ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE SPECIAL COMMITTEE ON ENERGY
HOUSE RULES STANDING COMMITTEE
BARROW AK
July 1, 2008
9:03 a.m.

MEMBERS PRESENT

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Bert Stedman, Vice Chair
Senator Kim Elton
Senator Lyman Hoffman
Senator Lesil McGuire
Senator Donald Olson
Senator Joe Thomas
Senator Bill Wielechowski

HOUSE RULES

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

MEMBERS ABSENT

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Charlie Huggins, Chair
Senator Fred Dyson
Senator Lyda Green
Senator Gary Stevens
Senator Thomas Wagoner

HOUSE RULES

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

OTHER LEGISLATORS PRESENT

Senator Gene Therriault
Representative Mike Chenault

Representative Sharon Cissna
Representative Andrea Doll
Representative Mike Doogan
Representative Bryce Edgmon
Representative Berta Gardner
Representative Lindsey Holmes
Representative Reggie Joule
Representative Wes Keller
Representative Gabrielle LeDoux
Representative Bob Lynn
Representative Mark Neuman
Representative Jay Ramras
Representative Bob Roses

COMMITTEE CALENDAR

SENATE 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

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

PREVIOUS COMMITTEE ACTION

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
06/06/08	(S)	MINUTE(ENR)
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
06/08/08	(S)	Heard & Held
06/08/08	(S)	MINUTE(ENR)
06/09/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/09/08	(S)	Heard & Held
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06/10/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/10/08	(S)	Heard & Held
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06/12/08	(S)	ENR AT 10:00 AM FBX Carlson Center
06/12/08	(S)	Heard & Held
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06/13/08	(S)	ENR AT 10:00 AM FBX Carlson Center
06/13/08	(S)	Heard & Held
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06/16/08	(S)	ENR AT 9:00 AM ANCHORAGE
06/16/08	(S)	Heard & Held
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06/20/08	(S)	ENR AT 9:00 AM ANCHORAGE
06/20/08	(S)	Heard & Held
06/20/08	(S)	MINUTE(ENR)
06/24/08	(S)	ENR AT 1:00 PM MAT-SU
06/24/08	(S)	Heard & Held
06/24/08	(S)	MINUTE(ENR)
06/26/08	(S)	ENR AT 1:00 PM KENAI
06/26/08	(S)	Heard & Held
06/26/08	(S)	MINUTE(ENR)
07/01/08	(S)	ENR AT 9:00 AM BARROW

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; Subcommittee Assigned
06/04/08	(H)	MINUTE(RLS)
06/04/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/04/08	(H)	Heard & Held
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06/05/08	(H)	Heard & Held
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06/06/08	(H)	Heard & Held
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06/07/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/07/08	(H)	Heard & Held
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06/08/08	(H)	RLS AT 1:00 PM TERRY MILLER GYM
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06/12/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/12/08	(H)	Heard & Held
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06/13/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/13/08	(H)	Heard & Held
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06/16/08	(H)	RLS AT 9:00 AM ANCHORAGE
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06/18/08	(H)	RLS AT 9:00 AM ANCHORAGE

06/18/08	(H)	Heard & Held
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06/19/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/19/08	(H)	Heard & Held
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06/26/08	(H)	MINUTE(RLS)
07/01/08	(H)	RLS AT 9:00 AM BARROW

WITNESS REGISTER

DEBBY EDWARDSON, President
North Slope Borough School District Board
POSITION STATEMENT: Testified during the hearing on HB 3001 and SB 3001.

MR. PALMER, Vice President
Alaska Gas Development
TransCanada Alaska Company, LLC ("TransCanada")
POSITION STATEMENT: During the hearing on HB 3001 and SB 3001, gave a presentation on TransCanada's application to and involvement in the AGIA process.

PAT GALVIN, Commissioner
Department of Revenue
Juneau, Alaska
POSITION STATEMENT: During the hearing on HB 3001 and SB 3001, explained the AGIA process and answered questions.

EDWARD S. ITTA, Mayor
North Slope Borough
Barrow, Alaska
POSITION STATEMENT: Testified during the hearing on HB 3001 and SB 3001.

RICHARD GLENN, Vice President
Lands
Arctic Slope Regional Corporation (ASRC)
Barrow, Alaska

POSITION STATEMENT: Presented comments during the hearing on HB 3001 and SB 3001.

GLENN W. SHEEHAN, Ph.D., Executive Director
Barrow Arctic Science Consortium (BASC)
Barrow, Alaska
POSITION STATEMENT: Testified during the hearing on HB 3001 and SB 3001.

GEORGE AHMAOGAK, SR.
Barrow, Alaska
POSITION STATEMENT: Testified during the hearing on HB 3001 and SB 3001.

MARVIN OLSON
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of himself during the hearing on HB 3001 and SB 3001.

NATHANIAL OLEMAUN, JR.
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of himself during the hearing on HB 3001 and SB 3001.

BEN FRANCE, General Manager
Barrow Utilities & Electric Cooperative, Inc.
Barrow, Alaska
POSITION STATEMENT: Testified during the hearing on HB 3001 and SB 3001.

WARREN MATUMEAK
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of himself during the hearing on HB 3001 and SB 3001.

PEARL BROWER, Special Assistant to the President
External Affairs
Ilisagvik Community College (ICC)
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of ICC during the hearing on HB 3001 and SB 3001.

GEORGE EDWARDSON, President
Iñupiat Community of the Arctic Slope (ICAS)
Barrow, Alaska
POSITION STATEMENT: Testified during the hearing on HB 3001 and SB 3001.

HAROLD CURRAN
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of himself during the hearing on HB 3001 and SB 3001.

ESTHER KENNEDY
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of herself during the hearing on HB 3001 and SB 3001.

DELBERT REXFORD
Barrow, Alaska
POSITION STATEMENT: Testified during the hearing on HB 3001 and SB 3001.

ROSEMARIE HABEICH
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of herself during the hearing on HB 3001 and SB 3001.

RANDY HOFFBECK
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of himself during the hearing on HB 3001 and SB 3001.

MARTHA FALK, Director
Natural Resources
Iñupiat Community of the Arctic Slope (ICAS)
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of ICAS during the hearing on HB 3001 and SB 3001; Testified on behalf of herself during the hearing on HB 3001 and SB 3001.

LOUISA KAKIANAAQ RILEY
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of herself during the hearing on HB 3001 and SB 3001.

CHARLES OKAKOK
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of himself during the hearing on HB 3001 and SB 3001.

IDA OLEMAUN
Barrow, Alaska

POSITION STATEMENT: Testified on behalf of herself during the hearing on HB 3001 and SB 3001.

CARRIE KITTICK
Barrow, Alaska
POSITION STATEMENT: Testified on behalf of herself during the hearing on HB 3001 and SB 3001.

ACTION NARRATIVE

VICE CHAIR BERT STEDMAN called the joint meeting of the Senate Special Committee on Energy and the House Rules Standing Committee to order at 9:03:22 AM.

SB3001-APPROVING AGIA LICENSE
HB3001-APPROVING AGIA LICENSE

VICE CHAIR STEDMAN announced that the only order of business would be SENATE BILL NO. 3001 and 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."

VICE CHAIR STEDMAN made introductions and explained how the committee intends to proceed.

9:11:10 AM

DEBBY EDWARDSON, President, North Slope Borough School District Board of Education, extended a welcome to the committee and expressed appreciation for the efforts of the legislature in coming to her region. She said many of the resources of the state come from the North Slope, but often the decisions made regarding those resources are made elsewhere. Ms. Edwardson stated her belief that the Institute of Social and Economic Research's (ISER's) [recommendations] should be fully funded. Energy costs are skyrocketing, she said, because of the cost of transportation. Everything has to be flown in, which increases the cost of all goods. She also mentioned that the funding for the school district does not pay for the necessary repairs and building upkeep. Ms. Edwards quoted Representative Joule as having once said that the North Slope Borough does not have a shortage of jobs, but rather a shortage of trained workers. She said the school district and Ilisagvik College are working to change that. She said there is a better track record in training people locally; the era of sending them out for education is over. She asked for the continued support of the legislature to improve educational and career opportunities for the people of the region.

9:17:04 AM

MR. PALMER, Vice President, Alaska Gas Development, TransCanada Alaska Company, LLC ("TransCanada"), said his presentation on TransCanada's application would be a review of the information the legislature has studied for the last 30 days, but it may be new information for the listening public. Mr. Palmer said TransCanada has 3,600 employees; its gas business extends across North America; it has experts in all disciplines related to gas pipelining.

MR. PALMER reviewed that when the AGIA process was established by the legislature and the governor of Alaska one year ago, TransCanada had to choose whether to remain involved solely in the gas on the Canadian side or to submit an application to Alaska when the state put out a request for application (RFA) in the summer of 2007, with an application deadline of 30 November 2007.

MR. PALMER said TransCanada's decision was based on several issues. First, the corporation thinks the project has strong economics, is "in the money," should go forward now based on reasonable natural gas prices, and would be economical without the need to increase today's prices, which he commented are benefitting both state and national coffers, while creating a challenge for the individual consumer. Second, Mr. Palmer said TransCanada carefully considered whether or not Alaska's administration, legislators, and citizens are committed to this project, because he said no commercial party can deliver the project without the cooperation of the government. Regarding the legislature's commitment, he noted that the legislature voted for AGIA with only one dissenting vote.

MR. PALMER said AGIA sets out the rights and responsibilities of all parties to the project. TransCanada was one of five applicants last year and the corporation learned in January 2008 that it had made the only complete, qualifying application. He noted that all the paper work TransCanada has submitted is available to the public. Mr. Palmer listed the following reasons that the project is important to TransCanada: It is a strategic fit of the corporation; it's the base business that the corporation has been in for 50 years; it fits with TransCanada's core competencies and experience; and it is within the corporation's geographic footprint. He stated that TransCanada thinks it can provide costs savings for the project, and he said the project is a means by which to refill some of the existing pipelines "leaving Western Canada."

MR. PALMER said he personally has been working on this project for 23 years, most actively for the past 5 years. He stated his belief that TransCanada is aligned with the State of Alaska's objective to "open the basin and provide access and long-term employment and revenue for the state over the course of the next 50 years." Mr. Palmer noted that TransCanada had sought involvement under the Stranded Gas Development Act under former Governor Frank Murkowski, but that administration decided to work only with North Slope producers. The current administration decided to conduct an open and competitive process, asking those applying to reveal their commercial secrets in advance of being selected as a licensee, which he said is highly unusual. Mr. Palmer said he hopes that the corporation will not have revealed those secrets in vain and will be selected as the licensee.

MR. PALMER said the corporation believes: "As you foster competition in the pipeline business, you also foster competition at the upstream end of the project." He said it is odd that after all the years Alaska has been involved in gas production there are only 3 major producers. He said TransCanada started its business in Alberta 50 years ago with 3 initial customers, and now it has more than 300 customers, and he said Alberta has "seen the benefit of that extra competition."

9:28:18 AM

REPRESENTATIVE LEDOUX asked Mr. Palmer what sort of agreement TransCanada had with producers in Alberta when it first started out there.

9:28:47 AM

MR. PALMER answered as follows:

> There were some different arrangements, actually, within the Province of Alberta, as well as for the longline moving the gas away from Alberta to Eastern Canada .... But the pipeline away from Alberta - the

longline at that time - was structured as a merchant pipeline, so it was the buyer of the gas and it sold the gas to local distribution companies in Eastern Canada. There was a very different regulatory structure at the time throughout North America than what we've seen in the last 20 years - really, since 1985 - as the business has deregulated. Local distribution companies, on behalf of residential, commercial customers like ourselves, as well as industrials, were the primary customers of longline pipelines at the time. That was the case throughout North America .... We had the right to purchase gas from certain fields - in the Provence of Alberta - from producers. So, that was the circumstance on the longline leaving Alberta.

The system within Alberta was an open access, third party transporter. In other words it moved other people's gas, and did so since its inception 50 years ago. It was never a merchant pipeline - it never bought gas - it strictly moved gas for third parties. So, a different structure within the Provence of Alberta and the one moving away from the Provence of Alberta.

MR. PALMER continued with his presentation. He related that the corporation thinks constructing, operating, and expanding this project is not in conflict with any other component of its business. He said TransCanada's proposal "contemplates spending north of $600 million - some of it your money, some of it our money." He talked about open seasons. If granted the license, TransCanada will, over the course of the next two years, put forth its commercial terms and offer its service to potential customers. It will also seek federal government approval, as well as state government approval, because "building a project of this nature requires a significant amount of environmental, field, engineering, and other work where permits are required ...." He said TransCanada does not want to waste its $100 million investment, thus it, along with the State of Alaska, seeks success.

9:32:25 AM

MR. PALMER noted that some parties in the media have suggested that TransCanada will be moving Alaska's gas to Canada. He relayed that TransCanada owns 12,000 miles of pipe in the US. He said the corporation runs an integrated gas business, with offices across the United States, including those in Houston, Texas, Portland, Oregon, Omaha, Nebraska, and Troy Michigan. Mr. Palmer stated that TransCanada thinks "the Canadian example is most similar to your circumstance for your project." He explained that TransCanada started 50 years ago as a small pipeline company far from its small residential, commercial market in Calgary, with only 3 initial commercial customers and only 15 tcf of known reserves at that time. He noted that the corporation now has over 300 customers.

MR. PALMER said another concern expressed is whether TransCanada can do this and has ever done it before. First, he noted that TransCanada moves 20 percent of North American gas, and it owns none of that gas. That is what TransCanada proposes to do in Alaska and what it has been doing for 50 years. He stated, "It is highly unusual for the gas producers to also own an interstate or interprovincial gas pipeline ... in North America." It is the norm for pipeline companies to transport gas from the wellhead to local distribution companies. He stated that TransCanada has the technical skills that no one else has to finish this project. Mr. Palmer noted that some people say TransCanada would not be motivated to control costs because it does not pay its own fees. He said, "I can assure you that we have not become a successful corporation by overcharging our customers."

MR. PALMER stated that benchmark studies of TransCanada's operating costs, conducted by a third party, found those costs to be 25-35 percent lower than those of its competitors in both the U.S. and Canada. In response to a question Senator Hoffman had asked when the legislature met in Juneau, Mr. Palmer said there is not a third-party benchmarking study comparing TransCanada's capital costs with those of its competitors. However, he reported that TransCanada conducted its own 1990-2003 bench mark study, relating to the cost for 42- to 48-inch pipeline. In that study it found its costs to be 19 percent lower than those of its competitors in Canada and 38 percent lower than those of its competitors in the U.S. Mr. Palmer said he has shared these statistics with the legislature for four years, and while he continues to hear from some parties that TransCanada's costs will be out of control, he said he has never seen a statistic from the company's competitors that shows their cost performance in interstate pipeline.

MR. PALMER reminded the committee members that TransCanada has built longer projects than the one being proposed. For instance, he said in TransCanada's inception, it built the pipeline across Canada, and currently, in partnership with ConocoPhillips Alaska, Inc., it has a pipeline, and it, too, is longer than the pipeline proposed through this project. He related that in the 1990s, TransCanada built 7,000 miles of pipe - four times the distance of the proposed pipeline - and it did so on schedule and within 0.6 percent of budget. No other corporation has that record in constructing natural gas pipelines in North America.

9:39:38 AM

MR. PALMER said there are a number of skills in addition to the engineering skills required, and TransCanada has those skills. He indicated that some of those skills have to do with regulations, community, Native and First Nations peoples, the environment, commercial issues, and finance. Mr. Palmer ensured the committee that TransCanada has the financial capacity to complete the proposed project. He said TransCanada built a much more difficult project at the inception of its corporation, and hopes to increase the scale of that project up to $13 billion, which he said is about 50 percent of the scale of this project.

MR. PALMER related that the U.S. government has offered an unprecedented $18 billion loan guarantee to help complete this project and lower the interest rate. He said some may question how it will work out to have pipeline through 1,000 miles of Canadian territory, where the U.S. has no control, but he pointed out that that issue was addressed over 30 years ago "when this project was supposed to be completed." At that time, he said, the U.S. and Canadian governments signed a treaty in order to overcome those issues that might arise in a foreign country and to assure the U.S. that Canada is committed to the project. He said that is unique to any pipeline project across the country. Furthermore, he said there is specific legislation in Canada designed to facilitate this project; the Canadians already have $2 billion invested and 25 percent of the project done. He said, "The Alaska Gas project is in the ground and has moved Western Canadian gas to market since 1981-2."

