54:31 PM](#)

MR. PALMER acknowledged concern about the state's risk exposure, but said that exposure would only occur if the state breaches the agreement and decides to fiscally support another project. He observed that the only number he has heard from the producers is \$600 million to reach the open season. He has not personally heard a number beyond that to go to a FERC certification. If TransCanada were to expend that money, the exposure rests with them, if the state keeps the agreement. TransCanada's numbers are affected by the fact that they have significant assets in Canada that other parties do not. They hold the right-a-way to the Yukon, have legislation in place, and have thirty years of engineering and geotechnical work, all of which would reduce costs.

REPRESENTATIVE FAIRCLOUGH asked if the assets would be charged against the project.

MR. PALMER stated that TransCanada holds assets that no other party holds.

[4:57:18 PM](#)

REPRESENTATIVE DOOGAN asked for clarification regarding treble damages.

COMMISSIONER GALVIN explained that the treble damages apply if the state changes its mind in the middle of the process and decides to put financial support towards a competing project. Financial support means providing targeted tax, royalty, or grant towards a project that is competing towards the same gas as TransCanada. The definition of competing project excludes projects less than 500 Mmcf/d, which represents the upper limit of in-state demand. The state can do that without incurring the treble damages. They cannot put financial support for projects like the Denali project. The damages would apply to that.

[4:59:15 PM](#)

REPRESENTATIVE SAMUELS asked if the funds already invested would be rolled into the tariff.

MR. PALMER could not respond precisely, but stated the amounts are not large and TransCanada is not seeking to recover huge amounts expended in the past. He emphasized that the assets have value.

SENATOR HUGGINS asked for those numbers.

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TONY PALMER provided an opening statement explaining that TransCanada believes in the economics of AGIA. The project is a good fit for TransCanada. They have been in the business for 50 years and are the largest natural gas pipeline company in North America, moving 20 percent of the continent's gas. They do not own the gas; they are strictly a transporter.

MR. PALMER pointed out that Alaska wants to promote long term basin development, beyond the pipeline, and TransCanada has experience with that. TransCanada is confident their application is strong. They expect to spend around \$600 million to get to FERC certification.

MR. PALMER addressed concerns that TransCanada is "just a Canadian pipeline company." TransCanada owns 12,000 miles of

pipe in the U.S. and have offices across the U.S. Their business is integrated.

[5:30:41 PM](#)

MR. PALMER maintained that the Canadian example is the best for Alaska. Canada started its gas business 50 years ago with a small local market. Canada was the furthest from major markets, just like Alaska. They started with three customers; now they have 300. They started with a high potential basin, like Alaska. TransCanada numbers have been lower than all competitors, both in Canada and the U.S.

[5:32:43 PM](#)

MR. PALMER spoke to the initial open season and observed that some parties want the gas to go to the Lower 48 directly through Canada and others want an LNG project at Valdez that will deliver to the Lower 48 or to Asia. TransCanada has committed that when they hold an open season by the summer of 2010, customers will have the opportunity to commit gas throughout Alaska, to Valdez, or on to Alberta. TransCanada will build a pipe to Valdez if customers commit there.

[5:34:32 PM](#)

MR. PALMER referred to Slide 3 depicting North America with TransCanada's extensive pipeline infrastructure, demonstrating their ability to move gas ("TransCanada AGIA Application, Statewide Legislative Hearings," Copy on File). He stated that the existing infrastructure would be invaluable to Alaskans. He also pointed out the largeness of TransCanada projects. The pipe built across Canada was 23,000 miles; the Prudhoe Bay to Alberta pipe will be 17,000 miles.

[5:36:50 PM](#)

MR. PALMER highlighted TransCanada's experience in Western Canada. There are two components to the Alaska project: what happens in Alaska and what happens with the line away from Alaska to market. He split the Canadian system into the same two components, depicted on Slides 4 to 6. A series of maps illustrate the growth of the Alberta system over 50 years, starting with three customers and moving .25 bcf/d, about 1/18 of the size of the proposed Alaskan project. There are 1100 points within Alberta where gas can be received or delivered. He thought the situation in Alaska was similar.

[5:38:38 PM](#)

MR. PALMER spoke to employment opportunities. TransCanada has 3600 employees. Each employee is indirectly responsible

for some ten miles of pipe. When the Alaska pipe is completed, there will be about 750 miles of pipe, implying 50-100 employees. Running the pipeline is highly efficient and done with a low number of staff. The employment opportunities come from expansion and drilling.

