

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

July 11, 2008

9:13 a.m.

MEMBERS PRESENT

HOUSE RULES

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

SENATE SPECIAL COMMITTEE ON ENERGY

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

MEMBERS ABSENT

HOUSE RULES

Representative John Harris (AGIA subcommittee, Chair)

SENATE SPECIAL COMMITTEE ON ENERGY

All members present

OTHER LEGISLATORS PRESENT

Representative Bob Buch
Representative Mike Chenault

Representative Sharon Cissna
Representative Harry Crawford
Representative Nancy Dahlstrom
Representative Andrea Doll
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative Berta Gardner
Representative Carl Gatto
Representative Max Gruenberg
Representative Mike Hawker
Representative Lindsey Holmes
Representative Kyle Johansen
Representative Reggie Joule
Representative Scott Kawasaki
Representative Wes Keller
Representative Mike Kelly
Representative Gabrielle LeDoux
Representative Bob Lynn
Representative Kevin Meyer
Representative Mary Nelson
Representative Mark Neuman
Representative Kurt Olson
Representative Bob Roses
Representative Woodie Salmon
Representative Paul Seaton
Representative Bill Stoltze
Representative Bill Thomas

Senator Con Bunde
Senator Bettye Davis
Senator Johnny Ellis
Senator Hollis French
Senator Gary Wilken

COMMITTEE CALENDAR

HOUSE BILL NO. 3001

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

- HEARD AND HELD

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- HEARD AND HELD

ROUND TABLE DISCUSSION: ECONOMIC ISSUES

Chevron - John Zager, General Manager
ConocoPhillips Alaska, Inc. - Wendy King, Vice President of External Affairs
ExxonMobil Corporation - Marty Massey, U.S. Joint Interest Manager
BP Exploration - Dave Van Tuyl, Alaska Gas Commercialization Manager
TransCanada - Tony Palmer, Vice President, Alaska Business Development
Alaska Oil and Gas Conservation Commission - Cathy Foerster, Engineering Commissioner
Legislative Budget & Audit - Steve Porter, Consultant; Dan Dickinson, Consultant
Administration - Patrick Galvin, Commissioner, Department of Revenue; Consultants

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(H)	READ THE FIRST TIME - REFERRALS
06/03/08	(H)	RLS
06/03/08	(H)	WRITTEN FINDINGS & DETERMINATION
06/04/08	(H)	RLS AT 9:00 AM CAPITOL 120
06/04/08	(H)	Subcommittee Assigned
06/04/08	(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
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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
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06/18/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/18/08	(H)	Heard & Held
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06/20/08	(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
07/08/08 (H) Heard & Held
07/08/08 (H) MINUTE(RLS)
07/09/08 (H) RLS AT 1:30 PM TERRY MILLER GYM
07/09/08 (H) Heard & Held
07/09/08 (H) MINUTE(RLS)
07/10/08 (H) RLS AT 8:00 AM TERRY MILLER GYM
07/10/08 (H) Heard & Held
07/10/08 (H) MINUTE(RLS)
07/11/08 (H) RLS AT 9:00 AM TERRY MILLER GYM

BILL: SB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

06/03/08 (S) READ THE FIRST TIME - REFERRALS
06/03/08 (S) ENR
06/03/08 (S) REPORT ON FINDINGS AND DETERMINATION
06/04/08 (S) ENR AT 10:00 AM TERRY MILLER GYM
06/04/08 (S) Heard & Held
06/04/08 (S) MINUTE(ENR)
06/05/08 (S) ENR AT 9:00 AM TERRY MILLER GYM
06/05/08 (S) Heard & Held
06/05/08 (S) MINUTE(ENR)
06/06/08 (S) ENR AT 10:00 AM TERRY MILLER GYM
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06/07/08 (S) ENR AT 10:00 AM TERRY MILLER GYM
06/07/08 (S) Heard & Held
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 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) BILL CARRIES OVER FROM 3RD SPECIAL
 SESSION
 07/01/08 (S) ENR AT 9:00 AM BARROW
 07/01/08 (S) Heard & Held
 07/01/08 (S) MINUTE(ENR)
 07/08/08 (S) ENR AT 1:00 PM KETCHIKAN
 07/08/08 (S) Heard & Held
 07/08/08 (S) MINUTE(ENR)
 07/09/08 (S) ENR AT 1:30 PM TERRY MILLER GYM
 07/09/08 (S) Heard & Held
 07/09/08 (S) MINUTE(ENR)
 07/10/08 (S) ENR AT 8:00 AM TERRY MILLER GYM
 07/10/08 (S) Heard & Held
 07/10/08 (S) MINUTE(ENR)
 07/11/08 (S) ENR AT 9:00 AM TERRY MILLER GYM

WITNESS REGISTER

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

POSITION STATEMENT: Participated in the round table discussion.

STEVE PORTER, Consultant

Legislative Budget & Audit Committee
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Participated in the round table discussion.

JOHN ZAGER, General Manager
Chevron Corporation, Alaska
Anchorage, Alaska

POSITION STATEMENT: Participated in the round table discussion.

CATHY FOERSTER, Engineering Commissioner
Alaska Oil and Gas Conservation Commission (AOGCC)
Department of Administration (DOA)
Anchorage, Alaska

POSITION STATEMENT: Participated in the round table discussion.

DAVE VAN TUYL, Gas Commercialization Manager
BP Exploration (Alaska) Inc.
Anchorage, Alaska

POSITION STATEMENT: Participated in the round table discussion.

TONY PALMER, Vice President
Alaska Business Development
TransCanada Alaska, LLC
Calgary, Alberta

POSITION STATEMENT: Participated in the round table discussion.

WENDY KING, Vice President of External Affairs
ConocoPhillips Alaska, Inc. (ConocoPhillips)
Anchorage, Alaska

POSITION STATEMENT: Participated in the round table discussion.

MARTY MASSEY, U. S. Joint Interest Manager
ExxonMobil
Houston, Texas

POSITION STATEMENT: Participated in the round table discussion.

RICH RUGGERIO, Senior Manager of the Americas
Gaffney, Cline & Associates
Houston, Texas

POSITION STATEMENT: Participated in the round table discussion.

DAN DICKINSON, Consultant
Legislative Budget & Audit
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Participated in the round table discussion.

PAUL BLOOM, Vice President Public Sector and Infrastructure
Investment Banking
Goldman Sachs
Seattle, Washington

POSITION STATEMENT: Answered questions during the round table discussion.

DEEPA PODUVAL, Principal Consultant
Black & Veatch
Houston, Texas

POSITION STATEMENT: Answered a question during the round table discussion.

BRUCE SCHWARTZ, Vice President
Credit Risk Management and Advisory Group
Goldman Sachs
Seattle, Washington

POSITION STATEMENT: Answered questions during the round table discussion.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the joint meeting of the House Rules Standing Committee and the Senate Special Committee on Energy to order at [9:13:00 AM](#).

