

**ALASKA STATE LEGISLATURE**  
**JOINT MEETING**  
**HOUSE RULES STANDING COMMITTEE**  
**SENATE SPECIAL COMMITTEE ON ENERGY**  
Ketchikan, Alaska  
July 8, 2008  
1:12 p.m.

**MEMBERS PRESENT**

HOUSE RULES

Representative John Coghill, Chair  
Representative Anna Fairclough  
Representative Ralph Samuels (AGIA Subcommittee)

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Charlie Huggins, Chair  
Senator Bert Stedman, Vice Chair  
Senator Kim Elton  
Senator Lyman Hoffman  
Senator Donald Olson  
Senator Joe Thomas

**MEMBERS ABSENT**

HOUSE RULES

Representative John Harris (AGIA Subcommittee, Chair)  
Representative Craig Johnson  
Representative Beth Kerttula (AGIA Subcommittee)  
Representative David Guttenberg

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Lyda Green  
Senator Lesil McGuire  
Senator Gary Stevens  
Senator Bill Wielechowski  
Senator Fred Dyson  
Senator Thomas Wagoner

**OTHER LEGISLATORS PRESENT**

Representative Nancy Dahlstrom  
Representative Mike Doogan

Representative Berta Gardner  
Representative Mike Hawker  
Representative Lindsey Holmes  
Representative Kyle Johansen  
Representative Mike Kelly  
Representative Gabrielle LeDoux  
Representative Kurt Olson  
Representative Bob Roses

Senator Hollis French  
Senator Gene Therriault

#### **COMMITTEE CALENDAR**

HOUSE BILL NO. 3001

"An Act approving issuance of a license by the commissioner of revenue and the commissioner of natural resources to TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd., jointly as licensee, under the Alaska Gasline Inducement Act; and providing for an effective date."

- HEARD AND HELD

SENATE BILL NO. 3001

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- HEARD AND HELD

#### **PREVIOUS COMMITTEE ACTION**

BILL: HB 3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(H)	READ THE FIRST TIME - REFERRALS
06/03/08	(H)	RLS
06/03/08	(H)	WRITTEN FINDINGS & DETERMINATION
06/04/08	(H)	RLS AT 9:00 AM CAPITOL 120
06/04/08	(H)	Heard & Held; Assigned to Subcommittee
06/04/08	(H)	MINUTE(RLS)
06/04/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/04/08	(H)	Heard & Held
06/04/08	(H)	MINUTE(RLS)

06/05/08	(H)	RLS AT 9:00 AM TERRY MILLER GYM
06/05/08	(H)	Heard & Held
06/05/08	(H)	MINUTE(RLS)
06/06/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/06/08	(H)	Heard & Held
06/06/08	(H)	MINUTE(RLS)
06/07/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/07/08	(H)	Heard & Held
06/07/08	(H)	MINUTE(RLS)
06/08/08	(H)	RLS AT 1:00 PM TERRY MILLER GYM
06/08/08	(H)	Heard & Held
06/08/08	(H)	MINUTE(RLS)
06/09/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/09/08	(H)	Heard & Held
06/09/08	(H)	MINUTE(RLS)
06/10/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/10/08	(H)	Heard & Held
06/10/08	(H)	MINUTE(RLS)
06/12/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/12/08	(H)	Heard & Held
06/12/08	(H)	MINUTE(RLS)
06/13/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/13/08	(H)	Heard & Held
06/13/08	(H)	MINUTE(RLS)
06/14/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/14/08	(H)	Heard & Held
06/14/08	(H)	MINUTE(RLS)
06/16/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/16/08	(H)	Heard & Held
06/16/08	(H)	MINUTE(RLS)
06/17/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/17/08	(H)	Heard & Held
06/17/08	(H)	MINUTE(RLS)
06/18/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/18/08	(H)	Heard & Held
06/18/08	(H)	MINUTE(RLS)
06/19/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/19/08	(H)	Heard & Held
06/19/08	(H)	MINUTE(RLS)
06/20/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/20/08	(H)	Heard & Held
06/20/08	(H)	MINUTE(RLS)
06/24/08	(H)	RLS AT 1:00 PM MAT-SU
06/24/08	(H)	Heard & Held
06/24/08	(H)	MINUTE(RLS)
06/26/08	(H)	RLS AT 1:00 PM KENAI
06/26/08	(H)	Heard & Held

06/26/08 (H) MINUTE(RLS)  
07/01/08 (H) RLS AT 9:00 AM BARROW  
07/01/08 (H) Heard & Held  
07/01/08 (H) MINUTE(RLS)  
07/02/08 (H) BILL CARRIES OVER TO FOURTH SPECIAL  
SESSION  
07/08/08 (H) RLS AT 1:00 PM KETCHIKAN

BILL: SB 3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08 (S) READ THE FIRST TIME - REFERRALS  
06/03/08 (S) ENR  
06/03/08 (S) REPORT ON FINDINGS AND DETERMINATION  
06/04/08 (S) ENR AT 10:00 AM TERRY MILLER GYM  
06/04/08 (S) Heard & Held  
06/04/08 (S) MINUTE(ENR)  
06/05/08 (S) ENR AT 9:00 AM TERRY MILLER GYM  
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  
06/09/08 (S) MINUTE(ENR)  
06/10/08 (S) ENR AT 10:00 AM TERRY MILLER GYM  
06/10/08 (S) Heard & Held  
06/10/08 (S) MINUTE(ENR)  
06/12/08 (S) ENR AT 10:00 AM FBX Carlson Center  
06/12/08 (S) Heard & Held  
06/12/08 (S) MINUTE(ENR)  
06/13/08 (S) ENR AT 10:00 AM FBX Carlson Center  
06/13/08 (S) Heard & Held  
06/13/08 (S) MINUTE(ENR)  
06/14/08 (S) ENR AT 10:00 AM FBX Carlson Center  
06/14/08 (S) Heard & Held  
06/14/08 (S) MINUTE(ENR)  
06/16/08 (S) ENR AT 9:00 AM ANCHORAGE  
06/16/08 (S) Heard & Held

06/16/08 (S) MINUTE(ENR)  
 06/17/08 (S) ENR AT 9:00 AM ANCHORAGE  
 06/17/08 (S) Heard & Held  
 06/17/08 (S) MINUTE(ENR)  
 06/18/08 (S) ENR AT 9:00 AM ANCHORAGE  
 06/18/08 (S) Heard & Held  
 06/18/08 (S) MINUTE(ENR)  
 06/19/08 (S) ENR AT 9:00 AM ANCHORAGE  
 06/19/08 (S) Heard & Held  
 06/19/08 (S) MINUTE(ENR)  
 06/20/08 (S) ENR AT 9:00 AM ANCHORAGE  
 06/20/08 (S) 9am - 5pm - Testimony <Invitation Only>  
 06/24/08 (S) ENR AT 1:00 PM MAT-SU  
 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  
 07/01/08 (S) Heard & Held  
 07/01/08 (S) MINUTE(ENR)  
 07/01/08 (S) BILL CARRIES OVER FROM 3RD SPECIAL  
 SESSION  
 07/08/08 (S) ENR AT 1:00 PM KETCHIKAN

**WITNESS REGISTER**

TONY PALMER, Vice President  
 Alaska Business Development  
 TransCanada Alaska Company, LLC ("TransCanada")  
 Calgary, Alberta

**POSITION STATEMENT:** Presented TransCanada's proposed pipeline project and answered questions.

PATRICK GALVIN, Commissioner  
 Department of Revenue (DOR)  
 Juneau, Alaska

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

BOB WEINSTEIN, Mayor  
 City of Ketchikan  
 Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

JOE WILLIAMS, Mayor

Ketchikan Gateway Borough  
Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

DOUG WARD, Director  
Shipyard Development  
Alaska Ship & Dry Dock, Inc.  
Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

J.C. CONLEY

Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

JOEL L. JACKSON

Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

FRANCES YOUNG

Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

RICHARD "DICK" L. COOSE

Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

JOE JOHNSTON

Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001 in opposition to AGIA.

ANDREW STEVENS

Juneau, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

BYRON CHARLES

Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

DON LUDWIGSEN

Craig, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

ED ZASTROW

Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

RUTH DULIN

Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

JACKIE DURETTE

Ketchikan, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001.

#### **ACTION NARRATIVE**

**VICE CHAIR BERT STEDMAN** called the joint meeting of the House Rules Standing Committee and the Senate Special Committee on Energy to order at [1:12:20 PM](#).

HB 3001 - APPROVING AGIA LICENSE

SB 3001 - APPROVING AGIA LICENSE

[1:13:32 PM](#)

VICE CHAIR STEDMAN indicated that the hearing would begin with a presentation by Tony Palmer from TransCanada Alaska Company, LLC; followed by comments from the commissioner of the Department of Revenue, Patrick Galvin; followed by public testimony.