MR. PALMER said there has been interest in a liquefied natural gas (LNG) alternative, which would move gas to Valdez and the Lower 48 or alternately to foreign markets in Asia. When TransCanada submitted its application, it had to decide whether it would put forward that alternative. He said after significant analysis, TransCanada believes that the superior project is the one to the Lower 48, and it decided it would put forward that alternative. He stated:

> When we hold that initial open season, parties will have the opportunity to nominate gas at delivery points along the route in Alaska, along the route in the Yukon, and on down to Alberta or to Valdez ... simultaneously. And in the event that gas is committed sufficiently to Valdez, just as it would be to Alaskan markets or to markets to the Lower 48, we will build a pipeline to that location.

MR. PALMER next addressed concerns regarding the state's offering $500 million to obtain the cooperation of a company that submitted its application under AGIA. He said he thinks Alaska should consider that money an investment in its future. He said TransCanada thinks that $500 million will buy the following: a reliable and capable partner committed to advancing the state's interest. The State of Alaska has asked TransCanada to hold an open season within 36 months, and the corporation has indicated it will do so within two years, then hold further open seasons every two years and expand the pipeline within engineering increments. Furthermore, Mr. Palmer said TransCanada is committed to voluntarily expand the pipeline.

9:46:20 AM

MR. PALMER said that in the event there is a failed open season, TransCanada has committed to continue on to Federal Energy Regulatory Commission (FERC) certification, which he said is very unusual because it would cost the corporation a great deal. He said that guarantee is one reason the state has offered the money. He opined that the motivation of the pipeline owner is important to the future of Alaska - not just to construct the initial project, but also to expand it over time.

9:47:23 AM

MR. PALMER related that TransCanada thinks employment on this project will come over time from expansions and drilling. He noted that TransCanada owns 36,000 miles of natural gas pipeline across North America, has 3,600 employees, and has about 10,000 megawatts of power generation. He said that means each of TransCanada's employees, by proxy, are responsible for approximately 10 miles of pipeline and about 3 megawatts of power. When completed, the proposed pipeline will have 750 of its miles from Prudhoe Bay to the Alaska/Yukon border or to Valdez, which would imply that when completed there will be 50-

75 jobs to operate that pipeline. Efficient line operators do not require major employment to operate the pipeline. He estimated that there would be thousands of jobs during the few years of construction, as well as some jobs in the gas treatment plant. The long term employment will come from promoting expansion and promoting drilling, he said, and that is where a number of Alaska Native corporations are in a good position to provide services.

9:49:28 AM

REPRESENTATIVE JOULE took a moment to remind the public where they were meeting and advised them of the schedule. He invited them to come down and speak to the legislators.

VICE CHAIR STEDMAN said the committee would accept testimony, not only on AGIA, but on any that needed to be addressed.

9:51:43 AM

MR. PALMER turned to his PowerPoint presentation. As shown on slide 2 of the PowerPoint, he named TransCanada's objectives. First, the corporation wants early in-service. He said, "It is the largest investment opportunity in the natural gas pipelining in our core business, and it's within our geographic footprint." He said TransCanada has spare capacity on its existing North American pipelines that it would like to refill. He said the corporation is in favor of long run basin development to serve in-state and other markets, and he emphasized the importance of increasing market and supply diversity. Mr. Palmer said this is a growth opportunity, wherein successful drilling can promote further explanation. He said TransCanada has provided equitable treatment to its customers across North America for 50 years.

MR. PALMER presented a map of TransCanada's system across North America. The current system, he said, allows gas to move across the U.S. and Canada. The pipe from Alberta serves markets in Boston, New York, Chicago, Detroit, and Seattle, as well as other cities. He reiterated that the Alaska project is 1,700 miles of pipeline, and he said in the 90s, TransCanada constructed 7,000 miles of pipeline. The oil line currently under construction with ConocoPhillips Alaska, Inc., is actually longer than the Alaska project.

MR. PALMER related that there are two components to the project: that which happens in Alaska and that which happens on the long line away from Alaska on the way to major markets. He pointed to a chart showing that 50 years ago the pipeline system was made up of 250 miles of pipe and three customers in the Southeast corner of Alberta. The chart shows how that pipeline system has evolved in the last 50 years. He noted that some areas of the province of Alberta are not gas prone, either because the gas is not there or the areas are national park and are off-limits. However, he said there are 1,100 locations in Alberta where gas can be taken "off and on the system." TransCanada is moving 48 times the volume it started with 50 years ago.

MR. PALMER pointed to a line leaving Alberta and heading to Eastern Canada, which he said was a single line initially, completed in October 1958. The initial section of gas pipeline from Alberta to Winnipeg is 50 years old and, over the next 12 months will be converted to an oil line.

9:58:21 AM

MR. PALMER turned to another slide, which related to expanding pipelines. The way a pipeline is expanded, he said, is either by adding extra compressors or pump stations or by putting a parallel pipe in the same right of way, which is called, "looping." The pipeline will be buried under four feet of soil, he said. The chart shows that there are six parallel pipes leaving Alberta, and in certain places there are partial loops, because it is not necessary to build a complete pipeline when there is a modest expansion. Mr. Palmer said, "If, indeed, you do have 235 tcf of available gas up here, we think that's the type of expansion that is possible from Alaska over the next 50 years."

10:00:10 AM

MR. PALMER, in response to Senator Therriault, confirmed that as shown on the chart, the line being converted is the Keystone line. He reiterated that TransCanada is 50/50 partners with ConocoPhillips Alaska, Inc. He stated that the conversion of that line to oil in the next 12 to 18 months will "lower the cost of the project for all parties."

SENATOR THERRIAULT said in the past there was talk about a bullet line out of Alberta that would take Alaska's gas into the Lower 48 market. However, he opined that if there is spare capacity on existing pipes, that just would not make sense.

MR. PALMER responded that after the pipe is converted, and in 10 years time, there will be spare capacity in the pipes moving away from Alberta for the full Alaska volume, which is anticipated to be 4-5 bcf per day of spare capacity leaving Western Canada to the U.S. Economics indicate that using that spare capacity rather than building a new pipeline to Chicago will provide a better netback - a better return - for Alaskans.

SENATOR THERRIAULT said it makes sense to ship oil through existing pipeline.

MR. PALMER listed other benefits: superior economics, market diversity, liquidity, and lowered capital cost risk on the entire project.

REPRESENTATIVE SAMUELS asked for confirmation that TransCanada entered into a commercial deal with Conoco Phillips, Inc.

MR. PALMER responded yes. He said TransCanada held an open season, and parties made arrangements to commit their gas. At that point, ConocoPhillips Alaska, Inc., became the major shipper, as well as the partner in the project.

REPRESENTATIVE SAMUELS noted that AGIA economics seen thus far show it would be economical right now to ship using TransCanada's spare capacity; however, the economics 10 years from now, when Alaska would still be forced in TransCanada's hub, are unknown.

MR. PALMER said he has been describing the economics in 10 years time, not the economics of today, and those economics show that TransCanada's costs will be lower and the cost of "moving on spare capacity" also will be lower.

REPRESENTATIVE SAMUELS responded, "You will go to the [National Energy Board] (NEB), and we will take what the NEB gives us, because we have no option but to ship our gas in your empty capacity." He said he understands how that is a good thing from the point of view of TransCanada, but said that takes options away from Alaska "which may or may not be useful 10 or 20 years from now."

MR. PALMER said he disagrees with Representative Samuels. First, he argued, TransCanada is requiring customers to commit gas into its system in Alberta, not beyond. In the event that Alaska does not wish to move gas on TransCanada's system away from the Alberta hub, or wants to build a new pipeline to

Chicago or to Boston from the Alberta hub, it would have every right to do so. He said TransCanada does not think the economics would be there to do so, but Alaska could do it.

REPRESENTATIVE SAMUELS noted that 10 years ago, every economic factor was different than it is now. He reemphasized that Alaska does not know what will happen 10 years hence, and although it may not be an issue at all, the state could be taking a risk in giving up an option by being forced into TransCanada's hub.

MR. PALMER responded that the cost to get into the Alberta hub in TransCanada's application is between 15 and 18 cents. Alaska has full options away from that location. By entering the hub, the state would have the opportunity of entry into the second most liquid hub in North America. At that point, Alaska would have the opportunity to trade its gas. He said he has described TransCanada's economics, and he reminded Representative Samuels that he has also described that system, because it is completed is not experiencing the cost inflation that other new builds are experiencing. He said it is true that TransCanada, or anyone else, does not know what will happen over the next decade; however, he said it is much easier to predict the future on an existing system than on a new build. He summarized that Alaska would be buying "optionality" at a very low price, would have liquidity, and would have full capability to move wherever it wishes away from that system.

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REPRESENTATIVE SAMUELS responded, "If it's such a no brainer, then why should we be forced into it? If that's where we're going to end up anyway, then let the economics determine that and that's where we'll end up. ... Obviously there's some risk involved for yourselves or you wouldn't have put it in your proposal."

MR. PALMER said he would not describe it as a "no brainer," but rather as a well thought out proposal. TransCanada thought carefully as to where the best alternative is for Alaskan gas and for its corporation, as well. He said he thinks there is a win-win solution here. Furthermore, TransCanada has a proposal to also improve the economics for Alaskan gas by "going commercially back here to Fort Nelson." The only way to do that, he explained, is to integrate into the Alberta hub. That option will never be available to Alaskan gas without going into that hub, "because you're in effect integrating into the Alberta hub upstream of where it would be commercially possible otherwise." He said these are, of course, considerations for the administration and legislature to review as it decides whether or not to grant TransCanada a license.

The committee took an at-ease from 10:11:00 AM to 10:20:37 AM

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SENATOR THERRIAULT remarked that once Alaska is signed on, TransCanada could raise its tariffs, at which point Alaska might decide to build its own pipe. He observed that NEB is not interested in seeing a lot of spare capacity built and not used; therefore, he questioned how NEB would make a decision on whether to allow a competing pipe to be built for purposes of having a lower tariff, versus "forcing the molecules into your existing system."

MR. PALMER, in response to a request from the vice chair, explained the definition and purpose of FERC and NEB, noting that NEB is FERC's Canadian counterpart. He then told Senator Therriault that the senator had described a circumstance that the governor of Canada has not had to address, because generally there has not been fair capacity. When fair capacity has existed, the cost has been lower than the cost of construction on the new pipeline. In the unlikely event that the cost of the fair capacity is actually higher than the cost of the new build, there would be significant pressure on the owner of that spare capacity to "compete hard" to get that business, as well as pressure by the NEB "to encourage them," he said.

SENATOR THERRIAULT surmised that any shipper that would come to TransCanada would do a little bit of preliminary work regarding price of shipping, then armed with that information, would then ask TransCanada what its price would be. If that company could beat that price, then it would tell TransCanada so, and it would drive TransCanada's price down.

MR. PALMER responded that Senator Therriault had just described what perhaps the three producers did in 2001; they modeled a pipeline from Alberta to Chicago, as opposed to trying to model TransCanada's complex, integrated system, which would have been very difficult, if not impossible; therefore, they had a competitive price to bargain against TransCanada at that time. In fact, today, he said, the Denali project still has an alternative proposal for a bullet line away from Alberta to

Chicago. He added, "Modeling our complex system is much more difficult."

SENATOR THERRIAULT reasoned that as gas molecules are put into the spare capacity, there would be a benefit to all the other shippers, because they would then be sharing the fixed cost. He asked Mr. Palmer to "go over the mechanism that you have that takes part of that benefit and shares it back up the line."

MR. PALMER first explained that the way energy regulation occurs on gas pipelines in Canada is that the pipeline is not at risk for volume. So, in the event there is spare capacity, as exists today, the unit tolls are increased for all remaining customers, and the pipeline company makes exactly the same amount of profit. When the spare capacity is refilled, the reverse occurs and tolls are lower for all existing customers. TransCanada estimates that when Alaskan gas comes to market, there will be a $10 billion toll savings to Western Canadian producers. He reiterated that it would be a win/win situation. In the event that TransCanada extends the Alberta hub up to Fort Nelson, thus sharing those costs from Fort Nelson south with Alberta customers, tolls for Alaska customers would be lowered by 13-18 cents and $3 billion of value would be shifted to Alaskan customers and away from Canadian customers. Western Canadian customers would still see $7 billion of value, but $3 billion would accrue to Alaskans. He clarified that that would only be available if the line goes into the Alberta hub (and on to Ft. Nelson).

10:28:02 AM

MR. PALMER, returning to his presentation, said he would not detail slides 7 and 8, but noted that they show TransCanada's response to AGIA "must-haves." He continued on to slide 9, which shows "TransCanada's Competitive Response to AGIA." Mr. Palmer relayed that certain parties have indicated that AGIA has failed because there has been no competition, with only one party making it through the first screening. He said he has been involved in about 50 competitive bids worldwide, and some of those bids have preliminary bid requirements, but most ask for a "best and final bid." That is what happened, he said. TransCanada put forth a proposal that anticipated competition, and Alaska has seen the benefit of it.

MR. PALMER said TransCanada indicated that it would prefer not to own the gas treatment plant in Prudhoe Bay. He said TransCanada thinks that the parties that hold the leases and own

10:34:41 AM

the existing facilities are the logical owners of that facility and should have cost savings and synergies that no other party will have, simply because they can use common use facilities that any other party could not use. However, if the existing producers don't want to own or build that facility, perhaps other Alaskan entities would like to step in, because at about $6 billion out of a $26 billion capital cost, it is a very significant piece of business. In the event that other parties do not wish to build and own that facility, TransCanada would do so, because it is a necessary facility to complete the project, he said.

MR. PALMER said most customers of gas pipelines do not want to be owners; they normally like to invest their money in vertical pipe - "down in the hole" - as opposed to horizontal pipe that is regulated and yields a much less volatile but much lower return. However, he said TransCanada has heard from a number of potential customers that they may wish to own equity in the project, and TransCanada has stated openly in its application that those people would have the opportunity to become a partner of TransCanada's if they commit their gas in the initial open season. He said that should help increase the likelihood of the success of the project.

MR. PALMER turned to the issue of how the project would be financed, whether with 100 percent equity and a modest amount of debt, as are a lot of small businesses, or with a significant component of debt. He named two risks involved in projects: business and financial. In the pipeline business, particularly in the U.S., there is a wide range of debt equity structure, which is how much debt there is relative to the total capital structure of the project. In the U.S., pipelines are financed with anywhere from 30-60 or more percent equity. The remainder, he said, is debt. AGIA specifically requires a pipeline company to have a minimum of 70 percent debt, so only 30 percent equity. He emphasized that pipeline companies only earn profits on the equity component; the debt component, he said, is strictly a "pass through to the customer." The less equity a pipeline owner has, the less earnings it has; therefore, a pipeline company prefers to have "thicker" equity - 50 or 60 percent equity. In order to compete, TransCanada has indicated that it will go to 75 percent debt, a structure which equals a toll reduction of $0.09/mmbtu. He explained that that reduces the tolls by $150 million per year for 25 years, which is a massive savings.

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REPRESENTATIVE LeDOUX asked if a pipeline company could have more equity and voluntarily base its profits as if they had less? In other words, she asked if the real question may be what will be charged, not how that figure is determined.

MR. PALMER said he thinks Representative LeDoux is describing a "deemed capital structure," which means how a company collects the tolls from its customers. He said that could be different from the actual capital structure, but is often not. He pointed out that if he had 50 percent equity and collected tolls as if he had 25 percent equity, then he would have really unhappy shareholders. In response to a follow-up question from Representative LeDoux, he reiterated that it could be done, but it would be a rare occurrence. He said, "There have been occasions where companies have had less equity, actually, then what they're allowed to earn on, but in order to do that they usually have to have the financial strength in the remainder of their businesses to carry it, or the lenders will not lend them the money."

VICE CHAIR STEDMAN asked Mr. Palmer to explain who sets that tariff and how the regulatory body would interact with a ratio of 70/30 or whatever arrangement happens to be before it.

MR. PALMER said the regulatory bodies in the U.S. and Canada set the tariff; however, it would be highly unusual for a regulator to require a pipeline company to have more equity than it voluntarily proposes in its application. He stated, "There's an old joke in the Canadian regulatory business that says, 'Regulation is like a noose; over time it tightens.'" He said pipeline companies are always concerned that the regulator will require them to take less over time than what they think as pipeline owners they should have. Because AGIA would require TransCanada to file for 75 percent debt and 25 percent equity, it would be unusual that a regulator would tell TransCanada that it should have more equity and therefore charge higher rates for the customers.

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VICE CHAIR STEDMAN asked Mr. Palmer to explain the return required on equity and the return required on debt, and where the company makes its money on one versus the other. He said he would like the listening public to understand why this is even an issue of concern for the state or for TransCanada.