HB3001-APPROVING AGIA LICENSE
SB3001-APPROVING AGIA LICENSE

[9:13:33 AM](#)

CHAIR HUGGINS announced the schedule for the meeting. He then directed legislators to defer their questions on Denali - The Alaska Gas Pipeline ("Denali project") until the hearing on July 12, 2008.

[9:15:43 AM](#)

The presenters introduced themselves.

[9:17:09 AM](#)

CHAIR HUGGINS described the protocol for the round table discussion. He then asked Commissioner Galvin to provide an overview of the administration's position on the availability of gas, what variables come to play in that availability of gas

over time, and what the increased increments would be for gas off-take.

[9:18:54 AM](#)

PATRICK GALVIN, Commissioner, Department of Revenue (DOR), informed the members that the potential off-take is unknown for the time pipeline service begins and afterward. He opined that the amount of off-take would be a combination of the production of the existing gas reserves, the amount requested by the operators of the fields, and the amount allowed by the Alaska Oil and Gas Conservation Commission (AOGCC). The Department of Revenue (DOR) anticipated that the currently producing fields could be used for the initial run of gas; in addition, there are other fields in various phases of potential development. The expectation by DOR is that production would be 3.5 billion cubic feet (bcf) per day or more, he said. In the context of whether or not the project is viable, the administration would examine the entire range of possibilities.

[9:21:06 AM](#)

STEVE PORTER, Consultant, Legislative Budget & Audit Committee, Alaska State Legislature, opined that "the key though, is not how much we expect to see in the future on gas off-take because the bidder is going to bid ... so, whatever they believe they have in reserves is what they'll bid. ... The key is ... Point Thomson." He said that the delay in production caused by the revocation of the leases at Point Thomson would encourage the owners to negotiate. The delay would also hurt the state in two ways; by the cost to the net present value of a delay of 10 years, and the impact of the increased cost of the tariff during the delay. He asked Commissioner Galvin to estimate the cost to the state of those two issues.

[9:23:06 AM](#)

COMMISSIONER GALVIN stated that a 10 year delay of production at Point Thomson is an inaccurate representation. Also, the administration does not have a choice between "the idea that we're going to bring it in on 'x' date or bring it in at 10 years and that the production flow is going to be potentially the same ... I think is a compete oversimplification of the issue." He explained that the issue of Point Thomson is very complex and is related to the gas line debate, but is not relevant and critical to the approval of the TransCanada license. Commissioner Galvin addressed the economic trade-off

as related to the gas that is available at the beginning of the line and the relationship of Point Thomson to the debate. Firstly, the Point Thomson resource issue is a combination of the technical aspects of the field; for example, when gas production begins and the legal aspects of the ownership of the land and the development of the project. The development plan of the lessee would determine whether there would be a quick movement to gas off-take or further delay; the administration would not be able to determine that. Commissioner Galvin advised that the choice of whether Point Thomson gas is available at full volume on "day one," or not available for 10 years, is basically irrelevant because it is an oversimplification of the issues for the state. The issues for the state are to manage its resources and to move the gas line project forward.

[9:26:25 AM](#)

CHAIR HUGGINS acknowledged that for this process assumptions would have to be made. He asked, "Specifically, as it applies to Point Thomson, for the open season, it doesn't matter to me licensee or no licensee ... are you assuming Point Thomson available?"

[9:27:01 AM](#)

COMMISSIONER GALVIN said no.

[9:27:05 AM](#)

JOHN ZAGER, General Manager, Chevron Corporation, Alaska, observed that the North Slope, including Point Thomson, has 35 tcf (trillion cubic feet) of proven gas; however, a 4.5 bcf (billion cubic feet) per day pipeline requires about 50 tcf. Furthermore, a bullet line to Cook Inlet requires 500 million cubic feet (mmcf) per day and a Y-line to an LNG plant requires 2.5 [bcf]. In fact, the total needed is roughly 100 tcf. He opined that eventually, Point Thomson would be an important part of the supply of gas and "the sooner you get Point Thomson on production, and find that out, the better it is for everybody." Mr. Zager further explained that the other big unknown is to find gas. "Yet-to-find (YTF) gas won't be there for the open season, and so Point Thomson is critical ... [and] getting the Point Thomson issue resolved clearly and concisely can only be to everybody's advantage," he said.

[9:28:56 AM](#)

MR. PORTER re-stated his question to Commissioner Galvin. He remarked:

From a process management standpoint only, if you decide to take back the Point Thomson leases ... it will cost the state 10 years. ... I do believe that the Department of Natural Resources is very interested in solving this problem, but I do think that it's also very important to understand the impact on this gas pipeline project.

[9:30:08 AM](#)

COMMISSIONER GALVIN re-stated his belief that 10 years is "an absolutely misleading number." In further response to Mr. Porter, he said that there would be two years of litigation up to a supreme court decision.

[9:30:21 AM](#)

MR. PORTER interjected that the first issue is litigation on the current [unit] issue.

[9:30:24 AM](#)

COMMISSIONER GALVIN said that the timeline on the unit issue is approximately two years.

[9:30:46 AM](#)

MR. PORTER said that the next issue would be the lease holder's claim of ownership of the certified wells. He asked whether the administration would attempt to get back the certified wells.

[9:31:13 AM](#)

COMMISSIONER GALVIN assumed that these two issues would be addressed "in series."

[9:31:22 AM](#)

MR. PORTER responded that the court has separated these issues and "put them in series."

[9:31:43 AM](#)

COMMISSIONER GALVIN disagreed. He added:

Frankly, I'm the commissioner of revenue, I'm not the Department of Law. This is probably not the discussion to have in this, Mr. Chairman, and I'm not sure how far you want to go with this.

[9:31:58 AM](#)

MR. PORTER said:

I made a two year timeline; it had to do with best interest findings, suit on the best interest findings, regional leases, owners...

[Indisc. comments by several unidentified speakers.]

[9:32:43 AM](#)

CHAIR HUGGINS remarked:

The commissioner has stipulated that it's assuming Point Thomson not available for initial open seasons. We will come back to Point Thomson. ... I'd like to hear from Ms. Foerster.