[1:21:45 PM](#)

TONY PALMER, Vice President, Alaska Business Development, TransCanada Alaska Company, LLC ("TransCanada"), explained that TransCanada has 3,600 employees, is the largest [natural] gas pipeline company in North America, owns 36,500 miles of interstate and interprovincial gas pipeline, and has submitted an application under the Alaska Gasline Inducement Act (AGIA), which sets forth the state's requirements and process for selecting a licensee to pursue a gas pipeline. He noted that TransCanada has been pursuing this project on the Canadian side

for some 30 years; has the rights to the project in Canada; and has "some \$2 billion worth of pipeline in the ground for the Alaska prebuilt." After AGIA was enacted, TransCanada then considered the question of whether to pursue the project in Alaska under AGIA as well. TransCanada thinks that the project has strong economics and will provide satisfactory returns to its stakeholders: the producers, the state, and the pipeline sponsors. Most parties would project that [natural] gas prices will increase over time, and those prices are very high even today.

MR. PALMER indicated that TransCanada also considered whether the state - its legislative body and its citizens - were committed to a gas pipeline project. This was a key factor in TransCanada's decision because no commercial party could provide this project without the cooperation of the governments involved. The proposed project would involve having a pipeline extending 1,715 miles - from Prudhoe Bay to Alberta - and no commercial party owns that land or has access to all that land. TransCanada also took into consideration the state's requirements, and then filed its application accordingly. The rights and responsibilities of both parties - the licensee, or potential licensee, and the state of Alaska - are set out in AGIA and TransCanada expects to have to live with the commitments it made under the AGIA application process. TransCanada believes that if it submits a strong application, then the legislature will ratify it and not play TransCanada as a stalking horse to advance the project in a different fashion. TransCanada submitted its application in good faith, and believes that the state has the same good faith.

[1:28:25 PM](#)

MR. PALMER said that the proposed project is a strategic fit for TransCanada: TransCanada is a gas pipeline company, this is the largest gas pipeline investment opportunity in North America for any company, it's within TransCanada's core competency, it's within TransCanada's geographic footprint, and it's synergistic with TransCanada's existing businesses. TransCanada has been in the pipeline business for 50 years, it started constructing a longer pipeline than [the proposed pipeline] at the company's inception, and he personally has been working on this project "this time" for 7 years and was involved in the project in the 1980s; TransCanada, and he, have thought long and hard about the very, very tough issues associated with moving this project forward. It's a complex and large project, it will take collaboration, it will take compromise, and it will take

cooperation. Anyone can review TransCanada's application and responses, he noted, adding that TransCanada thinks it is aligned with what it thinks the state's objective is, that being to promote basin development - both short-term and long-term.

MR. PALMER, mentioning the process the Murkowski administration engaged in, characterized the AGIA process as an open and transparent [request for proposals (RFP)] process in which interested parties could participate. The interested parties reviewed that process last fall and did so on a competitive basis. When TransCanada submitted its application, it competed vigorously even though it did not know what companies it would be competing with. In addition to seeking competition with regard to who would own the proposed pipeline, he opined that it is important for the state to also seek competition with regard to the "upstream region"; in other words, competition with regard to who will produce Alaska's gas and who will develop Alaska's basin over the long run. Alaska currently has 3 principal players on the North Slope, whereas TransCanada, in contrast, in Alberta, has 450 players "in the upstream region"; 450 players, he relayed, generally compete more vigorously than 3 players, and it is generally the smaller players who, over time, develop a basin. Large players usually have a big position that they take initially: they take a large land position, and they open the basin. Again, however, with regard to long-term development, small players and future players are at least as important as the original players - this has been TransCanada's experience both in Alberta and across North America.

[1:32:49 PM](#)

MR. PALMER surmised that the same will be found in Alaska if the state is successful in constructing a pipeline that provides complete open access. There are no inherent conflicts with TransCanada's other businesses should it be chosen to construct the proposed pipeline, he remarked. He added:

We think we've filed a strong AGIA application ..., and we've indicated that it will cost our corporation ... north of \$600 million to get to a certificate from the [Federal Energy Regulatory Commission (FERC)], ... the federal body that regulates and approves natural gas pipelines as well as oil pipelines. And, yes, we will seek, and we'll be using, if we're granted the license, the state's \$500 million that you've proposed. That's part of the "gives" that the state

has provided in AGIA, and that's counterbalanced against what you've asked of us. ... In any business deal or any transaction, you would expect parties to have some gives and takes. This is one of the "gives" by the state of Alaska. ... I can assure that TransCanada is not pursuing this project, to invest more than a \$100 million of our corporation's money, to find that we don't succeed. Now, we don't succeed at every project that we pursue, but we have a strong track record. ...

MR. PALMER, on the issue of TransCanada's U.S. presence, said that TransCanada owns 12,000 miles of pipeline in the U.S.; that the Alaska portion of the proposed pipeline, when completed, will be 750 miles long; and that TransCanada runs an integrated business across North America, similar to how the oil business is run.

[1:36:02 PM](#)

MR. PALMER said that although TransCanada has many offices in the U.S., he came himself, from the Alberta office, because he thinks that the Canadian example is most similar to the Alaska example in that Calgary and Alberta are also, just as is Alaska, far from New York, Chicago, and California. He surmised that one could also find that Alaska has other circumstances similar to that of TransCanada. For example, TransCanada started out as a small local business with just 3 customers in Western Canada - but currently has more than 300 customers - and had a very high potential basin, a basin that could, in addition to producing the initial volume, be developed across Western Canada and grow the market to the benefit of the people of Alberta in the form of in-state gas, employment, and revenue. He indicated that some of the slides in his PowerPoint presentation will illustrate that point. A fair question to pose to TransCanada, he remarked, is whether TransCanada can obtain the necessary approvals, build this project, and successfully capture customers.

[1:39:35 PM](#)

MR. PALMER relayed that TransCanada is the largest natural gas transmission company in North America and moves 20 percent of North America's natural gas - one in five molecules that move every day across North America moves in TransCanada's pipeline - but doesn't own any of the gas. TransCanada is proposing to do in Alaska exactly what it does across North America, that being

to transport other peoples' natural gas. It is unusual for producers that own the natural gas to also own the interstate or interprovincial gas pipeline; they normally put their gas into third-party, independently-owned pipes like those owned by TransCanada. TransCanada has the technical engineering and operating skills to complete this project, he remarked, adding that he would argue that TransCanada is the best in the business. Furthermore, third-party, "benchmarking" studies conducted on TransCanada's operating costs show that they were 25-30 percent lower than those of TransCanada's competitors, and TransCanada's internal examinations of capital costs between 1990 and 2003 for 42-48 inch diameter pipelines show that they were 19 percent lower than TransCanada's competitors in Canada and 38 percent lower than TransCanada's competitors in the U.S., and none of these numbers have been challenged by any of TransCanada's competitors.

MR. PALMER opined, therefore, that when one hears statements asserting that TransCanada is not motivated to control costs, one should consider both TransCanada's performance [to date] and the fact that growing Alaska's basin won't be possible if TransCanada overspends. It is TransCanada's goal to have low costs and low tolls - that's how TransCanada attracts more customers; no business attracts more customers by overcharging. Referring to a slide in his PowerPoint presentation, he indicated that it illustrates TransCanada's completed projects of similar size, with regard to distance and complexity, as the project being proposed for Alaska. In addition to engineering and technical competence, in order to complete a project of this nature, the entities involved must also do what's required when crossing international, interstate, and interprovincial borders; must gain regulatory approval; must work with Native corporations, First Nations, and communities; and must address environmental issues, climate-change issues, and commercial and financial issues.

MR. PALMER said that TransCanada has the rights to this project in Canada and competed for that right 30 years ago; that right is enshrined in Canadian legislation, and TransCanada has responsibilities as a result because one doesn't obtain rights without also incurring responsibilities. TransCanada has been having discussions with the Canadian government about this project for 30 years, and the project has some unique attributes: it will cross an international border; it will consist of 1,000 miles of pipe from the Alaska-Yukon border to Alberta, a longer distance than from Prudhoe Bay to the Alaska-Yukon border; and it could run into some significant issues

because of the fact that a different sovereign nation is involved. However, 30 years ago a treaty was struck between the U.S. and Canada specifically for this project, and this treaty, which remains in place to date, sets out the rights and responsibilities of both nations for this project, and stipulates that TransCanada is the project's Canadian sponsor. And although TransCanada is seeking collaboration and cooperation on this project, it still has a responsibility to its shareholders, so in the event that other parties attempt to take away its assets in Canada, it will, as should be expected, defend its rights to those assets.

[1:45:23 PM](#)

MR. PALMER said that TransCanada believes that the best project for all parties - Alaskans, the producers, and TransCanada - is one that will move the gas to the Lower 48 through Canada; it will provide the best "netback," which he described as the revenue remaining after the gas is sold in the marketplace less transportation costs. TransCanada believes that the review completed by the administration and its consultants concludes the same thing, he added, but noted that TransCanada is also aware that there are some proponents of a liquefied natural gas (LNG) project at Valdez. When TransCanada prepared its application, it stipulated that when it holds the initial open season, the parties that want to be customers - the shippers - can stipulate a delivery point anywhere along the pipeline and at Valdez at the same; so, in the event that an LNG project is superior and customers can pull together a viable project at Valdez instead of having to go to Alberta [as the gas makes its way to] the Lower 48, they will still have that opportunity.