MR. PALMER responded that operating costs for a new pipeline of this scale would be between 8 and 20 percent of the actual costs. The remainder of the costs relate to the capital expenditures to build the project. He explained that operating costs are relatively low because it takes very few people to operate a pipeline. The real costs, he said, are in repaying the capital, which he reiterated is funded with both debt and equity. Using the example of 75 percent debt, Mr. Palmer said that debt will be funded by banks and bonds and other parties that advance debt money to the capital players, and in this case will have a U.S. government loan guarantee for up to $18 billion, plus inflation, starting from 2004. That should lower the interest rate, he said. TransCanada has projected that that loan guarantee debt would be around 5 percent. He offered his understanding that when "Goldman Sax did it for the administration," it assumed the debt cost would be around 7 percent. That, he explained, would mean it would have a 7 percent interest or coupon rate, which would be charged to the customers. So, $30 billion at 75 percent, he said, is about $22.5 billion of debt. Multiply that by 7 percent and the result is the interest rate that would be charged each year to the customer, he said.

MR. PALMER said the second component is the equity, which is 25 percent - in this scenario $7.5 billion - times the equity rate of return of 14 percent, plus the income tax impact, both state and federal in the U.S. and provincial and federal in Canada. That increases the cost of equity, not just because the return is at 14 versus 7, but because of an income tax impact that is payable by the customers. He said, "That is a significantly higher cost ... than the debt, which is why customers always want pipeline companies to have less equity." Mr. Palmer surmised that is also why regulators "want you to have less equity," because debt is cheaper than equity. TransCanada makes its money on equity, not on debt.

MR. PALMER said TransCanada has proposed that in the event there is a capital cost overrun, it would take a rate of return reduction for five years, which he said is unusual in the pipeline business, because there is a relatively low component of equity. He said TransCanada's business risk must be lower because its financial risk is higher.

MR. PALMER noted that the last two items on slide 9 are the upside of a run through Fort Nelson and the LNG alternative - both items of which he discussed previously. The system in central Alberta, shown on slide 10 as a solid blue line, is the existing Alaska gas pipeline, prebuilt and put into service in 1981-82, when the project was expected to be going forward. There was surplus gas in Western Canada, so that system was put in place under the existing regulatory and legal structure in Canada to move Western Canadian gas, which was expected for only seven years, but has been in place for 27 years now.

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SENATOR THOMAS asked what will drive or cause spare capacity to develop over the next 8 to 10 years, and what the options would be for a pipeline company or producer in Alberta if it decided not to enter the Alberta hub.

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MR. PALMER answered that currently there is about 2 bcf/d of spare capacity on systems leaving Western Canada, out of a total capacity of 15 bcf/d leaving Western Canada. The anticipation is that Western Canadian supply will be relatively flat or slightly lower over the next decade; however, there is a significant growth and demand within Western Canadian markets themselves. That growth, Mr. Palmer said, is coming from a number of sources: oil sands, heavy oil development, and electric generation. He said those factors are expected to drive demand in Western Canada up by about 2 bcf/d in the next decade. That means there would be 4-5bcf/d of spare capacity in 10 years' time.

MR. PALMER, in response to Senator Thomas's second question, said a company other than TransCanada constructing a pipeline for Alaskan gas through Canada, to the Alberta border, would first have to obtain the approval of the government of Canada to do so. He indicated that in order to do this, that company would, in affect, have to be granted the existing rights that TransCanada has held for 30 years. Making the assumption that that much had been achieved, the company would have the opportunity to either enter "our" system or to build facilities to whatever markets it thought best. It would have to obtain regulatory approval, as any party would, but it would have the right to build the pipeline wherever it wished. He added, "You would also have the right, if you required us through the National Energy Board, to connect with your system, if you so chose. The government of Canada, through the National Energy Board, has the authority to require us to connect with you, even though I may or may not wish to."

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SENATOR THERRIAULT recalled that when representatives from FERC testified during a meeting in Anchorage, the legislature received information about debt to equity ratios and FERC operating under a "zone of reasonableness," regarding what FERC would approve. He asked if NEB has similar terminology that guides them to approve debt to equity ratios up to a certain percentage.

MR. PALMER answered yes. The system in Alberta, as well as the system across Canada actually has 40 percent equity, not 25 percent. What is important is multiplying the equity percentage by the rate of return. He continued:

> If you take the 25 percent times 14, what's important is to compare that against other pipelines - equity ratio times their rate of return. I'll just give you an example: The Rockies Express pipeline currently being completed from the Rockies over to the Midwest and beyond, has a 13 percent FERC allowed return on 55 percent equity. So, 13 times 55 is just under 7 percent; 14 times 25 is 3.5. So, you can see that for a project which we would argue is at least as risky as Rockies, we're proposing to have a lower return. And if you look at the National Energy Board return, for existing projects in the ground it's true they've had a lower rate of return, but when you multiply that number times 40 percent, that's very comparable with a to-be-built Alaska pipeline.

MR. PALMER, in response to a follow-up question, offered his understanding that current ownership of Rockies Express is Kinder Morgan at 51 percent, with ConocoPhillips Alaska, Inc., and Sempra owning the other 49 percent. He said he does not know the debt:equity ratio of the Keystone project, which he noted is an oil pipeline.

SENATOR THERRIAULT asked what the impact on the tariff would be if Alaska had 50-55 percent equity in this pipeline.

MR. PALMER calculated that in the event that "we" went from 25 percent up to 50 percent equity, 9 cents would be multiplied by 5, thus there would be a 45-cent increase in the tariff on a $2.41 base. Therefore, he concluded that the increase in the total would be something in the order of a 20 percent increase in the toll.

SENATOR THERRIAULT remarked that the impact to the take the state would have would be significant.

MR. PALMER said obviously a 20 percent increase in the toll is equivalent to a 20 percent capital cost overrun or "any other component that could move you 20 percent." He continued:

> If you think about what else it would take to move that, that would mean interest rates would have to move up by probably in the order to 30 or 40 percent. ... When you try to predict what items could move the toll by 20 percent, they really go to capital cost overrun - the component that is equity or interest rates.

SENATOR THERRIAULT said Mr. Palmer has mentioned a 14 percent rate of return, which he said is what TransCanada hopes to get; however, he noted that the company has not "gone to FERC" or "gone to NEB." Therefore, he stated his belief that TransCanada has "started high" and expects to be pressured by the regulators and shippers to "probably squeeze that a bit." He said there is a stated toll that gives the 14 percent rate of return, but suggested the major shippers are probably going to negotiate "something a little bit better than your sort of default ... tariff."

MR. PALMER concurred. He said he would expect the majority of TransCanada's customers to negotiate a toll with the company. He said he has yet to hear a customer tell him that his rate of return is too low, and he has experienced cross examination from examiners for many years, where they have thought his rate of return was too high. He said TransCanada thinks it has put forth reasonable numbers, but its customers and regulators often hold a different point of view that TransCanada is perhaps asking for too much, at which point bargaining does occur.

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SENATOR ELTON asked Mr. Palmer if he could provide a table showing "different debt levels," as well as the cost to the state for shipping its gas.

MR. PALMER said Commissioner Galvin had calculated those figures. He recollected that Commissioner Galvin had indicated that if the debt equity ratio was at 50:50, there would be a $1 increase in the toll, and that is because "they're starting with a higher base." Each 5 percent change in the debt:equity ratio, using the tolls Mr. Palmer provided, means a 9 cent differential to the customer. Depending on tax revenue and percentage, a one-third interest would mean "you would see 3 cents of that change."

SENATOR ELTON clarified that he is still finding it difficult to determine from the percentage of effect on the tariff what the actual dollar impact could be on the state.

MR. PALMER responded as follows:

> (Indisc. -- coughing) translates that 9 cents into ... dollars per year. Dollars per year at 9 cents is [a] $150 million change. So, if your tax rate - and I do not know the specific tax rate that you will ultimately apply to this project - but if your tax rate were one-third, that would mean there'd be a $50 million per year impact. If your tax rate were 50 percent, then it would be [$75 million], and so on.

VICE CHAIR STEDMAN asked Mr. Palmer to explain the difference between FERC and NEB in terms of the rates they set on equity.

MR. PALMER related that the FERC rate of return is generally higher than that of NEB, primarily because pipelines in the U.S. are usually at risk of a volume change. If a U.S. pipeline loses a customer, it usually does not get to recover their costs by increasing its toll to existing customers. Another difference is that U.S. pipeline companies are not required to have their tolls reviewed regularly, so as pipelines depreciate over time, pipeline companies often do not change their toll. That is not the norm in Canada, where a company regulated by NEB and granted a rate of return by NEB of "x" percent will usually earn approximately "x" percent return. In Canada, he said, "in the event that you lose a customer, you spread it over the smaller base, if you add a customer, you spread it over the higher base, and also, as you depreciate the pipe, you must change your toll." The Canadian regulators today are generally allowing returns that are related to interest rates, and the current interest rate allowed return on equity in Canada for 2008 is 8.71 percent on 40 percent equity, he said. He offered further details.

VICE CHAIR STEDMAN concluded that there is a difference in methodology between the two countries that the legislature should keep in mind as it moves forward.

MR. PALMER concurred.

SENATOR THERRIAULT noted that an [opposite editorial (Op-Ed) page] was distributed to the committee, and he asked who was responsible for providing it.

VICE CHAIR STEDMAN offered his understanding that Representative Ramras was responsible for the Op-Ed piece.

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SENATOR THERRIAULT remarked that it is full of inaccuracies.

VICE CHAIR STEDMAN responded that everyone is entitled to his/her opinion.

11:00:30 AM

REPRESENTATIVE SAMUELS asked Mr. Palmer if he would agree that the gas market in the Lower 48 is a lot different than that in Alaska.

11:01:06 AM

MR. PALMER responded yes. He said he thinks this pipeline will be the sole service provider for many years, perhaps decades.

REPRESENTATIVE SAMUELS, regarding debt/equity splits, noted that in 2004, the U.S. Congress specifically passed legislation on this pipeline that mandated that exploration must be enhanced, which includes the debt/equity split for the tariff, the rate of return, which FERC will determine, and the expansion provisions. These issues have already been spoken to by U.S. Congress and FERC. Thus, any comparison between pipelines in the Lower 48 and the pipeline that will be a monopoly line from the North Slope through Canada or Valdez is like comparing apples to oranges.

11:02:20 AM

MR. PALMER said many people would say the pipeline through Canada is a monopoly. He continued:

> I provided you with the numbers there, which I think you would find as similar results if you multiplied ... the equity ratio times the allowed return. Most

people would say that there is less competition on our pipeline in Canada than you would see in most Lower 48 markets. It's true, the U.S. Congress has spoken on a number of matters on this project, [but] has not stipulated the particular numbers with regard to debt equity or rate of return, as you would not expect them to. And they've certainly addressed the issue of how the tolling will be factored in.

REPRESENTATIVE SAMUELS asked if there are any other pipeline projects anywhere where the government has mandated regulations and tariff methodology to enhance exploration.

MR. PALMER recalled that when TransCanada's pipeline was going to be put in place across Canada 50 years ago, the Canadian government had to own the Northern Ontario section and finance the portion across Canada in order to ensure the project went forward and did so on the structure the government proposed. And within two years, because the project was a success, TransCanada owned it all. He said, "I don't know that they had a specific provision that said it was [to] encourage exploration, but it was certainly a government mandate that was encouraging the pipeline to be constructed in a certain fashion, which was north of the Great Lakes through Northern Ontario."

VICE CHAIR STEDMAN asked Mr. Palmer to talk about the FERC orders that took place in 2004.

11:05:12 AM

MR. PALMER responded as follows:

The government of the U.S. passed legislation called ANGPA - Alaska Natural Gas Pipeline Act - in ... October 13 of 2004, as I recall, specifically to encourage the development of this pipeline, to allow any party to make an application to FERC to construct the pipeline, and also in legislation at the same time, they passed the loan guarantee. That was ... actually a separate piece of legislation, but they also approved a loan guarantee of up to $18 billion in 2004 dollars, plus inflation, or up to 80 percent of the capital cost of the project. Once again, large benefits to the project to expedite.

They also required ... FERC ... to implement regulations for open seasons - ... how open seasons would be conducted on a project. And ... FERC held a hearing at which I testified and a number of other parties, including the state, testified, in December of 2004. ... FERC passed the following regulations in February of 2005, regarding voluntary expansions. ... A voluntary expansion is a proposal by the pipeline ... owners that they will expand and provide service either to those base customers for more volume, or to a ... third-party customer for their own volume.

In the U.S., there are two types of expansions: one voluntary, where the pipeline company proposes to do so; and the second is mandatory. Now, mandatory expansions are only allowed in the U.S. FERC rules for Alaskan gas volumes ..., not for Lower 48 volumes. So, that's a highly unusual piece of power that was granted by Congress.

But let me just address those issues, because they take you into how you charge customers. And I'll try to use an analogy for those of you who haven't spent your days in this business as I have. Most everyone pays property taxes, or most everyone pays a common tax for street lights or other services. ... In most of those cases, customers pay based on what are called, "averaged or rolled-in charges." So, if you are a new customer and your house has the same value - even though it's brand new - as an older home in the same urban or municipality, you pay the exact same property taxes .... The original homeowner gets a break; he's been paying for his service for 20 years, and he doesn't have to pay for any of the new services that are now provided to serve your home. And the logic behind that has been over time for both municipalities as well as pipeline companies ... that those new services provide value to not just the new customers, but the old ones as well, because they strengthen the system over time.

In the U.S., in the Lower 48, there has been a mechanism for expansion where there's been rolled-in tolls ..., in other words, average tolls, when the costs go down for pipelines. On the other hand, when the costs go up, it's incremental for the new guy. So, it's very different than property ... taxes.

So let me now address what that regulation passed by FERC said. They governed voluntary expansion. They have what's called, "a rebuttable presumption of rolled-in tolls." So, that means the government has said that the test is it will be rolled in unless you can convince them otherwise. So, that's a high standard, but it's only for a voluntary expansion; it does not apply where an expansion is mandated pursuant to Section 105 of ANGPA. [That is a] critical issue, [but] not for the AGIA application or for the AGIA pipeline.

The AGIA pipeline will have voluntary expansion. That is one of the must-haves; that is what we will do if we are granted a license. And we're required to do so by the State of Alaska. So, not only is the state buying TransCanada or the pipeline sponsor as another party in a FERC proceeding that is in favor of rolled-in tolls, but we are agreeing to go down the voluntary fork in the road.

If you have a non-AGIA pipeline, and it's TransCanada [that] is the owner, the question to ask that party is, "Will you file for voluntary rolled-in tolls and voluntary expansions, or will you be required to expand?" Because if you're required to expand, then mandatory expansion provisions apply, and in that case the likelihood is it will be incremental. That is the normal test in the U.S. And that's why, although a very arcane and difficult subject for people to understand - not just legislators that have had to listen to me explain this now six times, but I'm sure for those of you in the audience that have not spent 25 years addressing this - ... it's a critical, critical factor, if you want to expand your pipeline.

11:11:39 AM

REPRESENTATIVE LEDOUX asked if Mr. Palmer could give her examples of what might happen with respect to an expansion under AGIA or under another system not governed by AGIA.

VICE CHAIR STEDMAN asked that Mr. Palmer be sure in his example to clarify who the ultimate decision maker is.

MR. PALMER prefaced his response as follows:

In all cases ... FERC will make the decision, but I do need to be clear: In the event that you're proceeding under AGIA, there is a voluntary agreement by the pipeline company that they will be going for voluntary expansion that takes them down the voluntary fork in the road, at which point there's a rebuttable presumption of rolled-in toll. So, that means any party arguing against it must overcome that rebuttable presumption.

In the event that it's a non-AGIA pipeline that is not voluntarily expanding - ... and that is in the event that ... the pipeline does not propose an expansion and has to be required to expand to serve third parties - now the test is the opposite. And now the test is: if there's a subsidy, you will have to explain it to FERC and get them to agree that rolled in applies. That's the critical test.

MR. PALMER said he would now answer Representative LeDoux's question. He said the Legislative Budget and Audit Committee provided TransCanada with an example of certain expansions over time. He said that example is shown on slide 23 of his PowerPoint presentation, entitled, "Impact of Rolled-In Tolls?" The chart of incremental costs starts at 4.5 bcf/d for two years, expands to 5.9 bcf/d for two years, then to 6.5 bcf/d for two years, and finally to 7.2 bcf/d. The incremental costs of constructing those facilities are shown in his example, and Mr. Palmer specified that he has done the figures strictly for the pipeline, not the gas treatment plant. He continued as follows:

The incremental cost, of course, of building the first 4.5 bcf/d is strictly the base system. That happens to be $1.76. And going from 4.5 bcf/d up to 5.9, you're expanding using compression. You would expect that to be relatively inexpensive, and in fact it is. You'll see in the slide here the second bar at 5.9. That's actually $1.44, so the tolls go down on an incremental basis. Going from 5.9 up to 6.5 is $2.81, and going from 6.5 to 7.2 is actually $4.25. So, these are the incremental costs.