[9:33:10 AM](#)

CATHY FOERSTER, Engineering Commissioner, Alaska Oil and Gas Conservation Commission (AOGCC), Department of Administration (DOA), informed the members that the determination of gas off-take and filling the pipeline has four pieces; in fact, the Alaska Oil and Gas Conservation Commission (AOGCC) plays a role in each piece. She explained that piece number one is Prudhoe Bay, and the AOGCC concluded that within reason, Prudhoe will be able to supply a significant portion of the gas needed to fill the gas line, assuming production remains level and there is not a major shutdown. The second piece is that the other oil fields are in different phases "of their production lives"; for instance, the Endicott field may soon be granted a gas off-take allowable. The third piece is the amount of undiscovered gas that is unknown until exploration begins; however, exploration will not begin unless there is a clear assurance of the market. The fourth component is Point Thomson. She opined that the availability of Point Thomson for the 2010 open season is based on the following: endless litigation that halts development; the DNR and current leaseholders come to terms, Exxon proceeds

and the AOGCC reservoir study facilitates the granting of an "allowable" to Exxon and its partners; or DNR returns the leases to Exxon but the AOGCC must wait until 2015 to evaluate oil production and grant the allowable off-take for gas. Commissioner Foerster concluded that after Prudhoe, the bulk of the gas will come from explorers who must be given a clear signal that there will be a market for gas.

[9:37:46 AM](#)

COMMISSIONER GALVIN responded that typical industry practice is that a pipeline in a new area anticipates approximately 33-40 percent of the total firm committed gas will be recognized proven reserves at the time the commitments are made. He pointed out that with or without Point Thomson, this project is significantly above that.

[9:39:01 AM](#)

CHAIR HUGGINS remarked:

Mr. Commissioner, one comment on that, which appears to be incongruent, in the sense of treble damages, if the state participates for in-state gas from the North Slope over 0.5 bcf. And then you're talking about the proven reserves and what is out there, it's not congruent.

[9:39:22 AM](#)

COMMISSIONER GALVIN reminded the members that the issue regarding treble damages applies to the state providing benefits to a competing pipeline with a capacity over the estimated amount needed to provide in-state needs. The present discussion is the question of financing the [proposed] pipeline and the reasonable expectation of how much gas is going to be proven at the time the FTs [firm transportation commitments] are made.

[9:40:00 AM](#)

REPRESENTATIVE FAIRCLOUGH asked Commissioner Foerster for the original projection for oil extraction from Prudhoe Bay and when that field would be dry.

[9:40:18 AM](#)

MS. FOERSTER answered that nine billion barrels was the original projection. In further response, she said that production has exceeded the projection; in fact, there are two billion barrels left to produce and it is incumbent to facilitate its production.

[9:41:29 AM](#)

REPRESENTATIVE FAIRCLOUGH observed that technology has allowed for a greater extraction of oil than originally projected. She asked if the AOGCC believes that improved technology will continue to increase the level of the extraction of oil, or whether at the time of the service of the gas pipeline, the higher priced commodity will not be recovered.

[9:42:26 AM](#)

MS. FOERSTER opined that the owners and operators at Prudhoe Bay are some of the "best on the planet." If new technology reveals new access to oil, the North Slope top producers will produce the oil and find a new source of gas for the pipeline. At this time, the interests of the state and the interests of the operators are more closely aligned. Moreover, the producers will not take action that would cost them billions of dollars. She further explained that the operators are pursuing technology to continue to produce oil while extracting the gas; thus, the technology to advance oil production will advance gas production.

[9:44:11 AM](#)

REPRESENTATIVE FAIRCLOUGH pointed out that until June 5, 2008, legislators thought that Point Thomson was included as a source of gas for the pipeline project. Although she said that she agrees that the administration should hold Exxon accountable for its plans for development, there is a fiscal cost, an economic strategy, and possible consequences to the state. She remarked:

Commissioner Galvin is talking, it's going to come, and we should just have faith. And you're telling me we should have faith because Prudhoe's going to provide it. But then we say that it is through that technology. So we're back in the gray of where's the gas. ... I just want to make sure that when we build the line we have gas to put into it and that we are not trading gas off at \$10 versus a commodity that we're selling at \$140 and upwards.

[9:45:57 AM](#)

DAVE VAN TUYL, Gas Commercialization Manager, BP Exploration (Alaska) Inc., agreed with Commissioner Foerster that the initial projection for Prudhoe Bay production was nine billion barrels. BP and its co-owners have invested \$40 billion in capital improvements to get more from Prudhoe; in fact, eleven billion barrels have been produced and the current forecast is thirteen billion barrels. At the same time, BP remains committed to get its gas to market. He expressed his concern that if Point Thomson is not available, the success of the initial open season is in doubt. The additional [gas] off-take at Prudhoe puts additional pressure on Prudhoe liquids recovery; furthermore, the off-take rate approved by the AOGCC is unknown. He concluded that without additional known resources Prudhoe liquids recovery is jeopardized; a situation not in BP's, or the state's, interest.

[9:48:05 AM](#)

REPRESENTATIVE FAIRCLOUGH stated:

I lost already on the vote for an amendment on cost recoveries in the Prudhoe Bay area specifically, and I'm wondering, because I've heard about investment strategies since the new taxation went into effect, as specific to allowable costs, cost credits. Is that affecting at all the technology that's being invested by the LLC, or the group that owns Prudhoe Bay? Is the technology still working since you already have a proven reserve, that you're still investing your monies in the same way, with the floor on your cost recoveries?

[9:48:49 AM](#)

MR. VAN TUYL acknowledged that the structure of Alaska's Clear and Equitable Share (ACES) [legislation] provides a disincentive to investment in known fields; however, the owners of Prudhoe have not given up on technology development or on being appropriate stewards of the resource. The fiscal environment is an additional challenge.

[9:49:33 AM](#)

REPRESENTATIVE DOOGAN asked Mr. Palmer, "Is it your expectation that the pipeline of whatever size it is you would build ... would be fully subscribed with known gas reserves at the open season, or is it more common for producers to buy more space on the pipeline, in the expectation that they will find more gas?" He then asked each of the producers' representatives, "Is it your expectation that, if you were going to go ahead and commit to capacity on [a 4.0 bcf per day] pipeline, that you only commit to putting reserves and that the pipeline wouldn't go forward unless the full [4.0 bcf per day] was committed with proven reserves."

[9:51:40 AM](#)

TONY PALMER, Vice President, Alaska Business Development, TransCanada Alaska, LLC, answered that TransCanada's AGIA application contains a requirement for customers to have a minimum of 10 years of proven reserves to support their 25 year contracts. Individual customers can have different strategies as to how much proven reserves they have to support the contract; it is normally the case that producers do not have 25 years of proven reserves.

[9:52:49 AM](#)

MR. VAN TUYL stated that Representative Doogan's question asked what BP's open season strategy might be. He opined that he could not answer that question because an open season is a competitive process. He noted that it is common practice for a builder of a prospective pipeline to consult with shippers to discuss each party's risk as it applies to future exploration. Mr. Van Tuyl expressed BP's concern that the structure of AGIA makes that discussion, negotiation of rates, and agreement impossible. Also, he opined that reserves are proven at the time the facilities required to process those reserves are constructed; thus, this would not happen until after open season.

[9:55:04 AM](#)

REPRESENTATIVE DOOGAN remarked:

Mr. Chairman, if I might, in order to not force every other person at that table to tell me that they're not going to answer my question because of competitive reasons ..."