[1:46:44 PM](#)

MR. PALMER offered that for its \$500 million investment, if TransCanada is granted the license, the state will get a reliable and capable partner committed to advancing the project and aligned with the state's interests. TransCanada will be obliged to hold an open season, a process whereby pipeline companies go out and solicit customers; it's called an open season because it's open and transparent, and the pipeline company seeks customers and provides commercial terms in a public forum. Furthermore, voluntarily, TransCanada will hold an open season every two years, to seek new customers, and will expand every two years in the event that it acquires sufficient customers; TransCanada will promote long-term development of the basin and is committed, even in the event of an unsuccessful

open season, to obtaining Federal Energy Regulatory Commission (FERC) certification; and TransCanada is committed to delivering gas in-state to Alaskans and to an LNG project should such prove successful.

[1:48:17 PM](#)

MR. PALMER said he'd like to relay how TransCanada has developed the basin in Western Canada, how it has fostered upstream competition, what its motivation is as a pipeline owner, and where long-term employment comes from. On the latter point, he offered his understanding that Alaskans are seeking both revenue and long-term employment; that long-term employment doesn't come from operating the pipeline on a long-term basis; that during the construction phase there will be thousands of jobs for two-four years; that over the long run, operating the pipeline is what he characterized as a low-manpower operation. TransCanada has 3,600 employees and owns 36,000 miles of pipe; each employee, in effect, is running 10 miles of pipe. Again, Alaska will have 750 miles of pipe when the project is completed, so the state could expect to have about 50-75 permanent employees to operate the pipeline - that's all that will be needed for efficient operation of the pipeline. He surmised that that is what the state would want, just as would any company or sovereign; as a tax collector, the state will want an efficient and low-cost operation. [Long-term] employment will come from expanding the pipe, from drilling, and from associated services - in other words, from finding more gas and completing more wells.

[1:50:42 PM](#)

MR. PALMER turned attention to his PowerPoint presentation, and said that TransCanada seeks early "in-service" for the project; that the project will be TransCanada's largest investment opportunity in its core business; that the project will utilize some spare capacity, which is advantageous both to Alaskans and to Western Canadians; that there's some spare capacity in TransCanada's pipeline systems leaving Canada; that by the time the project is completed, TransCanada anticipates having sufficient spare capacity leaving Western Canada to transport Alaska's entire volume all the way to the Lower 48 without any incremental facilities; and that there will be no need for a new pipeline leaving Western Canada in order for Alaska to deliver its gas to the Lower 48 market. On the issue of encouraging long-run basin development, he offered his belief that successful pipeline expansions can create a virtuous circle that

leads to more drilling, which, if also successful, can lead to more expansions, which is where [long-term] employment will come from and where long-term, in-state gas deliveries will come from. Furthermore, TransCanada is in favor of equitable treatment for all customers, and has a 50-year track record [of providing that].

[1:52:28 PM](#)

MR. PALMER referred to a map of TransCanada's pipeline system across North America, and offered that when built 50 years ago, the original 2,300 miles of pipe leaving Western Canada and going to Eastern Canada was longer and more challenging [to build], from an engineering standpoint, than TransCanada's proposed pipeline going from Prudhoe Bay to Alberta. Furthermore, that original pipeline was built at TransCanada's inception, and, as it passed through Northern Ontario, was built on solid ground, so TransCanada had to blast its way through that area; in contrast, the proposed pipeline will not have to traverse that sort of terrain. Then, in the 1990s, TransCanada constructed 7,000 miles of pipe, more than four times the distance the proposed pipeline will traverse, and did so on schedule and within .06 percent of budget - no other company has a similar track record in building North American interstate pipelines.

MR. PALMER said that TransCanada is also currently constructing an oil pipeline - illustrated by the dashed, red line on slide 3 of the PowerPoint presentation - in conjunction with ConocoPhillips as the 50 percent partner; this pipeline, also longer than Alaska's proposed project, will move heavy oil out of the oil sands in Western Canada down into the Midwest and on to Cushing, Oklahoma. And if that pipeline and another pipeline that will be built between Alberta and the Gulf Coast are successful, the [cost of the] two projects together would total some \$13 billion, half the capital costs of the Alaska's proposed pipeline. TransCanada hopes to have those two oil pipelines completed by 2012. With regard to the aforementioned oil pipeline, between Alberta and Winnipeg, TransCanada is intending to convert 50-year-old pipe from gas service to oil service and then continue to use it for the next 30-50 years; TransCanada's ability to do this type of conversion illustrates some measure of TransCanada's maintenance record.

[1:55:27 PM](#)

MR. PALMER, with regard to Alaska's proposed pipeline, said that there will be two major components: the "within Alaska" component, and the component between Alaska and the market in Alberta and onto the Lower 48. Referring to slide 4 of the PowerPoint presentation, he indicated that it illustrates TransCanada's development of the basin in Western Canada over the last 50 years - a 250-mile pipeline system serving 3 customers is now a 15,000-mile pipeline system serving over 300 customers via 1,100 receipt and delivery points. Consider what this means for in-state gas development, he remarked. Slide 5 illustrates the pipeline going from Western Canada to Eastern Canada. A pipe can be expanded by adding compression - this means adding more pump stations to compress the gas more and thus increase the amount of gas that can be moved through the same-sized pipe. However, at some point it becomes more efficient to simply add what are called pipeline loops - parallel pipelines on the same right-of-way as illustrated via slide 6; there are now six parallel pipes moving gas east out of Western Canada. Parallel loops don't have to be constructed all at once if expansions are small in scale, they can instead just be partial loops, and that's the kind of expansion that TransCanada has been successful with over the last 50 years in getting its product out of Western Canada.

[1:58:38 PM](#)

MR. PALMER referred to slides 7 and 8 illustrating what he called the "must-haves" required by the Alaska Gasline Inducement Act (AGIA). TransCanada is of the belief that it was through these "must-haves" that the state intended to advance the project, and so submitted its application in good faith on that basis. TransCanada is gratified that the administration has indicated that TransCanada has indeed met all the state's "must haves." He went on to say:

I described to you earlier that TransCanada competed under AGIA, and I've heard some parties in the press speculate that there's been no competition because TransCanada is the only party that made it through the first test that had a complete application. I think many of you will have asked contractors to bid on your house - either [for] renovations or ... to construct a house - and when you do that, whether you've been on the buyer's side or on the contractor's side, you know that the competition occurs in advance of the bid. If you ask for a best and final offer from your contractor, which is what the state did under its RFP

process, parties don't get a second chance - they must put their best foot forward, they must put a best and final ... offer on the table not knowing what their competitors will do. TransCanada did exactly that. We expected that there would be other parties that submitted complete bids, and we filed accordingly. ... And by the way, after we learned that we were the party with the only complete application, we did not come back to the state and seek to amend our application and improve it from our standpoint - we did not have the right to do so, and we did not seek to do so.

MR. PALMER, in response to a request, explained that in order to transport gas, it has to be what is known as "pipeline quality," and so impurities must be removed; in this case it is primarily carbon dioxide that will have to be removed because Alaska's natural gas contains significant volumes of it as it comes out of the wellhead in Prudhoe Bay. Rending Alaska's gas pipeline quality will require that a \$6 billion gas treatment plant (GTP) be built on the North Slope. TransCanada has proposed that this GTP be owned by other parties rather than TransCanada. The logical parties to own the GTP are the three producers that currently produce gas at Prudhoe Bay; they have common facilities there as well as other huge operations, and so could probably save money by owning a GTP at that location, though other parties might wish to own such a facility. The cost of building a GTP on the North Slope is about 22 percent of the total cost of the proposed pipeline project, a nice investment opportunity should the three producers not wish to own it, and the GTP will probably be regulated by the FERC. In the event that no other party wishes to [build and] own a GTP on the North Slope, then TransCanada will do so, though it would prefer not to because it is primarily a pipeline company; TransCanada has constructed facilities of that nature before, though not on the scale proposed.

[2:02:53 PM](#)

MR. PALMER, in response to another request, explained that in any business there are generally two forms of risk: the inherent business risk, and the financial risk. The latter form of risk pertains to how one finances one's business. Most small businesses "run with something close to 100 percent equity"; in other words, it is essentially the owner's funds that finance the business. There are other businesses, however, that have some significant amount of debt that supports the business or

supports the project. In the gas pipeline business across North America, particularly in the Lower 48, one can see a spectrum of how much equity, versus debt, that a particular business has - and debt plus equity, of course, makes up 100 percent of a project's or business's "capitalization." Under AGIA the licensee is required to have a minimum of 70 percent debt, a very high debt ratio for a pipeline company, and for a project of this complexity and risk. In contrast, in the Lower 48, many pipeline companies only have a debt ratio of between 40-60 percent.

MR. PALMER explained that the aforementioned high debt ratio is achievable [for TransCanada] primarily because the U.S. government, almost four years ago, passed legislation that provided a federal loan guarantee mechanism for up to \$18 billion for "this project." Because of this financial support, TransCanada, regardless that the state is only requiring a 70 percent minimum debt ratio, has actually offered to go as high as a 75 percent debt ratio when in service. This is important for TransCanada because as a sponsor, it earns money only on the equity component of a project, and so going as high as a 75 percent debt ratio results in a toll reduction of \$.09/mmBtu - \$150 million per year in toll reduction. This means less return for TransCanada than it would normally expect. He elaborated:

Debt usually has a cost. On a project like this, it will likely be ... [at a] 5 to 7 or 8 percent interest rate - that's about what you can borrow money [for] on a project of this nature in this market. ... Equity, on the other hand, costs more money because it has risk, and ... [TransCanada's proposal] assumed that the equity return would be 14 percent. And in addition to receiving a return, there is a collection of income taxes on the equity; the nature of the business, both in the Lower 48, here, and in Canada [is that] governments collect taxes on income that you earn as a shareholder. That means that equity is much more costly to customers than debt, and customers always want you to have more debt, and pipeline companies always want to have more equity. So that's a component we put on the table.