MR. PALMER turned to slide 24 of his PowerPoint presentation. He noted that the [chart] on the left shows what happens with rolled-in tolls or average tolls. The horizontal red line on the left side shows the AGIA standard, which is rolled-in tolls up to 115 percent of the base toll. He continued:

> If you always had rolled-in tolls, you stay in the left-hand side. You can see that expansion and initial customers would see a modest decline going from $1.76 at 4.5 down to $1.67 at 5.9. And all that I'm doing here ... is I took that $1.44 incremental cost on the previous page, and I averaged it with the volumes and the cost at 4.5. That's how I created the $1.67. When you go from 5.9 to 6.5, coincidentally, when you roll all those costs together, you go back up to $1.76 again. That's the third bar here at 6.5. And going up to 7.2, you're rolling it all together, you're averaging it all together, you're just about [at] $2.00 - so you can see you're just under that red line. ...
>
> Now, it's true that FERC will have to approve it. But as I described to Senator Stedman, that will be a high standard for customers to argue against.

MR. PALMER drew attention to the right-hand chart of slide 24, entitled, "FERC Lower 48 'Standard'." He said this chart would not apply for an AGIA pipeline, but could well apply for a non-AGIA pipeline "if they were not inclined as pipeline sponsors to expand for third-party gas, and if they were required to expand." He continued:

> The green bar at 4.5 is, of course, just the base number again, and that's just the $1.76. Going to 5.9, as I described to you, FERC standard is you roll in when the costs go down, so that's no problem. Both the green and the blue bar decline down to $1.67. ... Initial customers are the blue, and expansion customers are the green. But in the case where the incremental costs are higher than the base, FERC normally applies a standard that says, "Base customers do not subsidize" - that's the terminology they use - "do not subsidize expansion shippers." And you heard from the FERC gentlemen, when they were ... in Juneau, they said a subsidy usually means a toll increase. Once again, they will determine, but that's normally what they describe. A subsidy normally means a toll increase.
>
> So, if you'll recall my numbers back on the previous page, the incremental costs, going from 5.9 to 6.5, is $2.80. Clearly more than $1.67. So, in this case,

the blue expansion customer stays down at $1.67, and the expansion customer would have to pay $2.80 - so, more than a dollar higher. And then going from 6.5 to 7.2, once again, the base customer stays at that low level, and the new customer would have to pay more than $4.00, which is an increment, of course, of $2.50 more permanently for that customer. And that's where the issue comes for exploration. Because if you are a new party looking for gas, and you're not sure you can get on the pipeline, and you think you might have to make this sort of payment, that will be a significant disincentive for you to explore.

11:20:21 AM

REPRESENTATIVE LEDOUX observed that FERC does not normally allow subsidies, and she asked if there are exceptions to that.

MR. PALMER confirmed that is true regarding Lower 48 gas. Regarding exceptions, he said he recalls through the '80s and '90s, "they would often allow expansions to be rolled in if the rolled-in toll was up to 105 percent." He indicated that FERC does have the authority to "approve rolled-in," but he said that is normally not allowed.

11:21:21 AM

REPRESENTATIVE SAMUELS noted that Mr. Palmer had said the right-hand graph on slide 24 would not apply to an AGIA pipeline.

MR. PALMER said if he did, he had misspoken. He corrected his former statement by saying, "The right-hand side would not apply to an AGIA pipeline, because the AGIA pipeline must agree to go to the left-hand side, which is to voluntarily expand. And the only way it would apply is if FERC overruled the rebuttable presumption and the proposal by the pipeline."

REPRESENTATIVE SAMUELS said, "So, at the end of the day you're going to argue for the left side, and all the shippers will argue whatever their commercial interests are, and you could end up ... with an AGIA pipeline if TransCanada built it under AGIA. You could still end up on the right side; it's really up to ... FERC to ... determine whether or not they roll in the tolls ...."

MR. PALMER answered that that is possible, but highly unlikely. He explained why as follows:

> You have the pipeline company proposing it, which is important; secondly, you have expansion customers [who] will be proposing it; and thirdly, you have a rebuttable presumption of rolled-in toll - a very high standard for someone to overcome.

REPRESENTATIVE SAMUELS said Representative LeDoux had asked about subsidies not normally applying on a lower 48 pipeline. He said there is also a standard presumption of rolled-in tolls even under the Alaska gas pipeline, with all of its special rules for exploration, "where you won't get to a subsidy also, but subsidy is not defined." He asked if that is an accurate assessment of what Congress said.

MR. PALMER said this is a complex issue, and he repeated his explanation for purposes of clarification as follows:

> The FERC regulations that were passed in February of 2005 govern voluntary expansion only. That's where the rebuttable presumption of rolled-in tolls occurs. There is not a rebuttable presumption of rolled-in tolls for mandatory expansion. If you have mandatory expansions, and I'll cite you straight out of Section 105 of ANGPA, it says the following: "FERC can order an expansion of an Alaska pipe under certain criteria. If FERC orders an expansion, it can establish rates on an incremental or rolled-in basis, but FERC must ensure that the rates do not require existing shippers to subsidize expansion shippers." Those are the key words.

The committee took an at-ease from 11:25:07 AM to 11:33:42 AM.

11:34:16 AM

REPRESENTATIVE LEDOUX mentioned an example of a sewage system and said Mr. Palmer had been describing how using rolled-in rates makes the whole system stronger. She said, "Well, if you use that rationale with respect to the pipeline system, couldn't it be argued that there really would not be a subsidy, because it would make the whole system stronger?"

MR. PALMER replied that Representative LeDoux had just described the argument that Canadians have used for more than 20 years to justify rolled in rates on pipeline. However, he said that argument has not prevailed in the Lower 48, and the FERC standard has been that "it is a subsidy." He said there have been cases where that has been overturned, but the standard has been that in the event that the tolls go up, that has been treated as a subsidy. He said he is not suggesting that parties cannot make the argument - they have done so - but they have not prevailed many times "at FERC."

MR. PALMER, in response to Representative LeDoux, reiterated that ANGPA was passed in October 2004, and FERC open season regulations were passed in February 2005. In response to a follow-up question, he said obviously this issue of a subsidy has never been mitigated "for this pipeline." There have been some parties on this pipeline that have made representations to the court as to what a subsidy meant, he said. Under standard FERC rules, Section 7 applications, there have been parties that have addressed this issue. He said he is not familiar with the cases, thus cannot site them for Representative LeDoux.

11:37:54 AM

MR. PALMER returned to his PowerPoint presentation, and drew attention to slide 11, which gives a description of the project, which uses a large inch pipeline and a gas treatment plant, and which will go to the Alberta hub. Once at that hub, there is access to markets across the Lower 48 from the Northeast, through the Midwest, and all the way to California and the Pacific Northwest. Slide 12, he noted, shows the capital costs based upon the assumptions provided by the administration when it requested responses to parties from their RFA application. Slide 13 addresses the debt equity ratio, which Mr. Palmer said he had already covered. He said he also indicated that he would take some risk on the return on equity. Regarding the notation of "U.S. 10-Year Treasury Note plus 965 basis points," on slide 13, Mr. Palmer said the last time he checked late last week, those treasury notes were trading at approximately 4.1 percent, plus the 965 basis points. He explained that a basis point is one-one hundredth of a percent. He continued:

> So, when you see 9.65, that means 9.65 percent on top of that. And when we calculated this last November, that would have yielded a 14 percent return on equity. You can see at 4.1 percent last week that would have yielded a 13.75 percent rate. And when I say that TransCanada would take a rate of return reduction of 200 basis points, that is [a] 2 percent reduction. So, if our 14 percent had been allowed, we would take a return of 12 percent.

MR. PALMER highlighted that regarding the reference to 7.9 percent fuel, on slide 13, "most of that is actually at the gas treatment plant; [there is] a significant amount of fuel consumed there." He stated that to move the gas 1,715 miles from Prudhoe Bay to Alberta actually only consumes 2.15 percent fuel - a very low fuel ratio for the pipeline itself. Mr. Palmer moved on to slide 14, which shows the project schedule. He said when TransCanada made its application last fall, it did not know when the state would issue an AGIA license, but assumed it would be April 1, but now knows it was in error in assuming that. The new schedule assumes that a license would be granted on August 1, and TransCanada thinks it knows how the legislature will act by that date. Assuming that August 1 date, he said TransCanada would be completing an initial open season by July of 2010, a FERC filing would be made in 2012, with an approval hopefully by 2014, and with that approval and customers, TransCanada would have that line in service ten years from now, by September of 2018.

MR. PALMER turned to slide 15, entitled, "Partnership Opportunity." He said in the initial open season, parties that commit their gas and commit to take long-term contracts with TransCanada's customers will have the opportunity to become TransCanada's partner, if they so choose. He said often shippers do not wish to invest in the pipeline, but the opportunity will be there. Mr. Palmer next highlighted slide 16, entitled, "Upstream Fiscal Terms," which he said has to do with the state's fiscal take from producers or lease holders. He said TransCanada will be an interested observer, because "those folks are likely to be my customer"; however, he said that is business between the State of Alaska and lease holders. He added, "Both the state, as the sovereign, as well as those producers, are fully capable and sophisticated parties to discuss your fiscal take; you don't need an interested observer like TransCanada involved in that, I would suggest."

MR. PALMER, regarding slide 17, named other project components, such as natural gas liquids (NGLs). He said that includes: ethane, propane, and butane contained in the gas stream. Those NGLs generally have a higher monetary value than the actual methane gas. He said Prudhoe Bay gas, particularly, as well as Point Thomson gas is very liquid rich, and TransCanada expects that those liquids will be stripped from the gas stream and used for their own value. The question is where those NGLs will be stripped. He said TransCanada, as a pipeline company, is neutral to that; the decision is that of the customers. If the

NGLs are not removed before getting to Alberta, there are a number of third parties there that will compete vigorously for that business.

MR. PALMER turned to slide 18, which addresses regulatory structure. He reviewed that TransCanada would use ANGPA legislation for the U.S. portion, and in Canada, the company would proceed with the treaty and Northern Pipeline Act that has been in place for 30 years. He reviewed slide 19, which addresses the rolled-in tolls and shows that open season will occur every two years. Slide 19 also addresses in-state deliveries with distance-sensitive tolls, which Mr. Palmer explained means an average rate for Alaska gas. He continued:

> So, you certainly would never expect to pay for anything south of the Alaska/Yukon border, because you're not using that service. And within the state of Alaska, we've proposed that there be an average number across the state based on average usage. So, simplistically, if ... the average distance were 70 percent, it would be 70 percent of the cost to get it to the border.

MR. PALMER noted that he had already covered the following topics: the five delivery points, the low equity ratio, and the fiscal issues.

11:47:00 AM

REPRESENTATIVE SAMUELS asked if TransCanada would sue the State of Alaska for treble damages if the legislature, some time in the future, passed a law to lock in taxes for 15 years for any pipeline.

MR. PALMER said he is not TransCanada's lawyer. Furthermore, he said TransCanada would not be putting its legal opinion in front of the legislature anyway. He said, "You would have your own interpretation of the statute, as I'm sure any party would."

REPRESENTATIVE SAMUELS explained his concern is that a commissioner had said he thought TransCanada would "have a case." He continued:

> So, if we just pass a law of general application to - in the words I believe that you said earlier - a horse race between the producer pipeline and the TransCanada pipeline, both moving forward, and it seemed that if

> we passed a law saying any open season - doesn't matter who it is, here's the terms - and now you race to the FERC, if you're going to sue us for treble damages, we're kind of shooting one of the horses there, right off the get-go.

MR. PALMER responded that TransCanada, pursuant to AGIA, has undertaken a great deal of obligation to the state, which he said he has described today. As a trade-off, he said, the state has provided some benefit to TransCanada. One of those benefits is the contribution to the cost of development - the $500 million. He pointed out that that money is not delivered to TransCanada in the form of a check. The company must incur those costs prudently, submit them to the state under invoice, and be repaid under a schedule that the state has defined. The second thing that TransCanada receives is a coordinator for the project. He reminded the committee that Commissioner Pat Galvin has testified that a third-party project could also achieve that by paying for that party. The third item is that the State of Alaska will not provide financial assistance to a third-party project. Those are the matters that the State of Alaska has committed to TransCanada and they are defined in statute, he said. TransCanada expects the state to behave as a good partner even as it expects to be a good partner to the state. He continued:

> In the event that you do breach - and we certainly are not going into a partnership with you expecting that you're going to - then there needs to be some penalty. You've limited your penalties significantly compared to the limitations that we have, because we don't have those same limitations.

REPRESENTATIVE SAMUELS asked Mr. Palmer if TransCanada thinks it will get gas committed to its pipeline without a term that locks in those taxes.

MR. PALMER responded that TransCanada has, for several years, had preliminary discussions with customers. If granted the license, TransCanada will work hard to attract those customers to its pipeline, because that is what it is in the business of doing. However, Mr. Palmer said he cannot predict at this point how those producers will act. He said, "They have spoken for themselves in the past and they will do so in the future."

11:51:50 AM

REPRESENTATIVE KERTTULA said what she hears Mr. Palmer saying is that both parties give something up in order to go forward. She said she has heard concern over the possibility that if the three producers are let in and buy equity in the company, the state may wind up in the same situation it has been in for so many years with a "grip on our resource." She offered her understanding that Mr. Palmer is saying that if those producers do buy into the equity, they will basically be agreeing to the same terms and obligations, and Alaska will not wind up in a situation where the company can then "foreclose explorers from coming in," and the state will not end up in the same situation.

MR. PALMER responded that's correct. He said TransCanada is giving up the freedom to act by becoming the state's partner. For example, it would be prevented from making a deal with Denali outside of AGIA without the agreement of the state. He stated that one party cannot retain total freedom and expect to enter into a partnership.

11:53:46 AM

SENATOR THERRIAULT asked for confirmation that if the State of Alaska were to pass a law of general application, it would not be singling anyone out "to give a benefit to a competitor," and therefore would not "trigger anything."

MR. PALMER said although he can read the statute, he will not interpret "the state's language that you've applied to us under AGIA." He said TransCanada continues to "live with those words that are in front of us."

REPRESENTATIVE SAMUELS expressed concurrence with Senator Therriault, noting that "that's not what Commissioner Galvin said at the last meeting." At that time, he indicated, a question was posed whether the State of Alaska would be exposed to treble damages if it were to pass a law of general application for committing gas to any open season - LNG, Denali, or TransCanada - at a certain percent rate for a certain amount of years. The answer to that question was yes.

CHAIR STEDMAN said that issue would be explored later.

MR. PALMER returned to his PowerPoint presentation, to slide 20, which addresses long-term basin development and pipeline expansions, the value to producers and governments, the question of whether or not Alaska has enough gas, and the impact of drilling and rolled-in tolls. Referring to information on slide

21, he explained that if the gas is sold in Alberta - a location used as an example of how gas would be sold in the Lower 48 - the cost of transportation to get it back to the wellheads must be deducted. After that deduction, he said, calculating 25 years, times 4.5 bcf/d, the value is $350 billion. That value will be shared among producers that must pay their production costs, after which they will have profits to be shared with governments through taxes. He provided an example of what would happen if the project is expanded, using an assumption of 4.5 bcf/d for 10 years, with 25 additional years at 5.9 bcf/d, at which point the value raises to $600 billion, with an expansion value of $250 billion. He said the example shows strictly the value of selling the gas, less the cost of transportation.

11:58:41 AM

REPRESENTATIVE FAIRCLOUGH said there is a letter from AOGCC that allows a 2.7 bcf/d "take off," and the legislature has been told by the administration that Alaska will not be using the Point Thomson field to provide gas to the line; therefore, she asked Mr. Palmer to explain from where the gas to which he referred will be coming.

MR. PALMER replied that TransCanada was not aware of "the Point Thomson circumstance" when it made its application, so the corporation expected that gas would be flowing from Prudhoe Bay, Point Thomson, the other known reserves in the North Slope, as well as some "yet to be found" gas. He related that TransCanada is aware of AOGCC's 20-year-old estimate that indicated that 2.7 bcf/d could come off the Prudhoe Bay field, but more recent estimates by AOGCC anticipate that Prudhoe Bay can deliver significantly more than that amount. He expressed the corporation's belief that 3.5 or 4 bcf/d "looks to be available." He added, "What will happen at Point Thomson is clearly something we're not going to be influential on; that's going to be something between the state and the current lease holders as to how and when that is resolved."