CHAIR HUGGINS asked Representative Doogan to wait for comments from the other witnesses.

[9:55:24 AM](#)

MR. ZAGER stated that his company intends to commit gas to the pipeline. He said, "If we talk about the proven reserves as the numbers ... for Prudhoe [are] at 25 and Point Thomson at 10, without Point Thomson you are about half the capacity you need, that's 25 tcf left to prove, to commit, and say \$5 an mcf that's \$125 billion. Those are the kinds of numbers that can ruin companies." He explained that another perspective of a "proven ratio" is that, in a basin, for example the Western Canadian sedimentary basin, there are areas of proven, probable, and possible fields. He opined that a company would be confident of these fields, but would not invest in them before the construction of a pipeline. However, in this case, [the companies] are counting that Prudhoe Bay and Point Thomson are proven, and would move straight to exploration. The structure of the proposed open season does not incentivize explorers to come to the open season; this is due to the guaranteed expansion and guaranteed rolled-in rates. He said,

Normally in an open season where you didn't have guaranteed expansion in the future, and you didn't have guaranteed rolled-in rates, it's kind of a one shot thing. If you know there's an open season in five years and you're in or you're out, you've got to go drill now, prove up your reserves, and commit to the open season. If I'm an explorer here today, I'm thinking, "Wow, why should I go do that, I'm going to wait until the pipeline is under construction, I know what the tariff is going to be, why would I take that construction risk? ... Because some poor company had to put their money up for gas they didn't have, and maybe I can pick that up at a discount."

Mr. Zager concluded that this is not a common situation, where one can apply "rules of thumb from other basins." He asked, "Is the state going to step up and take part of that risk? We're talking about numbers that are several times larger than the [Alaska Permanent Fund]."

[9:59:08 AM](#)

WENDY KING, Vice President of External Affairs, ConocoPhillips Alaska, Inc. (ConocoPhillips), noted that extrapolating the

experience of other pipelines and other basins is something she has spoken about previously. The sizes of the FT commitments on this pipeline are very unique. She pointed out that the size of ConocoPhillips's 25 year shipping commitment could be 25-50 percent of its market capital, or larger. Thus, comparing this project to others with a much lower toll "is a dangerous place to go." Referring to Representative Doogan's question, she provided her company's perspective that there would be a conversation amongst the working interest owners in each field. Each owner must analyze the field and models, and work with the Alaska Oil and Gas Conservation Commission to determine the investment needed to deliver the volume of gas. At open season, however, there will be individual shipper commitments determined by individual market decisions. These are the market decisions that are "something we will not talk about." Ms. King said, "Somebody is going to have to take a firm shipping commitment in [TransCanada's] proposal for gas volumes that have not been found to date. And that is a significant risk that will be asked of the shippers." She concluded that a company holding a FT commitment must be paid [even] if the gas volumes do not show.

[10:01:46 AM](#)

MARTY MASSEY, U. S. Joint Interest Manager, ExxonMobil, remarked:

We kind of looked at this from a basis of "We will own the pipe equal to our throughput." And so that's a significant risk mitigator on making that FT commitment because you're actually making it to yourself. ... In terms of how much we would commit and how much we would in an open season that is a competitive issue. However, from our perspective we would be participating in the project as an owner and a shipper, and we would anticipate to be balanced.

MR. MASSEY continued to say that Point Thomson is absolutely critical to the decision; in fact, Exxon may not be able to go forward with the project without knowing that Point Thomson gas is going to be available. He opined that Point Thomson is a gas field and Exxon would prove to the AOGCC that "blowing down Point Thomson is the right answer." Mr. Massey acknowledged that the AOGCC may not agree; thus Exxon has proposed the initial production system [scheduled for] 2015. Mr. Massey opined that 4.5 bcf per day is the "sweet spot" for this pipeline and enough gas needs to be found to fill it.

10:04:29 AM

CHAIR HUGGINS asked for comments on this issue from Mr. Palmer.

MR. PALMER said that he can not comment on Point Thomson because it is an issue between the state and the leaseholders. He reiterated that TransCanada would like to move as much gas as possible and as early as possible. Additionally, due to the lower toll, its preference is for a 4.5 bcf per day pipeline. TransCanada does require that customers have a minimum of 10 years of proven reserves and is requesting 25 year contracts from customers. Individual shippers have the prerogative as to how they go forward; however, TransCanada is looking for sufficient gas to make the project proceed. He advised that in the case of a basin opening pipeline, 25 years of proven reserves for all customers are unnecessary.

REPRESENTATIVE DOOGAN observed that the net message is that [the legislature] is not be concerned about the amount of gas available for open season because "if the people who have the gas, and know what the gas is, aren't going to tell me how they're going to approach this, then it's not really a matter of what's in front of me. And I would offer the further observation that these sort of round tables don't work very well if every time you ask a sensitive question everybody hunkers down in their silo."

CHAIR HUGGINS said that others may come to a different conclusion.

REPRESENTATIVE GARA noted that all agree that gas production at Point Thomson would improve this project. He opined that the state would be best off if it was able to drop the lawsuit, but Exxon has not offered a reliable development plan that would produce gas very quickly at Point Thomson. Exxon has offered a plan; however, there is no one here from the Department of Natural Resources to explain the shortcomings of Exxon's plan. Representative Gara advised that the state should proceed with the litigation to the point where the state is well protected. He remarked:

The point is, you don't plan on what was [shown on] yesterday's slide, which is 'war until the end.' At some point you play chicken, and hopefully you get to chicken quicker. So, I guess, I don't know if there's anybody on the panel that can answer this, but the

answer is has Exxon's first offer to us, is it good enough that we should drop the lawsuit and move ahead, or should we keep the litigation going? And so, I guess I wish there was someone from DNR up there who could explain that from the administration's perspective. I don't know if Commissioner Galvin can. ... Is there a plan to move ahead now that fully protects us and gets the gas as quickly as possible? I think the answer is "no."

REPRESENTATIVE GARA concluded that if Exxon has not presented a good offer the state should not drop the lawsuit.

SENATOR STEDMAN asked members to focus on questions.

MS. FOERSTER advised that the AOGCC is the agency that is charged by the constitution with preventing the waste of both oil and gas hydrocarbons and encouraging greater ultimate recovery of both oil and gas hydrocarbons. The perception of the AOGCC is that a good development plan for Point Thomson is one that answers two questions. The first question is whether the oil rim is producible; the second question is whether the gas cap is "cycleable." She opined that these questions should be answered without spending an inordinate amount of money. She remarked:

If you're Exxon and its partners and you have done enough technical work to convince yourself that this should be developed as a gas field, but you've got an agency that wants to protect the recovery of both the oil and the gas, you should put forth a plan that answers those two questions, but that doesn't waste a lot of your money. ... The State of Alaska should be pleased with that approach because they want those questions answered so that they can then allow this agency to either grant a gas off-take allowable or say ... "get the oil first." ... The plan that Exxon has put forward, from everything that I can see in the plan, and from everything that the consultants ... can see, the Exxon plan does exactly what the state wants Exxon to do ... from a technical basis.