[2:07:46 PM](#)

VICE CHAIR STEDMAN asked who has the authority to set the limits on debt to equity.

MR. PALMER relayed that the FERC and Canada's National Energy Board (NEB) have that authority. He noted that with regard to other parties and pipelines, there has been a range of debt:equity ratios. For example, there are a number of projects in which companies have 30-60 percent equity, though those projects didn't have the same risks as Alaska's proposed project. He suggested that legislators should review the legal and regulatory complexities of this project, adding, "Certainly this project is as risky or more risky than any other project that I can describe that we have looked at over the last several years." He noted that although the producers have expressed an interest in being owners in the project, currently TransCanada's proposal has TransCanada owning the entire project; however, in its application, TransCanada has also proposed that parties which commit their gas in the initial open season will have the option of becoming TransCanada's equity partners [in the project].

MR. PALMER, in response to a question, indicated that if the state grants TransCanada a license, those parties that do chose to become equity partners must adhere to AGIA's 20 must-haves. The question producers must consider, therefore, is whether they can live with that as opposed to advancing a different project on their own. He predicted that if the producers do decide to advance a different project, even without the various concessions from the state that they've always asked for previously, they will still have significant challenges to overcome, both in Alaska and in Canada; for example, producers don't have the benefits of a treaty and or of a specific Act of parliament or of the rights that TransCanada has or of a "single window" regulatory agency.

MR. PALMER, in response to another question, indicated that advancing TransCanada's proposed project carries risk for the state just as does not advancing any project. With regard to the latter option, he added, "We've seen some of the results of that over the last several years; as we've all pursued this project and tried to move it forward, we've seen some international competitors advance other projects that are [now] in the market place in advance of Alaska." With regard to advancing TransCanada's proposal, the state will face the risk that it will invest \$500 million only to have this joint venture between the state and TransCanada be unsuccessful, the risk that regulators won't approve the project, and the risk that in a few years the state may decide that it doesn't like "this deal" and therefore wants to change it. In the event that the latter occurs, the state has specific limitations to its obligations to

TransCanada; in contrast, if TransCanada breaches the agreement, it has no limitations to its obligations to the state.

MR. PALMER offered that the possible benefits of approving TransCanada's license include improving the state's chances of advancing the project and improving the state's chances of capturing value in terms of in-state gas, employment, and revenue. The legislature must consider whether the possible rewards of approving TransCanada's license are balanced with the risks of doing so. He said that TransCanada believes that it has put forward a proposal that can succeed, with the state as its partner.

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MR. PALMER, in response to a question, explained that since filing the application last year, TransCanada has expended about \$2 million; that the assets "in Yukon and North BC" are about \$20 million combined; that that figure is .1 percent of the estimated capital costs of the proposed project; that Foothills Pipe Lines Ltd., owns significant facilities in Alberta, southern British Columbia, and Saskatchewan worth several hundred million dollars; and that TransCanada, if successful [in obtaining a license under AGIA], is obligated to fully fund the equity component of the project. In response to further questions, he indicated that TransCanada stipulated in its application a toll rate of \$2.41; that TransCanada's current right-of-way payments for "the Yukon" is \$30,000 per year; that TransCanada has spent some \$750,000 in total over the past 25 years for that right-of-way; and that the aforementioned \$20 million includes "those numbers."

The committees took an at-ease from 2:20 p.m. to 2:27 p.m.

REPRESENTATIVE FAIRCLOUGH asked whether an in-state bullet line between Cook Inlet and the Interior would be considered competition to the proposed project.

MR. PALMER relayed his understanding that that would involve a 20-inch pipeline with a volume of less than .5 Bcf/day. In response to a further question, he explained that a provision in the AGIA allows for the state to provide fiscal assistance to a competitive pipeline that moves less than .5 Bcf/day of in-state gas. He added that TransCanada doesn't have an issue with that bullet line proposal as long as that pipe doesn't exceed that size or volume. In response to another question, he pointed out that any pipeline can be expanded via compression and looping,

but surmised that the volume of gas moving through such an in-state pipeline will remain under .5 Bcf/day until [TransCanada's pipeline] is in service, because those are the provisions of AGIA. He offered his belief that a 20-inch pipe is the appropriate size pipe for moving up to, or less than, .5 Bcf/day. He went on to say:

What we would be very concerned about, of course, is if someone were building a 48-inch line and then dribbling through [.5 Bcf/day], or slightly under it, on a long-term basis, expecting a subsidy from the state and then wanting to compete with me the day after we went in service. That clearly would not be in compliance with AGIA, in our view.

2:36:41 PM

VICE CHAIR STEDMAN asked what volume of gas is anticipated in TransCanada's proposal, and why TransCanada is concerned with a .5 Bcf/day limit.

MR. PALMER responded that the proposal and application that was filed anticipated 4.5 Bcf/day transported from Prudhoe Bay to Western Canada and to the Lower 48. At this point, however, the ultimate volume will only be known at the time that customers actually nominate in the open season - what customers request, either in Alberta or to Valdez. He indicated that AGIA's treble-damages clause - which precludes the state from providing fiscal assistance to a competing pipeline project, that being one involving a pipeline capable of moving more than .5 Bcf/day - does two things: it ensures that North Slope gas is not diverted from the TransCanada pipeline, and it ensures that TransCanada's obligations to the state won't be unfairly burdensome should the state still choose to subsidize a competitor. He relayed his understanding that the state intends to provide up to .5 Bcf/day of in-state gas only to Alaska's local markets and not to a competitor of TransCanada's pipeline.

MR. PALMER, in response to a question, stated that TransCanada is prepared to move smaller volumes of less than 3.5 Bcf to Western Canada. However, due to economies of scale, the economics of the project could be significantly impaired if volumes drop below 3.5 Bcf/day to the AECO Hub - a large diameter pipeline, compared to a small diameter pipeline, can save significant costs. He offered that having a pipeline capable of moving more than 3.5 Bcf/day would be the most economical. If, however, customers were interested in a 2.5

Bcf/day pipeline, then the tariff would be significantly higher due to the lower volume.

[2:39:56 PM](#)

MR. PALMER, referring to a slide in his PowerPoint presentation, mentioned that TransCanada proposes that in the event of a capital cost overrun, it would take a reduction in the rate of return, which is unusual in the pipeline industry because of the low level of equity. He noted that Fort Nelson, along the [proposed] pipeline route, is midway through British Columbia. TransCanada has significant spare capacity in its systems in Western Canada and anticipates more at the time that Alaska's gas would be online. Due to its charging methodology TransCanada, as a pipeline owner, does not make less money when it has spare capacity in its system and won't make more money when it refills its pipeline with Alaska gas; instead, the unit cost to TransCanada's customers increases and decreases based on the volumes in the pipeline. Thus, if TransCanada refills the pipeline as a result of moving Alaska's gas, not only does Alaska benefit from receiving better prices for gas, more liquidity for gas, and more diversity, but Western Canadian producers will benefit as well.

MR. PALMER referred to projections that Western Canadian producers would benefit by a reduction of tolls in the amount of \$10 billion over the first 15 years that Alaska gas moves into that system. TransCanada proposes a structure, called the Fort Nelson option, in which TransCanada would seek authority from Canadian regulators to shift about \$3 billion of that \$10 billion to "Alaskan shippers' accounts," thus benefiting Alaska additional to what's currently proposed in TransCanada's application.

[2:42:31 PM](#)

MR. PALMER - referring to slide 10, which shows a map of the proposed pipeline system - pointed out that Alaska would gain access to the AECO Hub, represented by the blue lines, and that once Alaska has access to that system, Alaska can trade its gas for free once the receipt toll is paid. This system provides significant liquidity and so Alaska may wish to trade its gas [at the AECO Hub]. Others would then take possession of the gas and continue to move it on to the Lower 48 to U.S. consumers. He said that he's heard in the press that all of Alaska's gas will end up in the Alberta tar sands.

MR. PALMER assured members that that statement is not correct. Western Canada today has surplus gas and has had surplus gas for 40 years and exports 9 Bcf/day to the Lower 48, double the volume of the proposed Alaska pipeline. He relayed that the Western Canadian supply will be "relatively flat going forward" and that demands are increasing, which is why the spare capacity will increase. He said he anticipates that by the time Alaska gas flows, Western Canada will still have 6 to 7 Bcf/day of surplus gas even after meeting the "oil sands demand." So although "you can't paint your molecules with your flag and Canadian molecules with a Canadian flag," he said, Alaska's gas will be exported to the Lower-48 market after serving Alaska's markets first.

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REPRESENTATIVE KELLY posed a hypothetical example in which a small-diameter spur line was completed from Anchorage to Fairbanks to deliver Cook Inlet gas, and the TransCanada's 48-inch pipeline was delayed. He asked whether, in that example, TransCanada would be willing to build a pipeline to Fairbanks or Delta Junction provided gas was available from the producers. If TransCanada did so, he surmised, then that pipeline would bring new gas to Fairbanks.