12:01:19 PM

MR. PALMER directed attention to the summary on slide 25. He reviewed that TransCanada has been responsive to what the administration and legislature established under AGIA. Furthermore, TransCanada believes that AGIA was structured to encourage construction of the project, long-run basin development, and open access terms for initial and future shippers in-state, to the Lower 48, and to LNG markets. He expressed his hope that his presentation has shown that TransCanada has the credentials and the capacity to build, own, operate, and expand the project. He stated his belief that TransCanada's objectives are aligned with AGIA and that state, because the corporation is in favor of early in-service, long-run basin development, and open access and equitable treatment for all customers.

The committee took an at-ease from 12:03:29 PM to 1:03:18 PM.

1:03:20 PM

PAT GALVIN, Commissioner, Department of Revenue, said it was his role to answer questions and provide a clear message about the AGIA process. Commissioner Galvin recognized Commissioner Tom Irwin of the Department of Natural Resources, and indicated that he and Commissioner Irwin made a joint decision regarding TransCanada's application.

COMMISSIONER GALVIN reviewed that a little over a year ago, the administration came forward with the original proposal which ultimately became the statute passed by the legislature. Discussions were held to attempt to move the gas line project forward, because at the time, people were expressing frustration that the project should be happening but was not. He explained that AGIA was intended to use the state as a catalyst to move the project forward, with the recognition that the state had a choice in terms of what role it would take in doing so. For example, the state could choose to use $25-$40 billion of state capital to build the gas line itself. He said the administration felt that the state should first try to use private enterprise to move the project ahead, believing that the project would be attractive to builders, shippers, and sellers.

1:07:19 PM

COMMISSIONER GALVIN said the question was asked as to why the market was not driving the project to fruition if the economics were there. The answer, he said, is that a free market did not exist; there were only a small group of producers who held the lease to the gas and were barriers to getting the market to work properly. He related that AGIA was intended to move this project through those barriers so that the economic factors could show themselves and make the project a reality. The state needed to create competition and the sense that those who did not jump in early would be left behind; it had to create a sense that time was important. The state also needed to create competition for the state's inducements, and it wanted to get as much as it could for them. So, AGIA set up that competition. The state issued a request for applications, and the application submitted by TransCanada was the one that met all the requirements of AGIA. The valuation system was set up to evaluate all applicants, whether there be one or many. The commissioners, he said, considered whether issuing a license to TransCanada would maximize benefits for the state. They considered Alaska jobs, affordable gas, and revenues to the state.

1:12:32 PM

COMMISSIONER GALVIN said the analysis was not limited to the TransCanada project. The commissioners "had to look at it in comparison to the other options that are available to the state." Those other options include the Denali project and the proposal from BP and ConocoPhillips Alaska, Inc. to move a pipeline project. Furthermore, Commissioner Galvin noted, Alaska has long considered an LNG project as a potential first opportunity to get its North Slope gas to market. In the end, and using the expert analysis from consultants, the commissioners decided that issuing a license to TransCanada would sufficiently maximize return to the state.

1:15:08 PM

COMMISSIONER GALVIN offered a PowerPoint presentation of the summary of the commissioner's findings. He outlined those goals in maximizing benefits to Alaska, as shown on slide 3, which are: to get a pipeline, to maximize job opportunities, to provide energy for Alaskans, and to increase revenues to the state. Commissioner Galvin said getting a pipeline comes down to having a feasible project plan that is being forwarded by a project sponsor that has demonstrated it can fulfill its obligations and bring the project to fruition.

1:17:36 PM

REPRESENTATIVE NEUMAN asked why Commissioner Galvin feels AGIA has more opportunity to attract financing, when the Denali proposal producers who have the right to produce the gas want to build their own pipeline. He asked what assurance there is that TransCanada will get those producers to commit to putting their gas into TransCanada's pipeline instead of their own.

1:18:31 PM

COMMISSIONER GALVIN replied that when securing gas commitments, the commissioners consider whether the TransCanada project provides an attractive opportunity for the producers to get their gas to market. In doing that analysis, the commissioners found that because of the way the tariff rate is set up and because of TransCanada's demonstrated ability to deliver a project within its timeframe and within budget, the producers would be provided a good opportunity to get their gas to market. He said the producers consider several factors. One of those factors is "getting to the point where they're soliciting the gas commitments." Another factor is whether or not an open season takes place. Commissioner Galvin said, for example, that the TransCanada and Denali projects cannot be compared to each other with the assumption that the Denali project is "going to get to that open season," because there is no commitment that it will, only a statement indicating so.

COMMISSIONER GALVIN said another consideration is the economic drivers for the producers. The producers make their money off of the exploration and development of oil and gas resources, generally getting solid returns on investment capital. A pipeline project will have a regulated rate of return. Commissioner Galvin noted that Mr. Palmer had talked about return on equity. He said, "That return on equity, even at the highest levels that may be expected from the regulatory agency is substantially below what exploration and development companies in the oil and gas industry usually would expect to get for their capital investments and projects." He said from the state's present perspective, the question is whether or not the TransCanada Alaska project is one that - barring any other circumstances - could be expected to attract gas commitment to the project. Commissioner Galvin said the commissioner's analysis shows the answer to that question is yes.

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REPRESENTATIVE NEUMAN said he thinks the producers have committed to spend up to $600 million to gather information and hold an open season, and he asked Commissioner Galvin why he thinks the producers are not going to follow through on that.

1:22:48 PM

COMMISSIONER GALVIN responded that the question is whether the producers are going to spend the $600 million, not whether if they spend it they will get to an open season. He said those are two different questions. The producers have made public statements that they will go to an open season and expect doing so to cost $600 million; however, there is no [guarantee] to the state or anyone that the producers will actually do so. He said he would not be supporting the best interest of the state if he were to recommend relying upon the public statements of the producers, without "something that binds them and has some expectation that the state is going to be able to rely upon that." He emphasized that AGIA requires commitments that are enforceable and binding, rather than simply relying on a public statement of intent.

1:24:48 PM

REPRESENTATIVE RAMRAS said his view on the issue is opposite that of Commissioner Galvin. He noted that Commissioner Galvin uses the word "attract" often, and he said he would like to know how many times he has discussed with producers the manner in which he is trying to attract firm transportation commitments. He said there is an adversarial relationship between the current administration and the producers, which he indicated is why he is questioning the use of the word "attract."

COMMISSIONER GALVIN stated that the issue of attracting the commitments to the projects is far-reaching; it involves having a project that will provide both an economic opportunity and value the state can put in place to provide "a reasonable commercial opportunity for the producers." He said the AGIA license project is at a commercially advantageous position "by having the state say that if you commit your gas to the AGIA license project, the state will provide upstream values for you as a shipper." He continued, "Those are things to attract gas to the project that do not involve sitting down and negotiating with the companies ... [behind] closed doors in order to try to provide some additional values on the table." He said the administration has stated from the beginning that the purpose of AGIA is to provide transparency to the public regarding the state's negotiations [related to the gas pipeline].

1:28:22 PM

COMMISSIONER GALVIN, in response to Representative Ramras, explained that the administration is providing a number of different values to the producers: an attractive project and an attractive state system on upstream certainty. More specifically, to Representative Ramras' request for a record of the meetings the administration has had with the producers to attract their gas to the licensed project, he stated that the administration has not engaged in negotiating the terms to bring the gas to the AGIA project; it is not actually "attracting the gas." The intent of the administration will be to bring forward a project as attractive as a commercial opportunity to producers and to discuss with producers publicly what is needed in order to maximize the producers' interest in advancing the project and to figure out what the state will get in return. He said, "AGIA is very much focused on the long-term opportunities presented by the gas pipeline project, and we want to ensure that the pipeline project that ultimately succeeds is one that is going to meet the state's long-term interest of having a very robust and dynamic exploration and development opportunity for gas on the North Slope."

1:32:20 PM

CHAIR STEDMAN asked Commissioner Galvin to summarize his answer to Representative Ramras' question.

COMMISSIONER GALVIN responded that the administration does not believe it is necessary to demonstrate its conversation with the producers, because it is not engaged in the kind of negotiations to attract gas to the TransCanada Alaska project. He said, "Our discussions with the producers are far-ranging on a number of different factors, but I don't think it's relevant to the question."

1:33:31 PM

REPRESENTATIVE RAMRAS asked again if Commissioner Galvin would produce a list showing the meetings the administration has had with producers to talk about attracting firm transportations commitments, irrespective of how far-ranging or narrow those discussions have been.

COMMISSIONER GALVIN replied that he has not kept track of his conversations with the producers in that manner; therefore, putting together such a list would not be feasible.

CHAIR STEDMAN said that issue would be clarified later in the session.

1:35:00 PM

COMMISSIONER GALVIN continued with his PowerPoint presentation, and addressed the issue of jobs for Alaskans. He explained that the capacity within a pipeline is "locked up" through contract, thus, in order for an explorer to get gas to market, the pipeline will need to expand, either through the addition of pumps and compressors to allow more gas to flow or by adding additional pipe, which is called "looping." Having open access to the pipe and a reasonable rate for capacity will make the difference on whether or not the explorer drills an exploration well. Commissioner Galvin said AGIA provides that the owner will expand and, when the cost is charged, it will be spread among all the shippers. He said that is referred to as using rolled-in rates (ROR). He emphasized the importance of these access provisions to the state, explaining that they will create the atmosphere for new companies to come drill on the North Slope, knowing that if they find gas, they can get it to market within a reasonable amount of time at a reasonable price.

COMMISSIONER GALVIN said construction jobs on the pipeline will provide short-term opportunities and operating jobs will be limited. The jobs that result from oil and gas exploration and development and from having an open access pipeline will be "the true prize for the state," he said.

1:39:27 PM

COMMISSIONER GALVIN next addressed opportunities for affordable energy for Alaskans, the subject of which is addressed through a number of provisions in AGIA. He emphasized the importance of having access to the gas, having the ability to offtake gas at good rates within Alaska, and to have expansion provisions. He said he appreciates that it will take awhile to build up the lines and to get Alaska's communities up to speed and able to enjoy the advantages of having access to the gas. Having a competitive atmosphere on the North Slope, with new players entering into the picture, with new gas going into the main line, will provide Alaskans the opportunity over the next generation to get up to speed and take advantage of the new gas as it comes into the line.

1:41:25 PM

COMMISSIONER GALVIN related another important aspect of the opportunity for Alaskans is the timeframe - getting gas to Alaskans as soon as possible. The focus of AGIA is on the big pipe that would get gas to a market outside Alaska, because the quantities of the state's gas are overwhelming in comparison to the demand within the state.

1:42:11 PM

REPRESENTATIVE FAIRCLOUGH referred to the next bullet point on slide 7, which read, "Maximize state revenue and create opportunity for future growth of state economy." She questioned whether a bullet line might set the state up for treble damages.

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COMMISSIONER GALVIN responded that the goal is to get gas to Alaskans sooner than the time it will take to get the big line - and possibly a spur line - constructed. Therefore there has been consideration of having a bullet line for a smaller line instate that would serve Alaskan markets. He said AGIA provides project assurance in the form of a treble damage clause, which is in place to attract companies to participate in the competition for the state's inducement. The assurance is that if a company spends its own money, along with that of the state, to advance this project, it will have recourse if the state then goes with another company. The company would receive three times its costs, no more. He said Representative Fairclough's concern is with the small line that would be built within the state. He said AGIA defines a project which would be subject to treble damages as one that is greater than 500 mmcf/d. Thus, any project less than that would not incur treble damages. Commissioner Galvin noted that the entire Southcentral part of Alaska is hooked up to natural gas, and all of that consumption equals approximately 250-270 mmcf/day. Adding the Agrium Plant, which at one time was using natural gas as a feed stock, would increase that amount by about 150 mmcf/d. If Fairbanks were to convert its power to natural gas, the increase would be approximately 30-50 mmcf/d. Over the next 10 years, he said, Alaska will still be getting gas out of the Cook Inlet Basin. With all these added, total consumption within the state still would be less than 500 mmcf/d. He concluded that the bullet line would serve Alaska's needs while staying under the 500mmcf/d limit. The bullet line is something that the state could even pay for, he suggested.

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COMMISSIONER GALVIN said one question raised in this context is whether the treble damage provision would limit LNG being added to the project to make it more economic, because LNG is not included in the treble damage provision. He related that the answer to that question is yes. However, he said the state will get tremendous value out of the AGIA license, possibly hundreds of billions of dollars in cash flow to the state - the present value of that cash flow being approximately $65 billion "in one particular scenario." That value overwhelms the potential cost of building the bullet line, he remarked. He emphasized that the state can have both.

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REPRESENTATIVE FAIRCLOUGH expressed concern that the bullet line would still be a competing line. She said that in voting yes on AGIA, the State of Alaska will promote AGIA inside its departments. She stated, "And so, it's a little disingenuous to me that we say we're not precluding everything when we're going to internally have a whole bunch of power that can slow down those projects."

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COMMISSIONER GALVIN said the administration tries to use the term bullet line in a particular way, to mean a line that will meet Alaska's internal needs only. He indicated that under that definition, the line will always fall below the 500 mmcf/d limit. If the concept of a bullet line is expanded to include something greater - for example, to include LNG or some other consumption of gas outside of Alaska's needs - then "it does raise the question." He offered more details.

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COMMISSIONER GALVIN, regarding permitting, said he thinks "the nature of the discussion on this issue has evolved." He said AGIA statute spells out whether the state is precluded from providing permits and authorizations to a competing project; the statute spells out that issuing permits and doing authorizations are not considered to be providing benefits to the competing project. He said that carries to the next question, which is whether or not the state will insidiously, within the system, hold back on projects by either not staffing or by diverting resources to advantage the AGIA project and disadvantage competing projects. The answer to that, he provided, is that large projects are generally permitted through a different vehicle. A contractual relationship is created through a reimbursable services agreement (RSA) that provides for the other project to be able to secure the resources in terms of state personnel and time, to ensure that project gets a permit in a timely manner. That creates a separate relationship that will be enforceable and secure on the part of the competing project, outside of the AGIA process.

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REPRESENTATIVE ROSES expressed concern that he has received different answers from the administration and TransCanada. He recalled hearing about excess capacity in Canada during Mr. Palmer's testimony - that building a new line through Canada would not be cost-effective, because it is much less expensive to put gas through a pipe that has excess capacity than to build a new pipe. He asked if the aforementioned 500 mmcf/d capacity means that if all the possible expansions exceeded that, the state would be in non-compliance. He reasoned that if the state were to build a bullet line, it would want to build one with the greatest capacity, even if the state does not intend to put that capacity through the line in the beginning. He expressed his fear that based upon the discussions he has heard, doing so would become a violation.

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COMMISSIONER GALVIN told Representative Roses that a great deal of time was spent "going through various implications of this issue" before the Senate Judiciary Standing Committee last week, and he indicated that the Department of Law issued an opinion in a memorandum. He said the answer to Representative Roses' concern is that "the pipeline can clearly have the ability to be expanded beyond 500 mmcf/d and not violate the treble damages provision. The issue, he said, is what the capacity of the line is when it is being designed. Added capacity and looping after the fact is not the relevant measurement, he said. He offered further details.

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REPRESENTATIVE ROSES said the answer he received from Mr. Palmer was that [the issue is] "what that pipe is capable of being expanded to carry." He said before he makes a decision, he would like to know that Mr. Palmer and Commissioner Galvin are in agreement on that particular point. He said he doesn't want attorneys employed as a result of AGIA.

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COMMISSIONER GALVIN suggested that Representative Roses ask Mr. Palmer again whether he disagrees with the opinion of the Department of Law.

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COMMISSIONER GALVIN moved on, explaining that in order to maximize revenues to the state, it is important to realize that the state gets most of its money from the royalty and the production tax off oil and gas. He focused on value at the wellhead and where the royalty and the production tax are calculated, emphasizing the importance of keeping the cost of transportation low in order to increase the value at the wellhead.

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COMMISSIONER GALVIN said he would cover the crux of the economic aspect of the TransCanada Alaska project during the remainder of his testimony [the information for which begins on slide 8 of his PowerPoint presentation]. He stated that a primary focus during the commissioners' evaluation was the economic analysis of TransCanada as compared to other projects. Commissioner Galvin named two drivers: how much the projects would bring to the state in revenue and net present value (NPV); and the value of the project to the producers - the likely outcome in revenue stream. Rather than pin pointing an overall number, he said the commissioners considered the range of each of those drivers, based upon expert information, and they tested the economics of the projects, moving the variables within the expected range of each project. They conducted a sensitivity analysis across an endless number of variable to see if a project would be a reasonable investment decision for producers.