COMMISSIONER FOERSTER then acknowledged that the DNR has more than the technical issue to deal with.

CHAIR HUGGINS advised that the issue today is not resolution between the state and the owners of the leases at Point Thomson.

RICH RUGGERIO, Senior Manager of the Americas, Gaffney, Cline & Associates, related his experience as an individual who has been on the same side of the table as the pipeline owner, and also as one requesting firm transportation [commitments]. He opined that the question with AGIA is one of timing, and whether the timing is right. He agreed that this is a unique and expensive project that presents a number of risks. He remarked:

One thing that I've found ... and I think this will be the exercise that [the producers] will have to go through, if we're actually talking about a basin where there is a lot more gas that had been known, that creates one dynamic at the open season. As a person maybe looking at firm transport, I have to be thinking about, "Is one of the big parameters how much I'm willing to pay? Is one of the big parameters how long I'm willing to pay?"... And in that situation I'm sitting there knowing that [there are] others with enough gas to compete against me. ... I also have to think about what future leases I have in the area and what exploration I'm planning on doing and what may be coming in. The other side of that is really where Alaska is right now, and that is you don't have an overabundance or an oversupply of known resources, discovered resources, to fill the full capacity of the 25 year commitment. And so, therefore it doesn't mean that you can't hold an open season ... [and] it doesn't mean that you can't negotiate. ... What it does mean though, there are a number of additional risks ... that have to somehow be addressed in the final deal. ... As the risks get larger, each of these companies will take a different perception as to what the cost of that risk is and how it will fit into their economics and then subsequently, how they bid. ... What [the availability of gas from Point Thomson] really does , whether it's known or not known at the time when the open season comes, it just changes the dynamics of how they will package, how they will negotiate, how they will come to table with an offer of what they're willing to do to make a pipeline work for Alaska.

[10:18:17 AM](#)

The committee took an at-ease from 10:16 a.m. to 10:37 a.m.

[10:37:48 AM](#)

CHAIR HUGGINS called the committee back to order.

[10:38:49 AM](#)

SENATOR WIELECHOWSKI referred to the oil companies' risk of making a 25 year commitment to the [TransCanada] pipeline without proven reserves. He pointed out that [ConocoPhillips Alaska, Inc.] is making a commitment to [the Denali project] without enough gas to fill that line; in fact, the companies are 15 tcf short including gas from Point Thomson. He asked Ms. King, "You're already going there, aren't you?"

[10:40:01 AM](#)

MS. KING stressed that she is here today "looking at this in the context as a shipper on this pipeline." She opined that companies may take the risk; however, they must weigh all of the economic criteria, such as prices and market conditions. Also critical are the factors of understanding the costs of the project and deliverability. Ms. King pointed out that the pipeline, in requiring "sufficient gas to make this project succeed," is looking for fiscal predictability. The pipeline builder wants to know that it is going to be paid, whether the gas is there or not. Referring to other pipeline projects, she concluded that pipelines do advance a project to an open season in order to "have that conversation with their customers."

[10:41:28 AM](#)

MR. VAN TUYL agreed with Ms. King that the [pipeline] requires a massive commitment. He further observed that the key, in looking at the commitment as a shipper, involves the cost of the project and the terms offered to get the gas to market. BP believes that the Denali project will be a success, although the project costs are unknown. As a shipper, BP will evaluate the costs and terms of the project, as it is critical that the cost of getting the resource to market is as low as possible.

[10:43:18 AM](#)

SENATOR WIELECHOWSKI recalled that Mr. Massey indicated that at Point Thomson, Exxon "want[s] to go to blow down and we're waiting to convince AOGCC of that." Senator Wielechowski remarked:

What I see being set up is a clash between the state and Exxon, ... a clash on a significant amount of waste to the state, where you have your internal hurdle rate for what you need to earn, profit-wise, on a field. And maybe developing the oil and condensates in Point Thomson doesn't quite meet that; still profitable, still means billions of dollars for the state, but doesn't meet your hurdle rate. So you would just prefer to go ahead and blow it down. And I guess my question is ... without having drilled wells in Point Thomson, or done a whole lot of research, quite frankly, in 20 years, how do you come to the conclusion that blow down is the proper course of action there?"

[10:44:27 AM](#)

MR. MASSEY stated that in his judgment, based on the technical data, blow down at Point Thomson will be in the best interests of the producers, the owners, and the state. He acknowledged that there is some uncertainty; however, Exxon's study will need to lead the AOGCC to the same conclusion. Exxon's proposal is to "put this thing on production. We're going to cycle; we're going to learn what the condensate yield is from actually cycling these wells. We're going to put two wells in the oil rim, we're going to test that oil rim and find out, without a doubt, what the gravity is, what it's able to produce." Mr. Massey further discussed Exxon's movement on the Point Thomson project.

[10:46:12 AM](#)

SENATOR STEDMAN requested that Commissioner Galvin bring forward from the Department of Revenue analysis on Point Thomson and the potential value of the delay to getting that field online. He recognized that the matrix may be based on a two year, five year, or ten year delay because of the unknowns of a quick settlement or a long, protracted disagreement.

[10:47:11 AM](#)

COMMISSIONER GALVIN agreed to produce an analysis; although he cautioned that an analysis would be complicated by an uncertain production profile between oil and gas.

[10:47:27 AM](#)

SENATOR STEDMAN then asked Commissioner Galvin and TransCanada, "Is there any exposure to the state as far as will there be a request from TransCanada for the state to underwrite any of the FT commitments that are fallen short?" He compared this situation to help from the federal government. Additionally, he asked whether TransCanada would step up to cover a short-fall.

[10:48:20 AM](#)

MR. PALMER referred to the previous testimony regarding negotiations between customers and pipelines. He observed that customers always want pipelines to have the longest possible depreciation schedule and the shortest possible contract terms. It is no surprise that pipeline companies usually want the opposite. TransCanada has put forth a balanced proposal, but has yet to have negotiations with customers. Mr. Palmer said that he expects that some customers will want negotiated tolls and negotiations on many of the proposed terms. However, it is not TransCanada's proposal that either the state or TransCanada would take the risk of yet to find (YTF) gas. Further, subsequent to granting of the license and conducting an open season, TransCanada will look at the circumstances at that time.

[10:50:29 AM](#)

SENATOR STEDMAN asked for Commissioner Galvin's response on whether there is potential risk in AGIA that the state would have to underwrite YTF gas.