MR. PALMER, noting that that example assumes that a 48-inch pipe to Delta Junction could get constructed, said yes, so long as TransCanada has enough customers to allow TransCanada to recover its capital. He indicated that the volumes would be small, and therefore either the tariffs would be high or TransCanada would need to have capital contributions, since a large pipe can move 4.5 Bcf/day would only be moving volumes under .5 Bcf/day.

REPRESENTATIVE KELLY agreed that [in that case] some contribution would be necessary for the project. He asked what Mr. Palmer would project as the "absolute floor" on its first open season before "you take a hike."

MR. PALMER pointed out that AGIA does not allow TransCanada to "take a hike"; instead TransCanada must continue through FERC certification, even if zero volumes are committed in the initial open season, and must also hold a second open season two years later.

MR. PALMER referred to a slide labeled, "Project Schedule," and said the timeline for the first open season is set at 2010 and that the second open season would be held at the same time that

TransCanada would file its FERC application. He offered that if TransCanada obtained a FERC certificate and still did not have customers, then the project would not appear viable. In response to other questions, he offered his understanding that customers may be reluctant to commit to the pipeline for less than 3.5 Bcf/day to the AECO Hub, and that TransCanada would [build a pipeline] handling less than 3.5 Bcf/day if there were sufficient customers willing to pay the resulting higher tariff.

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REPRESENTATIVE LeDOUX asked why TransCanada would continue through the FERC certification process to a second open season if the initial open season is unsuccessful, except that AGIA requires TransCanada to do so.

MR. PALMER indicated that is why - under AGIA, one of TransCanada's obligations is to proceed to FERC certification. Thus, if the license is granted, TransCanada will continue seeking customers and FERC certification, and if TransCanada is successful in capturing customers at a later open season, the project will be advanced which, he opined, is the intent of AGIA.

[2:52:24 PM](#)

REPRESENTATIVE FAIRCLOUGH offered that she has heard discussions about projects that would move a lot of gas from the North Slope to the AECO Hub. She asked about building a gasline or a bullet line without there being proven reserves. She relayed her understanding that the predictions for gas have already been made, and asked Mr. Palmer to speak to the proven reserves that can be demonstrated to the financiers.

VICE CHAIR STEDMAN asked Mr. Palmer to also explain the concept of oil and gas off-take.

MR. PALMER explained that natural gas often comes in "non-associated fields" that contain only natural gas. However, in an "associated gas field" such as at Prudhoe Bay, gas is associated with oil in the reservoir. In such fields, the oil is often produced first, with the natural gas being re-injected to maintain pressure in the reservoir. At some point, though, it is better to stop producing the oil or the oil and gas together. The gas in Prudhoe Bay has been re-injected to maintain reservoir pressure for 30 years thus far. Most of the gas contained in the North Slope, including Prudhoe Bay and

Point Thompson, is associated gas, he said, adding that he is not aware of anyone exploring solely for non-associated gas. He said he anticipates that there will be some exploration for associated gas, and although most reservoirs in North America contain non-associated gas, since oil production results in the most profit, gas is being re-injected into the reservoir to assist in the production of oil. In other instances, where there is no gas pipeline, the reservoir has to be capped because there's no market for the gas.

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VICE CHAIR STEDMAN relayed his understanding that as the basin ages, the off-take amounts could finance gasline construction.

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MR. PALMER said that the North Slope contains approximately 35 trillion cubic feet (Tcf) of proven reserves, which represents a very substantial initial reservoir, and that in its application, TransCanada is requiring customers to have 10 years of proven reserves for a 25 year contract. That's relatively standard. In order to finance the project, one generally doesn't need 25 years of proven reserves before starting. He offered his belief that independent studies confirm that the North Slope is a prolific basin, and calculated that 10 years of proven reserves at 4.5 Bcf/day represents about 1.6 Tcf per year. So if the pipeline flowed full every day, that it would represent 16 Tcf over 10 years, the amount needed to "backstop" customer contracts under TransCanada's application.

MR. PALMER relayed that Prudhoe Bay contains 24 Tcf in proven reserves, with an estimated additional 8 to 10 Tcf at Point Thompson, though that may not be available initially. Not only does [the state] need to know how much initial and future gas is in the reservoir, but also how much can be delivered from the reservoir, he stated, and this will be determined by government officials and the leaseholders. Government officials have projected initial gas volumes of 3.5 Bcf/day or 4.0 Bcf/day, so Point Thompson, he opined, will be needed to increase that amount to 4.5 Bcf/day.

REPRESENTATIVE FAIRCLOUGH surmised that Alaska's ability to successfully monetize its gas relates to the economic feasibility of the project and the involvement of the producers. She also surmised that the question before the legislature is whether Alaska will invest in an AGIA license with TransCanada.

3:01:27 PM

REPRESENTATIVE ROSES asked to revert back one slide to examine the Fort Nelson option upside [slide 9, labeled TransCanada's Competitive Response to AGIA]. Representative Roses recalled that TransCanada's proposal would be submitted to the NEB without any guarantee of approval.

MR. PALMER, in response to comments and questions, clarified that if TransCanada is successful in getting the NEB to approve the aforementioned Fort Nelson option, the tolls would fall from \$2.41 to about \$2.25.

REPRESENTATIVE ROSES asked why the Mackenzie River pipeline must be brought to the AECO Hub prior to the Alaska line, and whether TransCanada would have enough excess capacity to handle Alaska's gas without Alaska paying expansion prices inside Canada.

MR. PALMER answered that the 4.5 Bcf/day to 5 Bcf/day of spare capacity assumes that Mackenzie River gas is flowing prior to Alaska gas; if not, then only about 1.5 Bcf/day of spare capacity would be available.

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REPRESENTATIVE HAWKER asked whether TransCanada would be willing to undertake the pipeline without the state's \$500 million, and what the state and TransCanada's financial obligations would be in the event that TransCanada were to proceed with the Alaska project beyond a failed open season.

MR. PALMER explained that agreeing to move forward beyond a failed open season was difficult for TransCanada, and so views the \$500 million as one of the values it will receive from the state for doing so. He relayed his understanding that in terms of the allocation of the \$500 million, prior to the open season and if TransCanada is granted a license, the state would reimburse TransCanada for up to 50 percent of its cost, which, he estimated, would be about \$84 million. After the open season, whether successful or not, TransCanada would pursue a FERC certificate, and the state would pay up to 90 percent of the cost, up to the \$500 million cap, with TransCanada being responsible for any costs beyond that.

3:10:23 PM

REPRESENTATIVE HAWKER questioned whether its reasonable for the state to spend \$500 million to pursue FERC certification after a failed open season.

MR. PALMER reiterated that a portion of the state's \$500 million would be spent prior to the open season, pointed out that pursuing FERC certification even after a failed open season is an aspect of AGIA that was approved by the legislature, and mentioned that TransCanada has hopes for a successful open season. In response to comments, he acknowledged that the legislature is not obligated to approve TransCanada's application.

[3:15:59 PM](#)

SENATOR THERRIAULT noted that although normally a pipeline company would not proceed with FERC certification after a failed season since such would indicate that there's no need for a pipeline, in this case, Congress has taken action telling the FERC that this pipeline is in fact needed. Thus, that first hurdle has already been addressed.

MR. PALMER concurred.

SENATOR THERRIAULT said that although TransCanada might be reluctant to proceed with the FERC certification process [if the first open season fails, from the state's point of view, continuing to advance the project is of value to the state. Additionally, the state's \$500 million investment would lower the tariff, so after recouping its investment the state would receive an additional \$200 million.

MR. PALMER concurred with that summation.

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SENATOR THERRIAULT - noting that the Denali project, proposed by BP Exploration (Alaska) Inc. ("BP") and ConocoPhillips Alaska, Inc. ("Conoco"), is proposing a volume of 4.5 Bcf/day - asked Mr. Palmer whether he has heard anything that leads him to believe that the gas will not be there when the proposed TransCanada pipeline is completed.

MR. PALMER said, "I have heard testimony from a number of parties that would lead me to believe that the volume may be more like 3.5 to 4 Bcf/day initially rather than 4.5 [Bcf/day]."

SENATOR THERRIAULT surmised that's still enough volume to make the TransCanada project financially successful.

MR. PALMER concurred.

VICE CHAIR STEDMAN, noting that it's necessary to have a design before obtaining a FERC certificate, asked how TransCanada can proceed with a design without knowing what amount of gas will be available.

MR. PALMER answered that if sufficient gas to advance the project - either to the Lower 48 or to an LNG project - is not available, then TransCanada will have a judgment call to make with regard to what it will apply to the FERC for. However, it's too early to describe what that might be. He said, "That's a very unhappy circumstance, where I have an open season and I get zero gas committed in two years time - I don't expect that to happen, but it's always a possibility."

[3:21:10 PM](#)

MR. PALMER referred to slide 25 of his PowerPoint presentation, and offered that TransCanada believes that AGIA was structured to encourage construction of the base project; long-run basin development; and open access terms for initial and future shippers and in-state, Lower 48, and LNG markets. A critical point to consider, and one that impacts the probability of success, is that AGIA obliges TransCanada to voluntarily expand the pipeline. He suggested that when considering any "non-AGIA" pipeline proposal, the legislature should question those making such a proposal regarding how they would pursue expansion. He noted that TransCanada is in favor of providing gas for in-state use, gas to the Lower 48, and gas to LNG markets.