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COMMISSIONER GALVIN said the second aspect of the analysis relates to the likelihood of success, which meant looking at the potential barriers of a project and evaluating those barriers to determine whether they are more likely than not to cause the project to stall. He said the commissioners conducted that analysis for the TransCanada Alaska project alone, and also as a comparison to the other projects available. Commissioner Galvin said a complicating factor in the analysis is that, as allowed under AGIA, TransCanada said it could not pinpoint a specific throughput on day one because that information is unknown. So, an analysis was done on a range of potential starting points for the project, as provided by TransCanada, but when it came to reporting the results, the commissioners had to limit the information to something manageable in order to provide the public with a representation of the information that would be in the report. Commissioner Galvin said the commissioners are trying to focus on scenarios that would result in less gas than expected, a factor he said became more relevant as the Point Thomson lease conflict came into light.

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COMMISSIONER GALVIN named the factors in NPV analysis, as shown on slide 11, which are: gas prices, transportation costs, pipeline construction schedule, and gas production costs. Transportation costs include: the total cost of the project, cost escalation rates, the [initial pipeline] throughput, and tariff terms. Regarding the schedule, he said money coming in later will be less valuable, thus the length of time the project takes will have an impact on the analysis. The production costs are a driver for production tax, since there is a net-based tax, he relayed.

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COMMISSIONER GALVIN turned to slide 11, which shows gas price models. He said the commissioners did not want to come up with a number picked "out of the air" and then have the discussion be about whether or not that price assumption was reasonable or not. Instead, they looked to outside, reputable industry-based forecasting models. He explained that this was done because the producers would not accept only the state's numbers. He said, "We don't know what the producers themselves use as their price models - they use their own - but we have a little bit of a window into it, because we can look at what they look at, at least." He noted that the consulting firm, Wood Mackenzie, provides price forecasts on oil and gas, and the commissioners were able to use those forecasts. Other sources of information are from the United States Department of Energy for gas price forecasts, and the administration's own consultant, Black & Veatch, who built its own model for price forecasts, providing information not provided by the other two sources. The forecasts are all equally unreliable, he remarked, but are the best available. Commissioner Galvin noted that he and Commissioner Irwin put together a team of technical consultants to look at the engineering, the project management issues, and the rate-based issues associated with building a pipeline of this size. The intent was to get subject matter experts to feed off of each other as would be expected for any project of this size.

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COMMISSIONER GALVIN talked about price estimates. He said there are mid-range estimates of $31 billion in today's dollars for the project. He said Mr. Palmer's numbers, offered previously, were based upon TransCanada's project assumptions and project analyses. He said it is important to understand why some of the numbers are different. He explained that applicants were asked to do a project planning exercise, to give a cost forecast, use the assumptions for prices and cost escalation, and then come up with a number of the amount of economic return. He stated, "What we went through was a sensitivity analysis," which he said was a different way to test the economics and evaluate how assumptions might "live up" in the real world. In schedule assumptions, the schedule brought forward by TransCanada was reviewed by the state's technical team, and the team found that that schedule was reasonably aggressive. He said, "From our analysis, we look at the probabilities of where we can expect the outcome to be, and we came up with a mid-range in 2020 ...." Using a mid-range Wood Mackenzie forecast, he said, the state can expect to see $261 billion in cash flow over the first 25 years of operations of the pipeline, with an estimated NPV of $66 billion [at a discount rate of 5 percent]. The producers have a lower cash flow estimated at $147 billion and an estimated NPV of $13.5 billion in value today [at a discount rate of 10 percent]. He added, "And that's why we consider it to be a favorable economic project."

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COMMISSIONER GALVIN indicated that [slide 20] reflects the throughput of the gas that exists on day one. He emphasized that the figures on the slide assume no expansion - that the gas on the first day is the same amount that will be put through for 25 years. He remarked that the outcome is surprising. A bcf/d of 3.5 would produce a favorable economic to the state of $51.6 billion, while 4.0 bcf/d would produce $60.7 billion, and 4.5 bcf/d would produce $66.1 billion.

COMMISSIONER GALVIN, regarding the likelihood of success, said a team looked at TransCanada as a potential pipeline builder and operator and found, as Mr. Palmer indicated, TransCanada is the largest pipeline company in North America for gas pipelines, has handled similarly sized projects over the years, and has the capability to carry the financial burden associated with a project of this magnitude.

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COMMISSIONER GALVIN next addressed a comparison with the Denali Project, as shown beginning on slide 26. He posed the question, "If you have the Denali project in hand, what is the advantage of going forward with this license?" First, he noted that the state has no commitments from the Denali project regarding a schedule, debt:equity ratio, and tariff terms. For example, a 50:50 debt to equity ratio would increase the tariff by $1 compared to a 75:25 ratio proposed by TransCanada, which would cost the state over $8 billion in NPV. There is a risk of the state losing tremendous value. Furthermore, Commissioner Galvin noted that the Denali project has no commitments with regard to open access. He explained as follows:

> And the way that the commercial dynamic can operate on a pipeline that is controlled and owned by the producers is such that they could manage it in such a way that it would make it very difficult, if not impossible, for an explorer to get their gas into the line. It would make it ... commercially disadvantageous to explore to potentially go in and drill a well and put themselves in a position where they're going to have to fight to get access into that line through the regulatory process, as opposed to having a pipeline that has committed to expand, committed to use rolled-in rates, and provides them with confidence that they're going to do so. That in itself could stifle the type of competition on the slope that we're going to need in order to bring in new companies and to get a robust exploration development on the gas side as well as the oil for generations to come.

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COMMISSIONER GALVIN said he would skip the discussion of LNG. Regarding the treble damages provisions, he said it is something that will grow over time, and is based upon three times the licensee's cost, not counting the state's contribution.

COMMISSIONER GALVIN, in response to the discussion between Mr. Palmer and Representative Samuels regarding whether providing an across the board tax change would create treble damages, said:

> The way the question was framed in Kenai was if there was a change in the law to provide - I think it was in the context of - fiscal certainty for the project, and that the understanding was that that would create the opportunity for Denali to move forward but it was given to all projects, and that resulted in Denali being the project that ultimately got the gas commitment to move forward, would that ... create a treble damage issue?
>
> And I said, "Yes." Because if you assume that it is set up to advance the Denali project, even if it applies to all projects, that ... is exactly what was intended with treble damage assuring, was that we weren't going to take a step to provide a tax or other advantage to a competing project in order to facilitate the development of that project.

COMMISSIONER GALVIN said if one were to ask whether any tax change that is applied across the board equally to everyone would implicate the treble damage, the answer would be no, because the question then would be too broad. He continued:

> And that's specifically why it was written the way it was. ... It had to be preferential tax treatment for the purpose of facilitating the development of a competing project. That is what puts you into the treble damage issue.

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COMMISSIONER GALVIN summarized that the issue analyzed by the commissioners was whether or not the TransCanada Alaska project would sufficiently maximize benefits to Alaskans, and they found that it would, even in comparison to other options. He said the options were considered with "a very wide and clear-eyed view" of what the options to the state are at this point in time.

The committee took an at-ease from 2:33:24 PM to 2:41:33 PM.

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SENATOR HOFFMAN commenced a special presentation for the North Slope Borough in honor of Founder's Day. He had a photograph of the first Alaska legislature, with each legislator's signature. It was given to him by Bethel's first senator, Jack E. Weise, and about six years ago, he asked Tom Stewart to help him identify all of the signatures and associate the names with the photographs. He said the photograph is possibly the last in existence and he had 50 copies made as limited additions. He presented a copy to the mayor of the North Slope Borough [who made a short speech of acceptance].

VICE CHAIR STEDMAN announced that public testimony was now open.

2:49:26 PM

EDWARD S. ITTA, Mayor, North Slope Borough, announced he would hand each one of the guests present a special edition of the book, "Gift of the Whale," which he said would further their knowledge of what the North Slope Borough is all about. He thanked the administration representatives, the legislators, and Governor Sarah Palin for holding an AGIA meeting on the North Slope and for giving the residents there the opportunity to speak.

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MAYOR ITTA named the headings he would cover during his testimony as follows: first, lessons learned from the first 40 years of oil development in the North Slope; second, the Alaska Gasline Port Authority (AGPA); third, the role of partnerships and expectations; fourth, cumulative impacts; fifth, how offshore development is tied into what is being discussed today; sixth, the area of science; and seventh, the importance of job training.

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MAYOR ITTA stated that this is the next major phase in resource development on the North Slope. He said the gas line project will define Alaska's experience with natural gas, "just as Prudhoe Bay characterizes our experience with oil." Much has been learned about resource extraction over the last 30 years. He said "we" have been part of the technology, politics, economics, social issues, culture, and drama that accompanies the discovery and production of vast resources in a "frontier region." Those who live in the region call it home and have watched, participated, and helped create the legacy of resource development. Like all participants, he said, the people have learned many lessons. While being part of that which changed the course of resource history in Alaska, the people of the region have also been changed.

MAYOR ITTA stated for the record his region's support for onshore development in general, and for AGIA. He said AGIA's priorities are clearly designed to jumpstart a responsible project to benefit Alaskans, with well-defined time tables, commitment for construction, multiple off-take points, distance-sensitive tariffs to ensure maximum well head price, and provisions that encourage the hiring of qualified Alaskans for the project. He said he sees no reason why the North Slope Borough would not support any project that "plays by the rules of AGIA and earns the legislature's approval at the end of this process. He said his region's support for AGIA is in keeping with the borough's long-standing approval of reasonable development on the North Slope. He said many of those present know that the North Slope Borough has aggressively supported the opening of the Arctic National Wildlife Refuge (ANWR). In fact, he indicated that the borough has continued to be involved with media and delegation visits, as well as has accommodated the National Petroleum Reserve-Alaska (NPR-A) development in all but the area of Tusikpak Lake, "where unusually valuable wildlife habitat and subsistence activities have historically taken precedence." He said the borough will continue its support, since BLM has recently decided to "drop that area in its final EIS for NPR-A Northeast." Years of experience have given the region a certain comfort level regarding onshore activity; when spills occur, they can be reasonably contained.

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MAYOR ITTA remarked that offshore drilling is "an entirely different ball game." He relayed that in addition to the fear of having to clean up a spill in Arctic conditions, there are other impacts related to the Bowhead Whale migration and other marine mammal activities that cannot be avoided in the Outer Continental Shelf. He stated, "It is a fundamental, cultural consideration that shapes our policy up here in regard to proposed activity off shore, and I don't see our position changing any time soon." He mentioned the Liberty project near shore as a good example of technological development that can occur.

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MAYOR ITTA reminded those present that the North Slope Borough joined with the Fairbanks North Star Borough and the City of Valdez to create AGPA in 1999. As the three municipalities along the Trans-Alaska Pipeline System (TAPS), these entities hold a number of common interests, and AGPA was established as an additional method of encouraging gasline development. He said the existence of AGPA does not preclude the borough from supporting any other project that will "commercialize North Slope natural gas in a responsible way." He said "we" continue to support the port authority, as long as that mandate does not undermine the AGIA process or any other competitive projects.

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MAYOR ITTA said the borough has learned lessons from the Prudhoe Bay experience. For example, it learned that a development this big is not just one single project. He said getting natural gas out of the ground and to market will require vast new layers of infrastructure and will depend on new reserves in different locations. The discussion related to capacity and the ability to expand concerns the people of the North Slope Borough, he said. He warned that the decisions made now will affect the community forever.

MAYOR ITTA said what is really being discussed is a giant expansion of resources, which has two parts. The first part, he said, is the pipeline itself, along with a massive gas treatment plant at Prudhoe Bay. The second part is a collection of projects to develop resources that would feed the gas pipeline during its lifetime. The gas pipeline will require a 50-year commitment to a new web of development that will spread out in the North Slope Borough region in all directions. It will have a unique and far-reaching impact on the North Slope environment, the wildlife, and the people. Mayor Itta said the people in the region depend on the natural world as a means for cultural, spiritual, and physical survival.

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MAYOR ITTA said common sense and logic show that if a company spends $30 billion to build a pipeline, it will look far and wide for the reserve needed to keep that pipeline full. The impacts will be much greater than can be imagined. To illustrate how this has happened before, Mayor Itta showed a series of slides depicting Prudhoe Bay at various stages of development, beginning with images from 1968, and including images from 1977, 1989, 1999, 2001, and 2008. The last slide shows that activity has now expanded over 100 miles outside of the core area originally outlined. He said, "We fully expect the gas resources ... that will be developed will be at least as widespread as oil has been."

MAYOR ITTA continued as follows:

> NPR-A appears to have a lot of gas potential, as do the Foothills. The multi-million dollar bid total of the OCS lease sale that was just held recently in the Chukchi Sea suggests the strong possibility of off-shore development - obviously a very, very long way away from infrastructure.

MAYOR ITTA, regarding impact, said sometimes one plus one can equal four. He explained that every oil and gas project goes through an environmental review process to determine what its impacts will be on the land, the wildlife, the habitat, and the people living nearby. At some point, the impacts of development go beyond the effects of one project or another. That is what has happened in Nuiqsut, he said, a place that is now surrounded by pipeline and development. The same will happen with gas development, he cautioned. He noted that a lot of the gas is not co-located where the oil is, which means there will be new roads, buildings, support services, power plants, and sewage and water facilities. So, they will have more roads and facilities and the map will get more crowded.

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MAYOR ITTA, regarding the impact of a gas line on subsistence and culture, emphasized the importance of recognizing cumulative impacts as a separate category of impact. He noted that the Natural Resource Council conducted an extensive study of cumulative impacts on the North Slope in 2003 - the only study attempted to evaluate the issue of cumulative impacts - and he expressed his hope that all the legislators and other decision makers will consider the results of that study seriously.

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MAYOR ITTA spoke next about partnerships. He related that for those living a traditional subsistence lifestyle, the adaptation to an industrial presence has not been easy. He said he thinks these people have learned a lot about the needs, methods, and attitudes of industry, and they have embraced their role as a participant and partner - not an observer, having learned that they are better off doing so. He stated that the people's cultural identification with the land and water of the North Slope Borough give them "a fundamental claim to this place." He stated his belief that if the project is going to succeed, "it must continue this tradition of partnership."

MAYOR ITTA said that with the recent surge of activity in "the oil patch," industry is having difficulty housing additional employees at Prudhoe Bay. He proffered, "We can help break that log jam if the State of Alaska would pick up the pace in conveying lands that we have applied for in Prudhoe Bay - lands that we could make available to private industry." Mayor Itta expressed his thanks to Commissioner Irwin for his efforts towards making that happen.

MAYOR ITTA noted that Dead Horse is "squeezed for water and sewer capacity and landfill services," all of which he said the North Slope Borough stands ready to provide if only the state would allow it through timely permit approval. He said this is one important way for the borough to fulfill its role as a development partner. Mayor Itta said the idea of partnership applies to AGIA, as well. He said that the people of the North Slope Borough may not have their signatures on the AGIA license, but they need to feel that they are included as a party to the agreement. The license provisions must recognize that the project starts in the back yard of those people. He reiterated the ways in which the people of the borough would be impacted. A project done right will create the basis for the future of the borough, as well as the future of Alaska. Conversely, a project done poorly, would threaten the borough's way of life, which would not be good for the future of resource development on the North Slope. He said the people of the borough look forward to an active partnership and the ability to issue local permits for gravel, dredging, disposal of excess fill, and other project needs. An effective partnership must be built on mutual respect, especially when the parties involved have different priorities.

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MAYOR ITTA explained that he believes all the partners in the North Slope development have basically the same set of values, but each prioritizes those values a little differently. The oil companies, while caring about the environment, are driven by a return on investment. The North Slope Borough, on the other hand, is a political creation, he said, with a "broad menu of social and economic concerns." He stated, "One of our essential motivations is the determination to protect the culture of the North Slope original inhabitants." He noted, "The health of our community is directly tied to the health of the animal population and their habitat." He emphasized that the people need the whales, seals, caribou, and subsistence [lifestyle], not only physically, but spiritually.

MAYOR ITTA said the people of the North Slope are worried about environmental stresses in this time of "epoch climate change." He talked about the importance of the ice pack to the survival of polar bears and other species, and said it seems to be disappearing. He noted that the ocean is not only rising but is becoming more acidic. He said he is not a scientist, but knows what affects the core of his people. He said the pH level is changing because the ocean absorbs one-third of the carbon released into the atmosphere from human activity. He said that is a big cause for alarm. Mayor Itta said whalers are instinctively focused on the low end of the food chain, knowing that the Bowhead whale feasts on the tiny krill. He said when the Bowhead is in trouble, people are in trouble.