[10:51:42 AM](#)

COMMISSIONER GALVIN responded that there is nothing in AGIA to increase that risk; in fact, given the state's analysis, AGIA minimizes the risk in terms of the potential of a request from the shippers to transfer risk from them to the state. He concluded that the issue may come up for discussion, but the state is in a better position by having a pipeline that is moving forward as opposed to relying upon the Denali project.

[10:52:30 AM](#)

SENATOR STEDMAN expressed his understanding that this issue is not addressed in the AGIA application; however, his concern is for the future business relationship with TransCanada given the changing dynamics of the industry. He warned about the possibility of the legislature [faced with] decisions "to step

up to the plate on these financial commitments in order to get a gas line."

[10:53:27 AM](#)

COMMISSIONER GALVIN re-stated that the discussion is more likely to come up with the shippers/producers. He said:

It is possible that it may come forward as a result of trying to get gas committed to this line. In the context of this particular issue, there's nothing about the license, or entering into a relationship with TransCanada, that increases the likelihood of that happening.

[10:54:12 AM](#)

MR. VAN TUYL responded to a comment about the negotiated rates offered under TransCanada's application and AGIA and provided the rationale for BP's participation in the Denali project. He informed the members that BP will participate in any open season that offers commercially reasonable terms; however it has concerns with the terms required by AGIA. He remarked:

In ... the 2000 certificate policy statement by FERC [Federal Energy Regulatory Commission] there established the ability for pipeline companies and perspective shippers, such as BP, to actually negotiate rates. And in the certificate policy statement they describe what they characterize as a free and open negotiation, where sort of everything is on the table and you start with a blank sheet of paper. A concern that BP has as a shipper ... is that [AGIA] really prevents TransCanada from offering certain terms because they're stipulated in AGIA. We want as a shipper, to be able to, like I said, get our gas to market in the most reasonable terms, and not be subject to things like a termination provision. ... Again, we look forward to the alternative proposal that Denali's going to come forward with to offer to all shippers.

[10:56:49 AM](#)

COMMISSIONER GALVIN recalled the discussion about FERC and what it is going to do. He encouraged the body to recognize that over the years the pipeline business has transitioned to the

pipeline and the shippers negotiating their rate agreements, as opposed to the rates being fully adjudicated by FERC after its receipt of an application by the pipeline company. The state, by the vehicle of AGIA, has embedded itself in the negotiations. Commissioner Galvin opined that BP prefers a situation similar to the Denali project, wherein there is an unfettered relationship with negotiations for terms without the state's say. However, there would be a potential, down the road, that the state can argue for the public interest before FERC. He concluded that AGIA makes sure that the state's interest is embedded in the relationship between the pipeline and the shippers.

[10:58:49 AM](#)

CHAIR HUGGINS asked Commissioner Galvin to comment on the liability of BP back to the pipeline company if the project does not go forward.

[10:58:57 AM](#)

COMMISSIONER GALVIN deferred the question to Mr. Palmer.

[10:59:10 AM](#)

MR. PALMER confirmed that that provision, and others, are in TransCanada's AGIA application. These provisions are within the bounds of the restrictions of AGIA and try to balance the risk and reward for the shippers and the pipeline company.

[11:00:20 AM](#)

CHAIR HUGGINS asked for a summary of TransCanada's AGIA application provisions.

[11:00:31 AM](#)

MR. PALMER summarized the ratio provisions, the rate of return, and the risk sharing provisions.

[11:01:08 AM](#)

CHAIR HUGGINS asked Mr. Van Tuyl to continue his testimony.

[11:01:21 AM](#)

MR. VAN TUYL clarified the role of FERC in negotiated rates. Although FERC allows parties to work out arrangements, it is the ultimate arbiter and, in fact, has to approve the negotiated rate. The negotiated rate is then made available to all prospective shippers. He opined that negotiated rates are important to FERC as a means for risk management. In response to Chair Huggins, he said his concern about the liability is that if BP makes a firm transportation commitment to a company, there must be confidence that there will be some risk sharing in the event that the company can not deliver.

[11:03:01 AM](#)

DAN DICKINSON, Consultant, Legislative Budget & Audit, Alaska State Legislature, discussed how risks are shared. He suggested that the companies whose firm transportation commitments would be underwriting the pipeline should look at the provisions in the TransCanada license and differentiate between those that are the state's must-haves and TransCanada's must-haves. He opined that the issue under discussion is not included in the state's must-haves, but rather was included by TransCanada. Mr. Dickinson stated that he was interested in the comments from the companies who will have gas, about "which of those terms they find objectionable and [in] which ones ... the state is behind that or an alternative commercial view is behind that."

[11:04:33 AM](#)

MR. VAN TUYL expressed BP's concerns with the following terms in TransCanada's proposal: the right to terminate [the project] even after customers have signed binding agreements; the limitation on negotiated rates even though negotiated rates are preferred by FERC on pipeline projects; the quality of the cost estimate of the offer that will be made to shippers at open season; the AGIA requirement to subsidize competitors through the expansion provision; the required Alberta tie-in arrangement that does not allow free and open competition for service out of Alberta; the return on equity; and the possible withdrawn partner liability against TransCanada.

[11:09:07 AM](#)

MS. KING expressed ConocoPhillips' perspective on some of these same points: the set requirements in AGIA; the terms, now endorsed by the state, in [TransCanada's] application that are normal to the discussion on tariffs; the floating return on equity that may be the highest ever in Canada; the Alberta Hub

tie-in arrangements that may not have the lowest rates available; the debt equity requirements for expansion that add the risk of subsidizing later shippers; and the benefits to future shippers. She concluded that explorers will be motivated to wait to explore because they will have the benefit of having initial shippers subsidize their exploration efforts.

[11:12:38 AM](#)

CHAIR HUGGINS asked for comments from Exxon.

[11:12:55 AM](#)

MR. MASSEY agreed with the aforementioned issues. In addition, Exxon believes that the TransCanada proposal is an initial offer; if the state approves the TransCanada license application, Exxon will negotiate "to the point that we achieve what we believe to be an acceptable deal." The must-haves will be addressed; however, they will be dealt with to achieve a commercial and viable project. He opined that there are many complex issues that require all of the parties, including the state, TransCanada, BP, ConocoPhillips, and Chevron, to work together toward a successful project.

[11:14:15 AM](#)

CHAIR HUGGINS invited the representative from Goldman Sachs to speak.

[11:14:35 AM](#)

PAUL BLOOM, Vice President Public Sector and Infrastructure Investment Banking, Goldman Sachs, referred to the June 10, 2008, Goldman Sachs report to the Legislative Budget & Audit Committee. He assured the members that the issue of the withdrawn partners was analyzed and Goldman Sachs believes that the issue as presented is one that investors want to better understand. In fact, the issue does create uncertainty and adds an element of risk to the financing of the project. However, he pointed out that the Goldman Sachs analysis states that "we don't believe that the numbers that have been thrown around are going to be the ultimate numbers that could be associated with that problem." Furthermore, Mr. Bloom concluded that the financing for the project is many years away and there are a lot of ways for that particular risk to be mitigated and not cause a problem for the financing.