MR. PALMER said that TransCanada believes that it has the credentials and capacity to build, own, operate, and expand the project. He said, "We think our objectives are aligned with AGIA; we want early in-service, we want long-run basin development, and by that I mean we're not here to just move your 35 Tcf of gas - we think you have 235 [Tcf of gas] or beyond." He noted that in Western Canada, the original proven reserves quadrupled in the first 10 years of in-service. If that were to happen in Alaska, there would be more than 100 Tcf available 10 years after in-service. He concluded by stating that TransCanada wants open access and equitable treatment for all customers.

The committee took an at-ease from 3:24 p.m. to 3:29 p.m.

3:30:25 PM

PATRICK GALVIN, Commissioner, Department of Revenue (DOR), explained that under the AGIA process, he shares responsibility with Commissioner Tom Irwin, Department of Natural Resources (DNR); together they make a number of decisions associated with AGIA and advancing the gas pipeline. In 2000, as the North American natural gas prices began to increase, North Slope companies and the state began to anticipate a change in the natural gas market and the resulting opportunity to bring Alaskan gas to the North American market. He characterized AGIA as the culmination of the state's work in trying to advance a gasline. The state has struggled to surmount the hurdles that have delayed the project, and has tried to identify the factors which have done so. In 2002, for example, BP indicated that production of Alaska's natural gas was not yet economically viable for it, and so the previous administration underwent extensive negotiations with the three North Slope producers regarding what changes the state needed to make in its fiscal and tax systems and its management of oil and gas leases, and to determine what level of contractual certainty and stability was necessary to advance a gasline project.

COMMISSIONER GALVIN noted that both the legislature and the public reacted adversely to the previous administration's proposal. The AGIA proposal, in contrast, is based on a recognition that the project is economic and will make money for its participants. He opined that what the state needs to do to advance the project is to instill a sense of urgency in order to attract the competition necessary to drive a gasline project through the number of hurdles that any big project must overcome. The state needs to be the project's catalyst, but does not need to carry it all the way to completion, taking on all the risks and forwarding all of the money associated with the project. He opined that AGIA was designed to do just that, to be the catalyst getting the competition necessary to drive the project forward.

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COMMISSIONER GALVIN said that the state looked to the private sector as being the primary driver of the project, and offered inducements in exchange for some agreement by the successful applicant. He added, "Competition was put forth, both in terms of competition to get the state inducements and also competition

to move the project ahead." Not all interested parties, however, were willing to submit an application to move a gasline project forward under the then-existing framework. He characterized AGIA as "about creating competition and unleashing the power of the private sector to move this project ahead." Under AGIA, the state will provide matching funds upfront to get past the initial design and regulatory process in order to "prove up the economics" and provide the opportunity for other participants to join in the project, and to allow the project's economic potential to ultimately drive it to fruition.

COMMISSIONER GALVIN noted that in return, the state wants to protect its long-term interests since it not only desires a gas pipeline, but also a gas pipeline that meets the state's long-term goals, which are to create exploration and development opportunities on the North Slope - even for companies that may not yet be in Alaska - to get the gas to market as quickly as possible for a reasonable cost. The state wants a gas pipeline that has genuine "open-access provisions." He explained that provisions in federal law govern the regulation of this proposed pipeline, but don't guarantee the outcome, and so AGIA is intended to increase the likelihood that the state will have a pipeline that will provide a competitive environment on the North Slope which ultimately drives more development that in turn leads to more jobs and revenue for the state.

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COMMISSIONER GALVIN offered that the state solicited applicants to accept the state's matching funds in return for making the commitments required under AGIA, some of which primarily entail a commitment to a timeline to move through the initial design and regulatory process with the FERC, and to move through the open season process and the FERC certificate process. Additionally the [successful applicant] would commit to manage the project and to provide open access - the long-term opportunity for exploration - and structure financing in such a way so as to lower [tariff] rates. He explained that 90 percent of the state's revenues are based on the taxes and royalties from the state's oil and gas leases and are derived from the value of oil and gas at the wellhead. The wellhead value is derived from taking the market selling price and subtracting the transportation cost to get the gas to market - the tariff. He The lower the tariff on the pipeline, the greater the "netback" value, which results in an increase in revenue to the state. Additionally, lower tariffs also result in an increased value for the producer. The state did receive applications in

response to its request for applications, and the state evaluated the applications in terms of whether they met AGIA. The only applicant that met all the requirements was TransCanada. Under AGIA, the state needs to evaluate whether the application maximizes the benefits for Alaskans. That evaluation will allow the state to examine other opportunities with regard to a gasline.

COMMISSIONER GALVIN said it was necessary to examine the TransCanada project and compare it with all other opportunities that the state might have, including LNG options and the Denali Project. The state, therefore, focused on four areas, with one top priority being to get a gas pipeline moving through the process.

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REPRESENTATIVE FAIRCLOUGH asked whether Commissioner Galvin could explain the analysis the state used regarding the aforementioned BP/Conoco proposal.

COMMISSIONER GALVIN said that the Denali Project is not yet fully defined, and so the state has not been able to perform much of an economic analysis. The little bit of an analysis that was performed focused more on where state wanted to position itself in terms of advancing a gas pipeline. The questions to consider are, does the state go forward with issuing the license to TransCanada, how does that compare to the Denali project, does the Denali project give the state a reason not to pursue TransCanada's license and instead rely on the Denali Project, and how would that determination be made. In response to comments, he clarified that the state examined hypothetical questions, one of which was what would the economic impact be on the state's revenue stream if the Denali project goes forward - particularly under a range of debt:equity ratios. However, in terms of an performing an actual economic analysis, the state just doesn't have enough information yet. In response to a comment, he explained that all analyses, including associated documentation, are contained in the state's findings.

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VICE CHAIR STEDMAN recalled that the consulting firm of Black & Veatch had indicated that one can't make a meaningful comparison between AGIA and the Denali project with the information currently available.

COMMISSIONER GALVIN relayed that Black & Veatch developed an economic model for the state so that it could perform some sensitivity analyses, and surmised that the Denali project could come in with "the exact same economics" since the Denali project has no specifications as of yet, and particularly since both projects are nearly the same in that they are going to the same markets and are using similarly-sized pipe. The state, however, has commitments with TransCanada, regardless that the Denali project has the potential for a wider range of possible economic outcomes.

SENATOR THERRIAULT asked whether the administration has a slide that details the benefits the state derives from the \$500 million investment. He offered his understanding that that investment could potentially lower the tariff by up to \$1. He indicated, therefore, that what needs to be considered is whether any value is left as each unit if gas is shipped.

COMMISSIONER GALVIN acknowledged that there are a number of ways to view the potential value to the state in moving forward with an AGIA license. He continued:

In comparison to, for example, the Denali Project, you can look at it ... from ... sort of a ... strategic aspect ... - we get somebody to commit to move a project forward, to commit to have certain economic commercial terms that are going to be beneficial to the state. And we can put a price tag on some of that, but that price tag is not fixed; it's just looking at it in terms of the potential value if we have a project instead that comes forward with what would still be considered an industry-acceptable tariff structure.

And that is what Senator Therriault was directly referring to, that we did analyses that said if you had ... a debt to equity ratio that is 50:50, which is within industry standards, that that alone - everything else being equal - that change alone would ... have an effect of ... raising the tariff by \$1, lowering the value to the state [by] ... \$8 billion. And that's completely out of context because I'm not talking about value to the state yet, but suffice to say it would have a big impact on the potential value to the state.

Now, that is [one] aspect of it. The other way of looking at the \$500 million is by having that contribution go in by the state early on in the process. We end up lowering the amount of the costs that have to be recovered by the pipeline - lowers the tariff itself; that only lowers the tariff by \$.06. However, that \$.06 reduction in the tariff ... [results in an] increase in the value to the state of \$200 million. So even if you consider the state having put in \$500 million, we end up getting our \$500 million back and increasing the value of this project to the state by \$200 million. So, the economic analyses was important. ...

[3:59:49 PM](#)

REPRESENTATIVE SAMUELS asked how long it will take for the state to recoup the \$500 million and obtain the \$200 million.

COMMISSIONER GALVIN offered that the gas pipeline will result in revenues to the state for years to come. Thus, to evaluate that in comparison to other potential projects - with each project having money coming in at different times - a calculation of net present value (NPV) is used to determine what those dollars are worth today. For example, if \$1 billion is earned 20 years from now with a 5 percent loss of value per year - essentially a 5 percent discount rate - that \$1 billion earned 20 years from now will be worth substantially less than \$1 billion in today's dollars. In contrast, the state's \$500 million investment today would - under an NPV calculation - increase the value of the project to the state by \$200 million in the first 25 years; essentially, the state would receive \$700 million in value for its \$500 million investment. In response to a comment, he acknowledged that his example assumes there is a viable project. When doing the analysis under AGIA, the state has to factor in both the NPV to the state and - as a separate analysis - the project's likelihood of success.