[5:39:52 PM](#)

MR. PALMER described TransCanada's pipeline system. He observed that there are now six parallel pipes heading east. He pointed out that the maintenance record is very good. They are converting pipe that is 50 years old into a future asset.

[5:41:33 PM](#)

MR. PALMER turned to Slide 10, and discussed a Canadian pipeline schedule. He showed Slide 14 and discussed the updated project timeline. The schedule highlights:

- An open season to be completed by the summer of 2010
- Go forward to FERC certification in 2012
- FERC approval by 2014
- In service around ten years from now

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MR. PALMER moved ahead to Slides 20 to 21 regarding long-run basin development and project expansions. He defined "rolled in tolls" as averaging the cost of expansions with the original costs, just as many cities do with property taxes. He explained the process of taking the price of selling the gas in Alberta and removing the cost of transporting the gas from Prudhoe Bay to Alberta, which leaves the "net back," the revenue in the market less the transportation cost of getting the gas to market. The net back for the base project, built at 4.5 bcf/d and run for 25 years, is \$350 billion. That value will be shared by the producers who own the leases and governments: Alaska and the federal governments of U.S. and Canada. The producers will pay production costs and then pay taxes, royalties, property and income taxes; the remainder will be their profits.

MR. PALMER covered the value of expanding the pipeline. If the base volume is run for ten years, and then there is a 30 percent expansion up to 5.9 bcf/d for 25 years, the value over the 35 years goes from \$350 to \$600 billion, \$250 billion of extra value to be shared between the producers and Alaska. These are direct revenues from selling the gas only. These are not the multiplier effects of all the extra drilling that will come or the extra service industry. If the pipe is expanded by 60 percent, to 7.2 bcf/d, the value

nearly doubles. TransCanada's experience in Alberta shows the expansion numbers are realistic.

[5:48:05 PM](#)

MR. PALMER turned to Slide 22, depicting two graphs. One shows the results of natural gas wells completed in Western Canada from 1955. At that time there were 180 gas wells completed. In the last five years, that has increased to 13,000 to 16,000 gas wells completed per year. A similar increase in Alaska would have significant impact. Currently, few people are looking for gas in Alaska because of the lack of infrastructure.

MR. PALMER indicated the second graph which shows that Alberta produced double to triple the amount of gas they had estimated fifty years ago. There is huge potential in Alaska.

[5:51:03 PM](#)

MR. PALMER gave an overview of what is required to build a gas pipeline. The actual pipe is buried four feet beneath the earth. The second component costs less and consists of compressor stations, which are like pump stations on an oil pipeline. The project will require 1700 miles of pipe from Prudhoe Bay to Alberta, but there will be very few compressor stations. When the pipe can be expanded with compression, costs are lowered. Putting up to 5.9 bcf/d of gas through the line takes more compression, not more pipe. Higher volumes require more pipe as well.

[5:53:50 PM](#)

MR. PALMER turned to Slide 24 and what FERC will provide in terms of protection for Alaska and future explorers, relative to AGIA. AGIA requires a company to propose rolled-in tolls up to 115 percent of the base, depicted by the red horizontal line on the first graph. The base cost is around \$1.76; adding 15 percent brings it just above \$2. AGIA requires a licensee to propose that to the FERC. FERC has an expectation of rolled-in tolls; any party that opposes that has to overcome a pre-conceived FERC expectation that expansion will be rolled in. The second graph shows the effect of that. FERC can require an expansion. In the event that the pipeline sponsor does not propose a voluntarily expansion, FERC requires only rolled-in tolls for new customers in the event that the costs do not increase.

MR. PALMER explained incremental costs, a standard for a mandatory expansion. Costs could increase for expansion customers an additional \$1 to \$1.50. He asserted that any explorer outside of AGIA would be concerned about that.

MR. PALMER summarized that TransCanada believes AGIA was structured to encourage construction of the project, long run basin development, open access terms for in-state gas, and gas to the Lower 48 or an LNG. TransCanada believes they could succeed at the project.

RECESSED: [5:58:32 PM](#)

RECONVENED: [6:07:12 PM](#)

GENERAL SUBJECT(S):

The following portion of statewide testimony was taken in log note format.