[11:16:00 AM](#)

CHAIR HUGGINS asked for viable solutions to the problem.

[11:16:08 AM](#)

MR. BLOOM responded that TransCanada could indemnify shippers against any potential impacts on the project. He further suggested that TransCanada could work with FERC to keep the [cost of the liability] out of the rate base, or could seek a settlement with the withdrawn partners. He opined that there are other approaches; however, Goldman Sachs would not provide "a road map to withdrawn partners to ... worm their way into this situation."

[11:16:54 AM](#)

CHAIR HUGGINS asked TransCanada whether those are viable options.

[11:17:04 AM](#)

MR. PALMER said, "Mr. Chairman, I think I've addressed this issue exhaustively over the course of the last six months." He reminded the members that TransCanada has a different opinion as to the liability; in fact, it is a contingent liability and there is no liability today. Furthermore, the Legislative Budget & Audit Committee contacted every withdrawn partner and no claims have been indicated. He explained that the entity is being dissolved, that TransCanada is not using the assets created 30 years ago, and that the obligations, if any, are not part of the tolls.

[11:18:28 AM](#)

REPRESENTATIVE SAMUELS asked, "If the state took some FT, on the TransCanada pipeline, and if there's no problem from your perspective, and we partnered, will you indemnify us, so we can just be done with it?"

[11:19:05 AM](#)

MR. PALMER stated:

We have committed that if you become a shipper, or any other party becomes a shipper, we will not include those, any liability, that may come home to

TransCanada, in the tolls. So, as a shipper on our pipeline, you know that you're not going to see a liability ... which we obviously think will not come home, or we wouldn't be going forward ... because our liabilities would exceed our revenues, certainly, much more than our profits.

[11:20:07 AM](#)

REPRESENTATIVE SAMUELS agreed that the liability would not be rolled into the tolls; however, the fear remains that if one becomes a partner then the liability goes to the partnership. Therefore, even though the liability will not roll into the tolls, "the deal that gets cut between these withdrawn partners and TransCanada Corporation, if we end up having to pay a portion of that ... just because we're a partner, then that risk is on the state. I just want to know, will you indemnify us?"

[11:20:48 AM](#)

MR. PALMER clarified that if you become a partner of TransCanada, not just a shipper...

[11:21:19 AM](#)

REPRESENTATIVE SAMUELS said yes. He added, "If we become a partner ... if the state takes FT and becomes a partner and with TC Alaska, so TC Alaska becomes the entity, if the liability somehow attaches ... then you should just answer 'yes' and indemnify us.

[11:21:50 AM](#)

MR. PALMER remarked:

Representative Samuels, through the chair, you won't be surprised to hear that TransCanada is not going to commit on the witness stand here today to indemnify universally any potential partner that joins TC Alaska for something of this nature. In the event that parties wish to become partners, and we have extensive discussions with them about how they might become partners, we will undertake, at that time, to review what issues need to be resolved in order for those parties to become partners.

[11:22:07 AM](#)

MR. PORTER observed that there is an impression that AGIA somehow brings a lower tariff or that TransCanada proposes a lower tariff.

[11:22:48 AM](#)

CHAIR HUGGINS interrupted in order to conclude the discussion on liability. He asked Commissioner Galvin whether the state "is planning on seeking indemnification as part of this process."

[11:22:54 AM](#)

COMMISSIONER GALVIN answered:

I think the assumption that Representative Samuels had imbedded in his question was that the state would decide at some point to take our royalty in kind, take an FT commitment of our own. And in picking up on TransCanada's offer in the application, would further decide to parlay that FT commitment into equity position on the line. We have not made that decision, no. And so, the question of how we would deal with the withdrawn partners in the context of becoming an equity participant is not one that we have addressed.

[11:23:13 AM](#)

CHAIR HUGGINS said:

That's one part. The other part though, is we as a state have an expectation. These people sitting in front of you also have that liability factor and if part of the AGIA process ... you are one of the architects; the question applies for [and] to them as an entity.

[11:23:58 AM](#)

COMMISSIONER GALVIN stated that the state has analyzed this issue as it relates to the likelihood of the success of this project. He opined that it is a separate issue and there is no perceived liability on the part of the state associated with this issue, thus the question of indemnification is not relevant. The question of the withdrawn partners, and whether

it is a barrier to potential success, has been determined that it is not.

11:24:27 AM

MR. VAN TUYL re-stated several reasons that this issue is a real risk.

11:25:32 AM

MR. MASSEY advised that Exxon's position on this issue is that it is a fairly low risk, but the exposure must be dealt with before participating with TransCanada on the Alaska portion of the pipeline.

COMMISSIONER GALVIN agreed that Mr. Massey's comments are "the crux of the issue." The discussion started with the question of "what are the issues that the shippers will look at when making shipping commitments to the project?" He acknowledged that there are many issues to address prior to making shipping commitments such as termination risk, quality of the cost estimates, the Alberta tie-in, return on equity, [the liability] issue, and the rolled-in rates issue. Commissioner Galvin stressed that there will always be a discussion of how to get the gas into the pipeline; in fact, this provides an indication of the framework for the future negotiations between the pipeline and the shipper. Each identified issue is a part of the negotiation and the state feels that this is a starting point. Furthermore, in the grand scheme of things [each party] will have to give up something in order to get to an agreed position. He recalled that another identified hindrance was the question of rolled-in rates and whether rolled-in rates would lead to a "dead end." Commissioner Galvin pointed out that today's testimony indicated that the rolled-in rate question would be adjudicated by FERC even though the state and the pipeline are advocating for rolled-in rates. He concluded,

In the end, this is going to be a deal cut between the state, the pipeline, and the shippers. ... What we have presented to you in the grand scheme of things is that by going forward with the TC Alaska project, we increase the state's ability to achieve our goals. ... What you're hearing today is the negotiation process that is going to unfold inevitably. And we believe that with TC Alaska ... these are all issues that they will address with shippers ... in the end to get this project going.

[11:30:22 AM](#)

MR. DICKINSON asked whether the characterization of "[the] state is willing to look at these issues," implies that the state may look at some of the must-haves as the commercial negotiations proceed. He said, "Is the AGIA going to be a straight jacket or it is going to be something else to those terms that must be considered? And ultimately, [is] the state ... going to be part of a solution, which may be more fluid than we can anticipate now?"

[11:31:10 AM](#)

COMMISSIONER GALVIN responded that the state has not identified any of the must-haves as a straight jacket or an absolute commercial barrier to the project. He opined that the parties will be able to work out reasonable terms within the confines of AGIA.

[11:31:42 AM](#)

CHAIR HUGGINS stated that his constituency identified one of the "gates" to the issuance of this license to TransCanada is whether it brings a potential liability with it. He asked, on behalf of his constituents, for Commissioner Galvin to solve this issue as soon as possible.