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COMMISSIONER GALVIN, with regard to evaluating the project's likelihood of success, indicated that the major hurdle of getting gas committed to the pipeline must be considered. So the state examines the economics of the project, the NPV to the producers, in order to analyze whether the project will attract customers willing to provide gas commitments, which in turn will lead to financing and result in a successful project. He opined

that in this instance, there is the potential for the state and the producers to earn a lot of money, and this gives the administration confidence that the project has a reasonable expectation of attracting gas commitments and providing revenue to the state.

COMMISSIONER GALVIN referred to slide 27 - labeled, "Denali Project Is More Risky For the State" - of his PowerPoint presentation illustrating some comparison. He opined that the analysis is not only about the revenues to the state, but about the range of possible outcomes. With the Denali project, the state does not have commitments with regard to the timeline and advancing the project to the open season and through the FERC certification process; in contrast, the state does have such commitments from TransCanada. Furthermore, with the Denali project, the state can't anticipate the actual financing or the rates that will be charged. However, the state can still compare the possible outcomes of the two projects.

COMMISSIONER GALVIN elaborated:

That's where you see the references to the \$8 billion change in NPV. That's just simply saying that it's possible that this would be the difference between the Denali project and the ... [proposed TransCanada] project. Similarly, when we look at the other values that the state is anticipating to get out of the AGIA license with regard to the open access provisions, these have tremendous value to the state in the long-term. This is the difference between being able to get just the known gas off of the North Slope, in terms of the gas that's currently being produced on a daily basis in the oil fields, versus ... being able to get all of the expected gas that should be found once explorers are out there looking for gas. If they know they can get their gas into a pipeline and ultimately to market at a reasonable rate, then it will incentivize that activity, which leads to the jobs and the revenue to the state.

[4:07:33 PM](#)

REPRESENTATIVE SAMUELS surmised that an 80:20 debt to equity ratio would increase the state's NPV.

COMMISSIONER GALVIN agreed.

REPRESENTATIVE SAMUELS highlighted that in terms of expansion, no certainty exists for either project or for any of the producers because there is no guarantee that the FERC will approve any such proposals. The state's \$500 million investment only ensures that TransCanada will ask the FERC for particular expansion provisions and debt:equity ratio.

COMMISSIONER GALVIN, turning attention to slide 36 of his PowerPoint presentation, said that the purpose of the AGIA process is to get a project moving and keep it moving and to ultimately end up with a pipeline that meets Alaska's long-term needs, and that the DOR's analysis has revealed that the TransCanada application meets that objective. TransCanada has committed to move the project under terms that will provide the state the best chance for meeting its long-term needs. Additionally, the aforementioned analysis allows the state to examine its opportunities as they relate to the advancement of an Alaska natural gas pipeline. Thus the administration has reached the conclusion that TransCanada is the best option for the state to advance such a pipeline. He noted that all the information provided by the administration is available on the DNR's website. He specifically suggested that the executive summary of the findings provides a comprehensive overview of each aspect of the DOR's analysis and conclusions.

The committees took a recess from 4:12 p.m. to 5:00 p.m.

5:02:29 PM

BOB WEINSTEIN, Mayor, City of Ketchikan, commended the governor for her persistence in turning the dream of a gasline into a reality. He said he realizes that the administration believes that TransCanada made an excellent proposal through AGIA which, with a \$500 million state investment, will be of long-term benefit to all Alaskans; and that ConocoPhillips Alaska, Inc., and BP, on the other hand, have made a proposal outside of AGIA that they claim will result in a pipeline without a similar state investment. He questioned, though, whether the proposal by Conoco and BP is a real proposal, whether Prudhoe Bay can sustain a 4 Bcf/day rate of gas production without Point Thomson gas, and whether there is a risk that reservoir pressure will be lowered to the point where there is an unacceptable drop in oil production.

MAYOR WEINSTEIN offered his understanding that despite the time that has elapsed since TransCanada first made its proposal, there is no contract document available for the legislature's

review. He questioned how AGIA will benefit the citizens of Ketchikan, and opined that at a minimum, the legislature should be able to review something containing all the major terms and conditions that would be incorporated into a final contract. Referring to slide 36 of Commissioner Galvin's PowerPoint presentation, he said he is not sure that TransCanada's proposed pipeline will increase the chances of obtaining affordable energy in Ketchikan. For example, despite record oil revenues accruing to the state through high oil prices and the new oil-tax regime, Ketchikan is still experiencing difficulties accessing funds through the appropriations process.

MAYOR WEINSTEIN - after offering comments regarding some of Ketchikan's capital projects, the state's budgetary process, and the administration's various proposals to provide Alaskans with some short-term energy relief - offered his understanding that the governor has proposed a gasline from Cook Inlet to the north, and that that project would cost between \$2 billion \$3 billion, and that the state would likely have to underwrite much of that cost because the demand in the Interior of about 50 million cubic feet (Mcf) per day would not amortize an investment of that magnitude. He continued:

If that makes sense to you - so people in the Interior who are reeling from high energy costs can have long-term access to low-cost energy - great. However, Southeast Alaska in general, and Ketchikan in particular, will not benefit directly from the construction of the TransCanada line, a Denali line, or a bullet line. We're not going to get a gasline here. We do, however, have hydro resources that we have developed, and more on the drawing board, to meet our future needs, both short- and long-term.

[5:14:04 PM](#)

MAYOR WEINSTEIN asked the legislature to consider providing debt relief for electric utilities throughout the state, with the understanding that such relief is to directly benefit customers through a corresponding reduction in rates. He relayed that he'd been given a figure of \$800 million as the cost of debt service for the interconnected utilities from Fairbanks to Homer, and surmised that there are probably additional costs of another \$200 million outside of that. He said that's not a giant sum, particularly given that the state is accruing a \$1 billion a month in oil revenues. He also asked the legislature to consider increasing state funding for alternative energy

projects, including hydro, wind, and other technologies. The time to invest in those alternatives is now, he opined. Furthermore, while cheap energy is great, in and of itself it does not mean much if it does not go hand-in-hand with investments and economic development - such as Ketchikan's ports and shipyard projects - as well as investments in critical public infrastructure, including health care and public safety.

MAYOR WEINSTEIN, in conclusion, said he hopes that a gasline project will happen one way or the other and that the issue of both short- and long-term energy will be addressed, and he recommended that the state develop a capital project process that the legislature - as the appropriating branch of government - insist be applied fairly and consistently.

[5:16:13 PM](#)

JOE WILLIAMS, Mayor, Ketchikan Gateway Borough, questioned what the proposed natural gas pipeline would mean for Ketchikan, and noted that the legislature is charged with making sure that any resulting benefits would be equal for everyone. In terms of delivering North Slope gas, the people of Ketchikan recognize the complexity of [building] a gas pipeline and is aware that debating TransCanada's proposed project compared to [the Denali project] presents a major challenge. He said the southern-most communities of Southeast Alaska must consider the issue of energy and whether a gas pipeline could provide benefit. He commented on the rising price of fuel oil, and, with regard to those funds that [the legislature and the administration have been saving] for "a rainy day," emphasized that "it's been pouring for the last three years."

MAYOR WILLIAMS said fuel oil is needed by individuals who are paying what he characterized as an insurmountable amount of money. For example, he noted, filling his own 250-gallon oil tank just last week cost him \$1,000. Again, how is a gas pipeline going to affect households in the communities of Saxman, Metlakatla, Craig, Klawock, and Hydaburg - those communities that are so far away from the proposed gasline? He then suggested that a possible short-term solution might be for residents to convert to electric heat - thereby using hydroelectric power - and mentioned the Swan Lake and Tye Lake projects.

MAYOR WILLIAMS said he appreciates the legislature's commitment to a gas pipeline project and to the communities of Alaska, and asked legislators to remember those families that have had to

move from the communities of Craig, Klawock, and Hydaburg, into Ketchikan, because they could no longer afford the \$8-\$10 a gallon for fuel just to heat their homes. Heating homes is a necessity, he emphasized, and encouraged the legislature to ensure that the proposed gas pipeline meets the needs of all Alaskans so that the entire community of Alaska may benefit. In conclusion, he offered his thanks to the members for coming, and then sang a Tlingit song of welcome, followed by a Tlingit gift-giving song.

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DOUG WARD, Director, Shipyard Development, Alaska Ship & Dry Dock, Inc., explained that his company is the private-sector operator of the State-owned Ketchikan shipyard - which is managed by the Alaska Industrial Development and Export Authority (AIDEA) - and has a 30-year operating agreement with AIDEA to do so. He went on to explain:

We are ... in the early phases of nearly an \$80 million publicly-funded, expansion/improvement program to provide the physical infrastructure at the shipyard to create an enduring maritime and manufacturing enterprise. We are also investing, with [the] participation of the [Department of Labor & Workforce Development (DLWD)], in our human resources to ... create a globally-competitive, agile, manufacturing workforce. Together, with a multi-skilled, globally-competitive workforce and a very modern and advanced manufacturing facility, we will be able to support both the exploration of Alaska's oil and gas - the construction of any gas pipelines - and the operation of refining and transmission facilities that are built in Alaska.