TIME	SPEAKER	DISCUSSION
	PALMER	STATEWIDE PUBLIC TESTIMONY
6:07:12 PM	April Moore, April Moore for State House	Stressed the need for in-state gas and a maximum return to the people of Alaska. She did not feel the TransCanada proposal would bring that. She maintained an in-state route to Valdez would bring jobs, along with other advantages including fuel.
6:12:34 PM	Donald Benson, Board Member, Alaska Natural Gas Development Authority, Palmer	Pointed out that there were five applications for AGIA. He felt AGIA would move the project forward and bring long-term energy relief. He testified in support of TransCanada's application.
6:15:12 PM	Jean Woods	Questioned what the state is asking Mr. Palmer to do that TransCanada would not do without the state's support [\$500 million]. She referred to a letter from TransCanada to the administration and questioned why their position had changed.
6:16:16 PM	David Cheezem, Candidate for State House, business owner	Discussed the function of free enterprise. Producers believe free enterprise is about certainty, and want state money. He thought free enterprise was about stability and creativity, and free of back-room deals. He spoke against the state's \$500 million inducement. He

		observed that Alaska owns the rights to the gas and oil.
6:21:14 PM	Noel Woods	Spoke in support of the committee. He stated concerns about producers not showing up in open season because of administration expectation of profit.
6:23:03 PM	Bert Cottle, Mayor, City of Valdez; Chairman Alaska Gasline Port Authority	Testified in support of AGIA, but stressed the need for gas for Alaska first and soon. He discussed the positive effect of the oil industry on the state and referred to the cost of energy in Alaska. He suggested two open seasons. He pointed out that under AGIA TransCanada can wait up to 10 years to make a decision whether to build an Alaskan line.
6:29:21 PM	Jim Sykes, Alaska Public Interest Research Group	Acknowledge the good work of the AGIA process. He expressed concern that some of the modeling has not been made public. He emphasized the need to work with the FERC regulators. He felt that a project that all Alaskans can support will be achieved.
6:33:28 PM	Nikki Campbell	Stressed the importance of the project, but questioned the amount which would be given to TransCanada [\$500 million]. She thought information was being kept from the public and urged the public to ask questions. She was not convinced that AGIA was the perfect method and referred to issues surrounding procurement and Point Thomson.
6:35:43 PM	James A. Harpsen	Spoke in support of comments made by Former Governor Hickel. He spoke against TransCanada's involvement.
6:38:17 PM	Annette Harpsen	Testified in opposition to AGIA. Questioned the good faith of the Department of Natural Resources. She referred to an article that questioned the \$500 million dollar allowance under AGIA.

6:40:01 PM	Lucille Frey	Testified in opposition to AGIA. She questioned that the commitments for the gas would occur.
6:42:50 PM	Curt Maynard, Mayor, MatSu Borough	Testified in support of AGIA. He felt the details of the project could be negotiated but stressed the need for in-state gas.
6:45:10 PM	Tom Lakosh	Felt that there were billions of dollars being lost in Point Thomson and other places. He maintained that producers should be showing movement toward production or the POD's should be amended to reflect commercialization of natural gas.
6:50:53 PM	Ralph Buzard, Houston	Testified in opposition to the Canadian line.
6:52:47 PM	Mark Richards, M.R. Ducks Mining	Questioned how current mining operations would be affected by the gas line. He wondered if his operations would be shut down to build the line.
6:55:35 PM	Darrel Nelson, Chugiak	Expressed concern that producers sat on top of Point Thomson for over 30 years. He thought Alaska should own its own refinery, and that oil employees should work for the state and not oil companies.
6:57:56 PM	Bonnie Nelson, Chugiak	Testified in opposition to a producer owned pipeline. She wants competition. She suggested a blend between TransCanada and the Port Authority. She supported development of infrastructure including a refinery and railroad.
7:02:41 PM	Andrei Buckareff	Testified in opposition of TransCanada, especially sale of gas to Canada. He felt that the pipeline should be built by Alaskans for Alaskans.
7:04:08 PM	Gabrielle LoRusso, Palmer	Questioned how AGIA would affect her future employment.
7:05:20 PM	Stew Graham, Palmer	Questioned the government's role in deciding who participates in the project. He maintained Alaskan

		businesses and the economy should drive the decisions with government support. He spoke against AGIA.
7:08:36 PM	SENATOR HUGGINS	Referred to the \$20 million worth of data compiled by the administration. He spoke to a survey supporting in-state gas. He noted that the legislature is going to communities to directly hear the voice of the people. He acknowledged the complexities of the issues and encouraged participation.

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

ADJOURNMENT

There being no further business, the joint meeting of the House Rules Standing Committee and the Senate Special Committee on Energy was adjourned at [7:10:49 PM](#).