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MAYOR ITTA said there are plenty of biological changes happening naturally without adding development, and oil companies are offering billions of dollars just for the chance to explore. He said there are no benefits to the North Slope Borough to balance those risks. The borough cannot collect property taxes in federal waters, and there is little to no revenue sharing to the state or proceeds on federal lands. He said the borough is asked to take a risk that has greatly increased with virtually no benefits.

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MAYOR ITTA said he thinks everyone can agree that industry should be held to the highest standards if it expects to operate in this critical environment. Oil executives routinely pledge to use the best available technology and the safest operational standards. They stand to reap billions in rewards, thus Mayor Itta said he thinks the state should hold them to their pledge. He reported that the North Slope Borough is currently researching to find the safest and most advanced practices currently being used in other Arctic regions of the world, and he said one way the state government, industry, and North Slope residents could come together is by adopting those practices. He offered an example of one such practice: state-licensed marine pilots on vessels engaged in oil and gas operations. He offered further details.

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MAYOR ITTA explained that the reason he is talking about off-shore matters during a discussion on AGIA is because of the issue of expansion and how to keep the gas line full. He said he does not think it is asking too much for the borough to be asking that its hunting grounds be protected. He said the aforementioned marine pilots currently operate in Prince William Sound, Southeast Alaska, and the Aleutians. Mayor Itta opined that all Alaskans owe it to future generations to demand the best protection. He characterized this issue as one of Iñupiat homeland security.

MAYOR ITTA said the borough comes to this "next generation of resource development" with expectation based on prior experience. For example, he stated that stakeholder groups must come together and jointly pursue scientific data gathering and interpretation. He said in this regard, the borough recognizes the potential of the North Slope Science Initiative (NSSI), which he said is made up of federal, state, and local decision-making authorities active on the North Slope, "along with our regional corporation." He said there are gaps in knowledge regarding wildlife species in the proposed development areas, and he opined that the scientific community must expand its collection of data before the commencement of widespread gas development. Baseline data will make it possible to respond to changes appropriately.

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MAYOR ITTA said there needs to be a stronger effort in training and local hire. Hindsight shows that although provisions and right-of-way leases required TAPS to hire Alaska Natives, that effort failed miserably. Promises were not kept and land was lost by Native peoples. Mayor Itta said it takes a vigorous training and workforce development program to prepare workers for a project like this, and he said he knows AGIA aims to increase access to relevant careers through apprenticeship and technical education programs. He expressed his hope that the State of Alaska will pay particular attention to North Slope resident training and local hire. He reemphasized his prior statement as follows: "The history of ... resident hire in the oil patch is pathetic." He said the local hire focus, specifically in North Slope villages, needs to be strengthened. He added, "There is no better place to train for work on the North Slope than right here in this community."

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MAYOR ITTA said there is no better example of a partnership than the one that used to exist with the Coastal Management Plan. He explained that until changes were made in the last administration, the Alaska Coastal Management Plan "pulled together all stakeholders in balancing responsible development and protection of our coastal resources." He said it was an effective program, which was an effective program that addressed local concerns in a successful way. He revealed that he was involved in that process as a director of planning. He asked the legislature to restore "the guts of that program" in the interest of promoting future development through inter-governmental partnerships.

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MAYOR ITTA, in closing, stated that the success of gas development will rest on the strength of relationships among the stakeholders, good communications being key to those relationships. He told the legislature that its visit to Barrow today is an important step in that direction. He said issues need to be discussed long before they get to the critical regulatory and permitting stages, and he emphasized the importance of "timely communication" and respect for everyone's wishes.

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RICHARD GLENN, Vice President, Lands, Arctic Slope Regional Corporation (ASRC), began his testimony by telling the legislators that he is a resident of Barrow, a whaling crew co-captain, a father, and someone with a background in both natural resources development and the stewardship upon which his culture is based. He shared that his grandfather had told him that Native people could be found to have settled along coasts, around lakes, and along rivers, thus at the time of the Alaska Native Claims Settlement Act (ANCSA), "our people, with legitimate cause, laid claim to the entire North Slope." Next, ASRC became the vehicle created by Congress, by which the Iñupiat of the North Slope were endowed with land and "some tools for economic self-determination." He stated, "It's those lands and those tools that form the basis for our testimony today." Mr. Glenn noted that ASRC is the largest land owner on the North Slope, with titles to approximately 5 million of the 50 million acres of the North Slope. He said the people are legitimately entitled to more than that.

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MR. GLENN pointed out approximately 11 million acres of land in the area between of the foothills of the Brooks Range and just north of the Coleville River (ph) and between the Arctic National Wildlife Refuge (ANWR) and the National Petroleum Reserve in Alaska. He said that land is owned jointly by ASRC's 10,000 shareholders and the State of Alaska. The land holds very high natural gas potential. He said there are maps of the land that show areas with oil marked with symbols of oil wells. On those maps, cross hairs represent areas with a "dry hole." Mr. Glenn explained that a dry hole means no oil. He added, "Dry hole in those days meant they found natural gas - gas prone reservoir intervals rather than oil prone." Today, that symbol "takes on a whole new meaning," he said.

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MR. GLENN said in addition to the land entitlement, ASRC operates subsidiary companies, including those involved in engineering, pipeline construction, oil field services, oil field operations, pump station management, government contracting. ASRC employees about 3,000 in Alaska, and almost double that nationwide. He said Congress directed ASRC to make a change for the betterment of its people without losing the values upon which their culture is created. The people depend on the land for food and depend on resource development in order to build communities. He noted that the school in which the present meeting is taking place was built from monies derived from resource development. Referring to the previous testimony of Mayor Itta, Mr. Glenn added that if the oil field infrastructure was limited to "that early circle that was dreamed about in the 1970s," the school probably would not have been constructed. He said there is a conflict between stewardship [of the land] and bettering shareholders and village residents. He added, "But we think it's this kind of conflict that brings a balance to the discussion regarding natural gas development on the North Slope."

3:39:50 PM

MR. GLENN said ASRC shareholders want the promise of ANCSA honored, which means they want access to economic opportunities related to the development of resources. At the same time, he said, they believe there should be certainty for prompt, initial shippers of gas, so that ASRC is ensured there will be enough people showing up for the first open season. Subsidiary companies are waiting to work with their industry partners - both the pipeline companies and the producers. He stated, "Our pipeline construction companies have created more miles of pipeline on the North Slope than any other company. Additionally, he related, ASRC has a partnership with the village corporation - an alliance created solely for the purpose of working with the extractive industries in the region. He told legislators he thinks if they asked a typical village resident - a person depending on this industry for schools, health clinics, and fire halls - he/she would speak in favor of a successful natural gas project that would involve the residents at each level.

3:42:43 PM

MR. GLENN noted that Mayor Itta had brought up a good point about workforce development and training. He said there is a place here for training North Slope people for North Slope jobs. He expressed thanks for those supporting the local, accredited college, which offers training in oil field industry-related jobs, and he asked the legislature to find ways to support the college. He listed those points which hold promise: access, economic development, and workforce training. He related an Aesop's tale in which a dog is chasing two rabbits and, while directed toward one, looks at the other, and both end up getting away, while the dog goes hungry. He expressed his hope that the result of the legislature's traveling around the state to hear public testimony will not result in two projects competing and neither one nor the other coming to fruition. He opined that there must be a marriage of issues in order for this project to succeed. Pipeline constructors and oil and gas producers have to get together. He concluded as follows:

> You can't ask me how it's going to happen; you have to watch how it's going to happen. I'll be there with you if you let me. Our people want to be there when it's done so that we can take our important rightful place in this whole process. The legislature and the administration are at an important cross road, and we hope that you remember the words and wisdom of the people of the North Slope as you take this message and go and make your final decision.

3:46:32 PM

GLENN W. SHEEHAN, Ph.D., Executive Director, Barrow Arctic Science Consortium (BASC), characterized Barrow as a good place for oil and gas development, climate change studies, wildlife and subsistence studies, and for the people who have been thriving there for thousands of years. He related that he would like the State of Alaska to encourage more science on the North Slope for the benefit of all Alaskans. Furthermore, he said he would like to see more opportunities for students from around the state to participate with researchers in field projects in the Barrow region. He said that kind of networking leads to a life in science, develops "our future readers," and ensures that "we will help control our own future here."

3:48:03 PM

DR. SHEEHAN said a relief road needs to be built to Utqiagvik Iñupiat Corporation Naval Arctic Research Laboratory (UIC NARL) to keep the science camp connected to town, despite increasing coastal storm threats. A modern electrical distribution system needs to be built as well to provide reliable power to the science facility, the residents there, and the visiting researchers. Dr. Sheehan said the legislature should consider funding a science and communications corridor between Barrow and the Brooks Range to allow the monitoring of baseline conditions early and continuously as the NPR-A development proceeds. He spoke of funding satellite and field verification documentation of current conditions on the changing North Slope for baseline and ongoing revue, including that of changing lakes, which serve as sources of fish and sources of water for ice roads. He mentioned ancient and not so ancient trails and communication corridors and the changes they have been undergoing over time as being possible indicators of the result of future development.

DR. SHEEHAN concluded:

> Funding the North Slope Borough's investigation in the terrestrial and near-shore methane hydrates has both the potential relief to increasing fuel costs and as a means for the state to participate in the development of a new technology that eventually will be an important part of the oil and gas industry's (indisc.).

3:49:59 PM

GEORGE AHMAOGAK, SR., said he had been in public service as the former mayor of the North Slope Borough for 5 terms, a tax assessor, and the director of the tax department. He revealed that he has also been a Barrow whaling captain since 1984. He said he has experience dealing with oil and gas issues. He agreed with Mayor Itta's comments regarding future impacts. He stated that open access for explorers concerns him, because the economic modeling for the AGIA process and the natural gas pipeline is predicated on 35 tcf of gas, "mostly in the Prudhoe Bay proper." He clarified that the concern is regarding access to other areas. Once that gas has expended, companies will be looking for other resources. As an example of those other areas, he listed the estimated tcf of gas reported by various professional papers for places such as the Cold Belt prospect, the Foothills, and the Barrow Arch.

3:54:18 PM

MR. AHMAOGAK said throughout the entire process there has been no discussion on how to get access agreements to these areas and rights of way. He warned that without those agreements there will be cumulative and adverse impacts from oil and gas exploration and development. He talked about legislation regarding NPR-A impact funds, which he said was a good piece of legislation used to mitigate those impacts. He asked, "Where in the economic modeling do you see any funds available to mitigate those impacts?" Using the NPR-A impact funds for such mitigation needs to be done at the local level, he said.

MR. AHMAOGAK, regarding jobs, said funds for training are now available only in Anchorage and Fairbanks. Those funds are needed in local areas. Regarding the issue of energy, he said North Slope villages are experiencing an energy crisis. The price of home heating fuel has doubled, and Mr. Ahmaogak said he would like to see natural gas access brought immediately to some of the villages. He said municipalities are not being mentioned in the AGIA process, nor are they being asked to participate in the planning process of the natural gas pipeline, which he said is not a transparent and public process. He continued:

> Some of you ... members of the legislature don't recall [the] history of the Trans-Alaska Pipeline during its construction. The North Slope Borough has been fighting with ... passable valuations of the full and true value of the Trans-Alaska Pipeline. Now are we going to go through the same fight again in taxing the natural gas pipeline?

3:57:50 PM

MR. AHMAOGAK, in summary, said "we" support a natural gas project; however, he said he does not know if giving a license to AGIA is the proper way of doing things. He suggested perhaps a collaborative effort on the part of the oil and gas industry - the producers, the state, the federal government, and the municipality - is the way to go. He said he especially does not support giving the license to TransCanada if there are incentives given to make the project economical "on the backs of municipalities."

3:58:37 PM

MARVIN OLSON, said although he is the director of Public Works for the North Slope Borough, he was testifying on behalf of himself. Based on the earlier presentations and comments made regarding both the AGIA process and the Denali project, he said he can see the benefits to the borough government. However, he said he is concerned when he hears the terms of giving gas to Alaskans "and the only other words that come out from the state is Fairbanks." He observed that the pipeline did not become such a big issue until people in the Lower 48 started paying [the price] for diesel that Barrow has been paying for quite some time. He said many people in the country expect those living in the North Slope to change their way of life so they don't have to change theirs.

MR. OLSON thanked the legislature for recently providing the weatherization program to address the energy crisis. He said it will make a difference over time, and he hopes the legislature renews it funding of the program. Regarding development of the pipeline, he said having worked in the Prudhoe Bay area, he has responsibilities regarding the utilities there. He expressed concern that municipalities may have to boost their infrastructure to accommodate a gas pipeline boom, and they might not be able to sustain that boost after the construction is over. He said he is looking to the legislature and the State of Alaska to partner with those municipalities to lessen those impacts to avoid any adverse effects to the municipalities.

4:02:05 PM

NATHANIAL OLEMAUN, JR., said he was a former mayor of the City of Barrow, as well as having served as past president of the Native Village of Barrow, past president of the local corporation "UIC," and past executive director to the regional tribal Iñupiat Community of the Arctic Slope (ICAS). He said he worked for Prudhoe Bay in the '70s for 10 years as a coordinator to Arco. He related that even though he and 36 others from Barrow - most of them certified, and some of them journeymen - had applied for specific jobs, when they arrived in Prudhoe Bay, they were told all the jobs were put on freeze and all of them would be "roustabouts," which meant that none of them was allowed to work in his/her career field. Mr. Olemaun said it took five years before he was finally working in his career field, and seven years to get into a position to which he aspired. Three years later, no one was hired who lived in Barrow on his/her weeks off. In 1980, the numbers of people from Barrow working in any of the companies in Prudhoe Bay diminished. He stated, "They said their hiring policy is for Alaskans to work, but it's not being promoted." Many workers were brought up from the Lower 48. That was and is still true, he said. Mr. Olemaun stated that he wants there to be job training and jobs for Alaskans - with Natives to be included as Alaskans. The local college is established "under an Indian accredited college," and he said he hopes the legislature will support it. He said, "We support development," but have concerns regarding NPR-A. He mentioned not being allowed to receive the 50 percent funding from a lease sale. He said the legislature is in Barrow now telling the residents that things will be different and that the people of Barrow will be treated as Alaskans. He continued:

> But we're Iñupiat. We wanted to be treated as Iñupiat. We don't want to be given another identity. You failed the first time around, and you keep saying, "We're not going to fail," or "Give us one more pipeline." Well, let's do it; let's not fail. Let's build an all-Alaskan pipeline.

4:09:09 PM

BEN FRANCE, General Manager, Barrow Utilities & Electric Cooperative, Inc., told the legislators that he has been involved in utilities on the North Slope since 1971. The company he manages is a multi-utility cooperative that generates electricity, distributes natural gas, and produces water. He offered details related to the water plant. He said Barrow has been generating electricity with natural gas in Barrow for 44 years; the majority of "our fleet" has run on compressed natural gas for 25 years. He said he knows first-hand the benefits of utilizing natural gas, especially as weighed against the sky-rocketing costs associated with the use of diesel, on which the majority of rural Alaska depends for electrical generation and home heating. He said "we" are all aware of the immediate and dramatic impact the cost of oil is having on the state in both rural and urban communities. He offered examples of what some communities are doing to address the energy issue.

MR. FRANCE asked that as the state considers capitalizing upon the trillions of cubic feet of natural gas through "our" gas pipeline for the state and the nation, and as valuations are being done to represent the economic viability of such a project to Alaska, the legislators remember that "our" future is dependent on the broad-based economic support that a project of this significance brings. A healthy state and healthy project is what Alaska needs in order to address the upcoming challenges, he opined. He said, "This project alone will not cure all our ills; we need to take this step and move on to the other steps of significance we need to take if our next 50 years of statehood are to be as accomplished as our first." He related that the North Slope is presently supportive of "safe and responsible development of our resources," having been "right and proper stewards of our land and resources." He said "we" look to the legislature and the administration to be the proper stewards of the land and resources, as well. He thanked the legislators for the transparency in the process and for coming to Barrow.

4:14:37 PM

WARREN MATUMEAK told the committee that he was a Land Management Administrator for the North Slope Borough after the land management regulations regarding fish. At the time that he served, he said, he was opposed to the oil industry for fear it would harm all of the fish and animals in the region. However, after hiring people with expertise who knew about planning, regulations were put in place to protect the land and the industry was required to apply for a permit from the North Slope Borough. In that way, the land was protected. Pipeline was installed so that caribou migrations could pass under it, and ramps were installed for the timid animals to use to get to the other side. Not one caribou, bird, or fish has been lost because of the protection that was afforded them. Before that protection, seismic activity around rivers and lakes were killing lots of fish.