MR. WARD offered his understanding that the AGIA training plan currently lists 113 priority occupations that will be required in constructing the gas pipeline. The knowledge, skills, and abilities that are being given to Alaskan shipyard workers will enable them to fill a vast majority of those 113 priority occupations. The Ketchikan shipyard represents an opportunity for Alaska, including Ketchikan, to participate in the exploration, construction, and operation of Alaska's oil and gas infrastructure, and some of the ways that that participation can take place is through offering a family of products such as pumping and power-conduction modules, and rapidly-deployable port and harbor structures where beachheads are needed to

provide additional heavy manufacturing capabilities to support the oil and gas industry.

MR. WARD, in conclusion, relayed that Alaska Ship and Dry Dock, Inc., is looking forward to working with the constructors of the gas pipeline to diversify and strengthen Alaska's economy through long-term, heavy and agile manufacturing employment.

[5:32:19 PM](#)

VICE CHAIR STEDMAN remarked:

We have sent the message out to the oil industry that the community has ample land available and manufacturing site here. So, hopefully the community will get targeted for some infrastructure-support help in construction of that gasline, even though I recognize we're not real close to Haines or Anchorage. But we are pretty close to Prince Rupert [which] ... has a fabulous railway network. So, hopefully we'll be able to participate in the construction.

[5:32:51 PM](#)

J.C. CONLEY spoke of high energy costs, the use of hydroelectric power in many Southeast communities, and Ketchikan's deteriorating economy, and asked the legislature to provide assistance in solving the energy problems facing the rural communities of the state.

[5:36:36 PM](#)

JOEL L. JACKSON - after speaking about the use of wood, oil, and electricity for home heating needs, the rising cost of home heating oil, the need for some energy relief now, the condition of the roads in Ketchikan compared to those on Gravina Island, and the detrimental effect of fuel costs on Ketchikan's fishing industry and economy - observed that since a gas pipeline via the AGIA process is closer to becoming a reality, there has been increasing movement from the producers. He said he trusts the legislature to make a decision that will be in the best interest of all Alaskans, and intimated that construction of a gas pipeline will benefit the younger generation of Alaskans in that they will be able to afford their own homes.

[5:40:39 PM](#)

FRANCES YOUNG questioned why the state is considering giving [TransCanada] \$500 million to [build a gas] pipeline. She said she could imagine what the City of Ketchikan could do with just one-fifth of that money. She then spoke of some local projects, and concluded by reminding the legislature that Ketchikan is part of rural Bush Alaska and to not forget those who live there.

[5:43:40 PM](#)

RICHARD "DICK" L. COOSE said he supports the building of a natural gas pipeline, stressed the importance of doing so as soon as possible, and urged the legislature to make the right decision soon. A gas pipeline project, he opined, will require the involvement and cooperation of the state, the AGIA licensee, and the leaseholders, and currently there appears to be some people being left out, he added. He also opined that there seems to be a lack of a fair evaluation by the administration of the Denali project. He added:

While the gasline construction doesn't really directly affect Ketchikan in the form of cheap power or jobs, it does affect us in the way we're going to get money back into the state budget. The way you folks are going to distribute that money can affect us greatly in our infrastructure projects, our economic development - and I'm talking about hydropower, ... roads, [and] bridges. ...

MR. COOSE indicated that he would be converting his own household heating system to electric power, and surmised that hydropower will be the way that those in southeast Alaska will benefit from cheaper energy. The DNR is currently focused on AGIA, he remarked, to the exclusion of all other projects, and is claiming a lack of sufficient personnel and funding as the reason. In conclusion, he opined that the money really is there, and so he would like the legislature to [support the various needs of the state] with that money.

[5:48:15 PM](#)

JOE JOHNSTON said economic indicators show that Americans will likely be paying up to \$6.00 a gallon for gasoline by the end of 2008, but noted that the timeline for AGIA shows that it will be 2016-2017 before one cubic foot of gas is produced out of that proposed gasline. He stated, "I don't think the American public is going to wait that long for energy relief." He said he does

not think that AGIA is the right idea, or that former Governor Murkowski's proposal was the right idea. He indicated that he interprets today's testimony to mean that a pipeline cannot be built without TransCanada and the producers and the Denali project. He continued:

Well, maybe third time's a charm. I think since your only choice is to vote AGIA down, if the producers and TransCanada sit down at the table, build a pipeline, go to [the] FERC, and tell the American public and the U.S. Congress to expedite it, I think you can have a pipeline in less than 10 years. I think it can be done; I think it [will] ... be profitable for everyone, including the state of Alaska and the American public.

MR. JOHNSTON surmised that T.B. Pickens is going to be investing in a wind farm in Texas because Americans are not going to pay \$6.00 to \$8.00 a gallon for fuel for very long. He said Americans will change the way they live and the way in which they use energy, and if the gas pipeline is not functioning until 2016, there probably won't be much of a use for Alaska gas by then, particularly given that technology seems to advance exponentially every 10 years. Mr. Johnston concluded, "I don't think we should invest \$500 million in AGIA; I think we should invest \$5 billion in a gasline as part of the state, and own it."

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ANDREW STEVENS relayed that 20 years ago he read in a National Geographic that there is enough natural gas in Alaska to support the world for 100 years, and he has never forgotten that. Mr. Stevens spoke about information he's read over several years regarding the producers, and expressed disbelief that the producers will be able to reclaim any land that they've previously abandoned, or that it is possible, at today's prices, to build a 1,700 mile pipeline for only \$30 billion. He surmised that even if sold for only \$1 a cubic foot, 100 Tcf of natural gas would amount to a lot of money; that using Canada's resources to build the proposed pipeline would deprive U.S. citizens of a better way of life and thus go against the constitution; and that building an all-Alaska pipeline could provide the whole country with a better way of life and decrease current [energy] costs.

[5:58:40 PM](#)

BYRON CHARLES surmised that the testimony thus far has pertained to "how much money's going to be spent, and where it's going to be coming from, who can do what, [and] who can't do what." He said that in response to the question of why doesn't Alaska build its own gas line, he'd heard the answer, "We can't," but expressed disbelief of that concept. He elaborated:

Why are we spending all this money to bring somebody else in here to do something [that] ... our people can do? What's wrong with this picture? We're still going to be paying - digging deep in our pockets - when it comes to transportation. ... I'm not good at marketing, but it doesn't take a genius to figure out that our oil and gas will have no trouble hitting the market.

I would like to see the people get together and say, "Let's deal with this on a government-to-government level, so let's see what we could do about the ... cost of transportation." But in the meantime, instead of giving me ... an additional \$1,200 through the permanent fund -- I don't want it. I want to see what you can do when you come to the table [and] say, "Mr. Charles, we're doing everything in our power to make it affordable to you and to the public."

MR. CHARLES reminded legislators that they are deciding the fate of future generations, and that it is up to them to make positive change right now.

[6:04:08 PM](#)

DON LUDWIGSEN, after noting that he is a fisherman who at one time worked up on the North Slope, expressed disfavor with [the recent U.S. Supreme Court decision regarding the Exxon Valdez Oil Spill]. He said big industry seems to think they own Alaska, but they are wrong. He stated his support of a gas pipeline and of it being constructed as soon as possible. He characterized the gas line as "something we definitely have to do" because [access to natural gas] its needed all over the state. He said drilling in the Arctic National Wildlife Refuge (ANWR) would not help at all; furthermore, he warned, the Arctic is so fragile that people must be really careful in their interaction with it.

MR. LUDWIGSEN stated:

To me, Exxon has shown their colors - The Exxon Valdez and Point Thomson - and if it were up to me, Exxon wouldn't have the contract to clean the fishermen's bathroom in South Cove in Craig. ...

MR. LUDWIGSEN, in conclusion, opined that those who do not respect Alaska and do not try to take care of it do not belong here.

[6:06:43 PM](#)

ED ZASTROW, on the issue of a natural gas pipeline, advised legislators to do what's best for the State of Alaska and what their constituents would like. He noted that he is on the Alaska Commission on the Aging and has served as chair of the advisory board for the Alaska Pioneer Homes, and then provided comments on the senior care program, a \$1.5 million grant program, and winterization programs.

[6:11:43 PM](#)

RUTH DULIN opined that because Alaskans are also citizens of the world, it is incumbent upon them to consider the larger picture. She said she really thinks the legislature should invest more funds, thought, and effort into renewable energy. [On the issue of a natural gas pipeline] she said, "I think all this is pretty short-sited, and I think probably a lot of other people agree."

[6:13:34 PM](#)

JACKIE DURETTE asked all legislators to remember that those living in Southeast Alaska are Alaskans, have pioneer spirit, and intend to be part of the equation. Regarding AGIA, she characterized the accompanying documentation as cumbersome, and opined that there is no reason why Alaska labor and contractors cannot build the gas pipeline. She said she sees no provision in AGIA that guarantees a high percentage of Alaska jobs or contracting opportunities for Alaska's businesses, adding, "that has got to be part of the equation - we're not going to sit back and let the building of this gas line be done by other folks and other businesses from another country." Ms. Durette thanked legislators for their time, and asked them to consider everything carefully because they are making decisions on behalf of their constituents. She acknowledged that the task before the legislature is difficult; however, she said, "I think in

this part of our world, here in Alaska, we're going to hold your seat to the fire on this one."

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

[Members then thanked the participants and those who helped organize the meeting.]

#### **ADJOURNMENT**

There being no further business, the joint meeting of the House Rules Standing Committee Subcommittee on AGIA and the Senate Special Committee on Energy was adjourned at 6:21 p.m.