MR. MATUMEAK stated his preference for the Denali project. He explained that BP did not leave when the price of oil dropped to $9 a barrel, while "other oil companies chickened out." He said [BP] already knows "how to do it."

4:18:21 PM

PEARL BROWER, Special Assistant to the President, External Affairs, Ilisagvik Community College (ICC), said that the college is the only accredited, Alaska Native-controlled institution of higher education in the state and the only college located within the boundary of the Arctic Slope. Two years ago, she noted, ICC also became the only tribal college in the state. The college offers two-year associate degrees, as well as certificates and endorsements in academic, vocational and workforce development fields. Every program ICC offers not only models Iñupiat traditions, values, and culture, but offers substantial career and employment opportunities in the Arctic as well as elsewhere in the state. Ms. Brower related that ICC has students at its campus in Barrow, as well as in seven other North Slope villages; 70 percent of its students are minorities with over 60 percent being Alaska Native. Enrollment is at a record high, she relayed. The college educated over 1,100 students last school year, which is more than 14 percent of the North Slope population.

MS. BROWER said ICC has heard there is discussion of building a new training facility to address the need for qualified Alaskan residents to work on the new gas pipeline project. She said the college is concerned about this. She explained that the college already provides such training, and she sees no reason to construct a new facility when ICC already exists. Mr. Brower said ICC has never asked the state for funding prior to this year, when it requested $300,000 and was denied. She said the college was disappointed, especially because oil and gas is exported from the region and there are so few residents who work in the oil and gas field from that region. Today the college receives no state support for any of its workforce development programs although they train hundreds of Alaskan residents each year who are directly employable in the North Slope oil fields. Most of the students are Alaska Native. No other higher education institution in the state has ICC's track record in educating and graduating Alaska Native students. Ms. Brower said the college wants the opportunity to train Alaska residents for the oil and gas workforce, to partner with the state, and to be part of the process. She concluded:

> Our numbers show that over 70 percent of our residents do now want to leave their region for training, which is why it is important that any funds expended by the state for AGIA training should be shared with an

> institution that is in existence, is accredited, knows the North Slope population, has a successful track record, has relevant curriculum in place, and continues to train over 1,000 residents each year. That institution is Ilisagvik [Community] College.

4:22:00 PM

GEORGE EDWARDSON, President, Iñupiat Community of the Arctic Slope (ICAS), said that ICAS is a federally recognized regional tribal government whose council is comprised of elected council members of other communities. Mr. Edwardson related that in the early 1980s there was a "Point Thomson hearing" conducted in Kaktovik, to which he was invited as a speaker. He recollected that at that meeting, his great aunt told him that she did not care how he took care of the problem, but "all this stealing from us has to stop." The other elders agreed, he said. The subject was ANWR. He said he listened to his elders and has never stopped opposing the opening of ANWR. He said an excise tax would appease those who, like his great aunt, feel that the people of the land are being robbed. He said that under the [The Indian Tribal Government Tax Status Act of 1983], he is allowed to collect that tax.

MR. EDWARDSON said the community has been talking about a gas line for 31 years. He explained the reason he needs to collect a tax is to care for his people. For example, there is one whole community whose children have respiratory problems. That community has to travel 100 miles to hunt caribou. He said it is true that the herd may be multiplying, but the oil and gas construction has disrupted the migration route of the caribou. He said the proposed gas line will use a lot more pipe beyond that used to produce oil, which will affect the environment further. He noted that his father lived in Prudhoe Bay and used to fish there, but the fish are disappearing. He said that is happening because there was never a "baseline done to Prudhoe Bay." He added, "Without that baseline, we cannot correct the wrong that has been done over there."

MR. EDWARDSON said he would like to give the legislators a copy of a meeting he had with Minerals and Management Services, during which the subject of oil development was discussed.

MR. EDWARDSON said:

> We have never received a single penny from Prudhoe Bay or any oil development as an Iñupiat community. The

> state created a municipality so they could funnel a controlled, regulated amount of dollars for the North Slope, but as a tribe, I have never received a penny, and you have received billions. This is from the land which we owned as a people. You took over 95 percent of our holdings and then called that a just settlement when you sold ... oil leases in Prudhoe Bay and claimed their discovery. That was not a discovery, by the way. My grandfather struck oil over there in 1926.

MR. EDWARDSON told the legislators that they are the only people right now who can help him get the taxes he needs. He said he does not even have offices for the staff he has in the villages.

4:31:33 PM

MS. EDWARDSON spoke of all the meetings that have been held in the past regarding resource development, and said people used to show up in droves for the meetings, which lasted into the wee hours of the morning. She said she thinks resignation plays a part in the fact that not as many people have showed up for the current meeting. She explained that there is a sense by the community that resource development is going to take its course regardless of the opinions of the Native people of the region. Ms. Edwardson recalled that in the back of each report from those past hearings is a section listing socio-economic impacts. One of the cumulative impacts has been the loss of the Native language. She said that is why a translator is not present today. That is also why the youngest people present today who can speak Iñupiaq are over age 40. She said that is an issue that is being addressed in the North Slope Borough's schools, and one she said she thinks legislators need to take to heart. The impacts are not just region-wide, but state-wide. Ms. Edwardson noted there is a video called, "The Voice of Our Spirit," about the Iñupiaq language, which is part of the Iñupiat history series. She said her daughter created that video, and she expressed her hope that the legislators will watch the video. She urged the legislature to fund the schools so that they can keep the language alive.

4:36:10 PM

HAROLD CURRAN noted that although he is the chief administrative officer of the North Slope Borough, he is testifying on behalf of himself. He expressed appreciation for the legislature's holding the hearing in Barrow. He said he recognizes the capabilities, confidence, and earnestness the legislators have in dealing with the issue before them. He said, "Anybody that's going to produce the resources that will go down the pipeline needs fiscal certainty for putting the investment into this state that's necessary for that to occur." Mr. Curran said he has been in Alaska since 1976 and has followed what the legislature has done regarding the tax structure for oil. He recollected that in the '90s, when oil was $9 a barrel, industry approached the legislature and the governor and said it could develop some fields, but needed tax breaks. The government gave the industry those tax breaks; therefore, there was fiscal certainty in being able to appeal to the foresight and knowledge of the legislature and the administration to deal with those needs. Taxes were never increased to the point that they were prohibitive to industry. That is the certainty that an intelligent government provides to the industry and has provided to them since the state came into being. He concluded:

> That's the kind of power you have, as representatives of the sovereign of the state. You exercise that power well, your predecessors have done it, and I think, unless our system is broken in this state, your successors will do it. And I propose to you that the history of taxes in the state of Alaska demonstrates that it's not broken, and I hope you'll take that into consideration in dealing with that issue.

4:39:58 PM

ESTHER KENNEDY said just because [the people of the North Slope Borough] are humble and don't "make noise," that does not give [the state government] the right to treat the people with disrespect. Ms. Kennedy indicated that those working in oil and gas related jobs come in and out of the area, with no interest in the land, which is eroding. She stated there are "black spots" in the water that cannot be fished. Ms. Kennedy said the settlement from ExxonMobil Corporation may sound like a lot of money, but she indicated that the amount each fisherman will be compensated is approximately $14-15,000 - the amount he/she used to make in one day. She indicated that the region needs money and better housing. She said people come in, do their jobs, and leave the local people with nothing. In summary, Ms. Kennedy asked the legislature to do what it says it will do. She asked the legislators to get the people in the region involved in the process, because they know the land. She concluded, "My jar is empty, and all I'm asking to you [is] to please fill it back up."

4:46:04 PM

DELBERT REXFORD, Barrow, Alaska, said a former mayor, during an address to the Circumpolar Conference, April, 1978, regarding the consultation on oil and gas exploration and development in the Arctic, said the ultimate purpose of the regional governments will be to protect their subsistence game habitat, including the off-shore marine mammal habitat. However, Mr. Rexford noted that the mayor also said local government can be the means through which the oil and gas industry can both ensure Inuit cooperation and benefit fully from Arctic oil and gas development.

MR. REXFORD said he speaks from experience, having been a former city councilman, North Slope Borough assemblyman, and president of the Alaska Municipal Police. Regarding NPR-A, he indicated that "we" had to take the State of Alaska to court, because the state wanted 100 percent of the funding. Now, he said, "we only get 50 percent." He said 50 percent is not sufficient - 100 percent would be. He related that when he attended an Outer Continental Shelf (OCS) meeting in Houston, Texas, language was introduced proposing that impact funds be provided to impacted communities and regions. He said Bristol Bay would have to address this issue in the near future when that area is developed.

MR. REXFORD said more importantly, individual corporations across the state want full and meaningful participation. He reminded the legislators of "Section 29," when the Alyeska Pipeline Service Company had to "come back up to the plate and provide work for Alaska Natives when they broke their promises." Alaska Natives had to go to court in order to have that promise fulfilled. Mr. Wexford said leases need to be written so that Alaska Natives have a preference in contracting.

MR. REXFORD said he was president of the Alaska Municipal League when 48 municipalities decided to distinguish the municipal for of government, because the State of Alaska did not provide sufficient municipality assistance and revenue sharing. In recent years, there has been the issue of power cost equalization. He said there are people without jobs who are dependent on subsistence resources to sustain their lifestyle. Mr. Wexford said these are the issues - the revenue that the state will receive and how it will appropriate that revenue to impacted communities - that need to be considered as a part of the proposed natural gas pipeline.

MR. REXFORD said the Ukpeagvik Iñupiat Corporation (UIC) supports the construction of an environmentally sound pipeline that is beneficial to Alaska Native village corporations. He spoke of the workforce available in the North Slope Borough, and the commitment there of providing funding of $200,000 a year to the local community college. He concluded by asking the legislature to "look at Alaskans first."

4:50:04 PM

ROSEMARIE HABEICH said although she serves as the director of the North Slope Borough Health Department, she is testifying on behalf of herself. Ms. Habeich opined that the permitting process needs to include an assessment of potential health impacts, including: physical, mental, spiritual, and cultural. She noted that the legislators had the day before experienced events that taught the importance of the culture and environment and how it all ties together and ultimately feeds the souls of the people in the region. She noted that while working closely with the North Slope Borough, the Bureau of Land Management (BLM) and the Minerals Management Service (MMS) have built a health assessment process into their EIS process. Doing so, she explained, requires the permitting agency to consider the aforementioned impacts and plan for appropriate mitigation. She stated her belief that it is both important and prudent for the state to follow this example in preparing for a gas pipeline.

4:52:08 PM

RANDY HOFFBECK said although he is the director of Administration and Finance for the North Slope Borough, he would be testifying on his own behalf. He said he used to work as a petroleum property assessor for the State of Alaska, and as such donated two years of his life in negotiations over the Stranded Gas Development Act - an Act he remarked the legislature was "wise enough not to pass." Mr. Hoffbeck proffered that if the state does not want to repeat the steps taken during discussion of that Act and have the same outcome as before, it is critical to "keep as many players in the process as possible, for as long as possible." He said, "Because of that, I strongly support AGIA and the TransCanada application, as well as the option that TransCanada talked about today for an LNG option in Valdez, if in fact there is commercial, economic interest for that ... particular project." If the state does not keep as many players in as possible, Mr. Hoffbeck warned, it will ultimately end up with results similar to the Stranded Gas Development Act negotiations. Mr. Hoffbeck said everyone recognizes that the state must partner with industry; but he said the state must not confuse partnership with friendship. The desire of industry is to increase its economic benefit to the greatest degree possible, which is not necessarily the same desire of the state or local municipalities. He said, "If we want leverage, we need to have multiple players in the process."

MR. HOFFBECK observed that during the process of negotiations there will be concern about the cost of construction prior to gas flowing through a pipeline, as well as about the outlay of resources of the company without the state seeing any return for many years. He added, "That will necessarily point to the fact that the local government collects property taxes during construction." Mr. Hoffbeck said the local revenue source was negotiated away early in the Stranded Gas Development Act process, and it was a fight to try to get it back. He added, "We can't make that same mistake again." Property tax revenues are critical, he said. He emphasized that [local governments] need to be included in the discussions early on and need to have direct input into what can and cannot be negotiated away, as it affects local government.

4:56:32 PM

MARTHA FALK, Director, Natural Resources, Iñupiat Community of the Arctic Slope (ICAS), testified first on behalf of ICAS. She noted that Mr. Ahmaogak had, during his previous testimony, mentioned a tax. She clarified that is not an excise tax but rather a severance tax that tribal governments have an authority to put in place. Next, Ms. Falk requested that tribal entities be kept involved with the state in the process of AGIA.

MS. FALK began the personal comment portion of her testimony. She said she thinks awarding TransCanada the license for AGIA would be allowing the non-Alaskan company a monopoly, and the state would then not have any control over the decisions that TransCanada would be making regarding the gas pipeline. Therefore, she opined that an instate entity should be awarded that license. She mentioned the possibility of the Denali project.

4:58:33 PM

LOUISA KAKIANAAQ RILEY said she would address the issue of impacts on Native people as a whole. She noted that her father was affected by the oil pipeline. She indicated that she interviewed elders and a book is now being published. She relayed that she is involved with the Alaska Native Women's Coalition Against Domestic Violence and Sexual Assault, Amnesty International, is a board member of Abused Women's Aid in Crisis (AWAIC), has been working with families for over 30 years, and is an interpreter for the State of Alaska Court System and the tribal court. She offered further details about her background.

MS. RILEY asked the legislators to think about the blanket toss they witnessed in Barrow - that around it would be "everyone," including law enforcement and social workers. She mentioned mental, spiritual, and physical well-being, and emphasized the importance of everyone working together as a family. She talked about Amnesty International as a means to help Barrow's indigenous people, and she said she wanted to give Amnesty International's report on Native people to Senator Olson and Representative Joule.

5:03:37 PM

CHARLES OKAKOK offered his testimony in the Iñupiaq language. [The translation will be inserted if it becomes available.]

5:06:04 PM

IDA OLEMAUN, testifying on behalf of herself, relayed that she has been a subsistence provider at her camp since 1970, and she has raised her children at that camp during the summers. She stated that through the act of God, climactic climate changes are occurring on the North Slope. She recollected that when the International Whaling Commission (IWC) was trying to work with the Barrow Whaling Captains' Association, it had to set up a quota system. Ms. Olemaun said Whaling is in the blood of the people of the region, and she said she is glad the legislators were able to observe a part of the celebration related to whaling that occurred yesterday. She reported, "We've been able to work with IWC in order to have the quota system and continue whaling." She emphasized the importance of whaling to the people, noting that spring and fall whaling is part of their subsistence lifestyle.

MS. OLEMAUN talked about "the ice-free condition that is occurring," and the tightening up of the economy. She said people are in need not only in Barrow, but in the whole state. The price of the gas used in order to get to the seals to skin the boats is very expensive. She said the high price of gas is global, and she cannot think of any "global way to lessen the price of gas." Gas is also needed to get the bearded seals that are used to make the blanket for the blanket toss. She offered further details regarding the way the people work together, and she expressed her hope that the legislators are able to be sensitive to the subsistence activities that occur in the North Slope Borough. Ms. Olemaun stated, "I just don't want to see another Exxon." She said that hurt the state greatly. She said the people here pray and get the whales - they get the bounty. She asked the legislature again to be sensitive to all that if the pipeline is built.

MS. OLEMAUN said she used to carry a baby on her back in the '70s to come to hearings that were well attended, and she said she is very disappointed at how few local people are present at the meeting. She said, "I knew it. I knew once the oil companies step on our ground up here, they would come like a swarm of bees, and it clearly reflects that, and they still want more, more, more out of the land."

5:11:25 PM

CARRIE KITTICK, testifying on behalf of herself, told the committee that she represents her four grandmothers and four [grand]fathers. She indicated that many in her family have been part of a whaling crew. She said the people are fed through subsistence. She said she goes camping and has been "taught in blessed ways." She expressed her hope that the legislature would protect the land and resources, as well as for that of the future generations. Ms. Kittick talked about the price of gas and groceries and how little a dividend covers. She said her grandmother taught her that she should not have to look to other people to provide for her, but she expressed concern that the people's resources would be driven away. She said she has to travel further to go hunting because of the pipeline, which uses more gas.

5:14:16 PM

REPRESENTATIVE SAMUELS thanked all of the community for their hospitality at the community event the day before, and thanked certain individuals for their help during the legislature's visit to Barrow.

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

ADJOURNMENT

There being no further business before the committee, the Joint Senate Special Committee on Energy and House Rules Standing Committee meeting was adjourned at 5:17:54 PM.