[11:32:23 AM](#)

COMMISSIONER GALVIN assured the members that a resolution had been looked for ahead of licensing; however, this is something that will be negotiated to a resolution post licensing.

[11:32:55 AM](#)

CHAIR HUGGINS said, "So you're deferring on the solution."

[11:33:11 AM](#)

REPRESENTATIVE SAMUELS asked if the representatives of the other owners had heard Mr. Massey's presentation on Exxon's views of the economics of the project.

[11:33:42 AM](#)

A variety of responses were given.

11:33:46 AM

REPRESENTATIVE SAMUELS then recalled previous analysis that "this thing is so knee deep in money that if we can just get TransCanada to build a pipeline, these guys are going to fold their cards and they're going to show up at that open season, period." He then re-stated Exxon testimony that the project is not knee deep in money and is a high risk proposition because of its size. Representative Samuels asked Ms. Poduval to explain the economics used for the "big picture."

11:35:41 AM

DEEPA PODUVAL, Principal Consultant, Black & Veatch, explained that Black & Veatch's analysis to calculate the NPV (net present value) looked at the year to year cash flow. This reveals how much money the producers are spending each year on this project, and how much money they are earning each year on this project. The cash flows were then mapped and discounted back to 2008, and the results were the NPV numbers. She emphasized that the accounting treatment referred to by Mr. Massey does not change the money that the producers earn year to year on this project. She continued to explain that NPVs are always calculated on actual cash flows. Ms. Poduval opined that the producers each have different ways to look at investment decisions; in fact, Exxon's testimony was that it does not have a single hurdle rate, but looks at each project's returns and risks. Black & Veatch's analysis does not model each of the producer's different [investment decisions], but models "what are the cash flows coming in and what are the cash flows going out for the producers for this project?"

11:37:14 AM

MR. VAN TUYL related that BP sees this project as having real significant risk. Furthermore, the FT commitments are of significant value; in fact they are what allow the pipeline company to obtain financing. He compared the value of FTs to a debt-like payment that can be converted into a capital equivalency. This enables one to evaluate the actual cost of the value that is being transferred. Furthermore, the commitment to a third party is a transfer of value and destroys the NPV that the shipper would otherwise receive. Mr. Van Tuyl agreed that there is no single hurdle rate for this project. The hurdle rate depends on the long term cash flow generation, the capital requirement, and the overall risk of the project. He concluded

that FT commitments are a real cost, a real value, and will show as a footnote on BP's financial statements. In addition, even though an FT commitment may not show as debt, financial institutions consider them when they weigh their evaluations.

11:39:52 AM

MS. KING referred to previous testimony about how ConocoPhillips accounts for, and values, FT commitments. She noted the difficulty in communicating the aspects from an accounting perspective. However, when and if ConocoPhillips can make a long term shipping commitment on a pipeline project, that commitment can be taken to the bank as cash. In fact, shipping commitments are a valuable financial instrument. She asked, "If the shipping commitment was not worth much ... why does every pipeline project want one?" Shipping commitments are necessary to finance a pipeline project and are also included in the shipping company's financial analysis. Ms. King then emphasized that ConocoPhillips does not have a single hurdle rate for projects. She remarked:

ConocoPhillips has been actively working trying to advance this project to date in multiple different fashions that the government has asked us to work under. Whether it be work with you under the stranded gas act, or work with you under a different format; we continue to try to find a way to advance the gas pipeline project, but it doesn't mean that it's a risk free investment, and we'll continue to balance those risks as we look forward. ... One thing I would say ... the majority of the risk with this pipeline transfers to the shippers. ... The one party that doesn't carry much risk in this, when this project comes on stream, is the pipeline.

MR. ZAGER stated his agreement with previous testimony "in the context of taking on a shipper pay commitment when to a third party commitment, such as TransCanada." He related his experience in financial analysis and pointed out that "going over balance sheets is wonderful, but where you find the good information is the footnotes." Furthermore, he noted that Chevron was not in an equal ownership position at Prudhoe Bay and opined that the economics will be very different for fields at Prudhoe Bay, Point Thomson and for the explorers. "When you say 'knee deep in money' that's at a rolled up rate ... [and] it needs to be broken down and looked another level before we jump to any conclusions," he said. He suggested that the offset to

the perceived advantage of a third party pipeline builder is that there is a much higher risk that the open season will fail because of the YTF commitments. He remarked:

We'll look at that differently if we have a commensurate ownership position than if we are strictly making it to a third party. So ... the risk is the whole thing fails because we can't adequately resolve how to allocate that risk.

MR. ZAGER observed that the companies represented at the hearing hold over \$1 trillion of market capital and are a strong ownership group standing behind the FT commitments. He then referred to Commissioner Galvin's statement that the must-haves in AGIA are really starting positions for negotiation. "That's a revelation to me, and I think a positive sign that I can take away from this, at least a recognition that there are certain things that, at the end of the day, won't survive the limelight of a real commercial analysis," he said.

[11:45:50 AM](#)

MR. MASSEY stated that it was important for members to understand how the companies run their economics and value FT commitments. He noted that Exxon commissioned a third party analysis of the TransCanada application by Prof. Joseph P. Kalt, John F. Kennedy School of Government, Harvard University, and Compass Lexecon Economic Consulting, dated July 10, 2008. He read from the analysis:

Under proper treatment of ship-or-pay commitments, B&V's characterization of producers' economics of investing in and developing North Slope gas as "robust" evaporates.

[11:47:45 AM](#)

CHAIR HUGGINS announced that the meeting was recessed until 1:45 p.m.

[1:52:46 PM](#)

CHAIR HUGGINS called the meeting back to order at 1:53 p.m.

[1:53:40 PM](#)

MS. PODUVAL said that her firm does not disagree with the producers in that there are significant risks to the project. In fact, the NPVs being projected take into account the price, tariff, and fiscal risks; however, along with the risks, there are significant rewards to this project. She opined that the development of the Denali project is an indication that the producers recognize these rewards and want to go forward.

1:55:11 PM

COMMISSIONER GALVIN explained that the issue of FT [commitments] as debt is two-fold. The first issue is, whether [FT commitments] should or should not be incorporated into an economic analysis and secondly, the effect [of FT commitments] on a company's ability for financing. He asked the representative from Goldman Sachs to speak to this issue.

1:56:32 PM

BRUCE SCHWARTZ, Vice President, Credit Risk Management and Advisory Group, Goldman Sachs, said that Goldman Sachs is in agreement that the FT contracts as described by the producers have tremendous value to the pipeline company and that FT contracts would be disclosed by the producers in a footnote to their financial statements; however, footnotes are an integral part of financial statements. In addition, footnotes are used by analysts to evaluate a company's financial condition. They are usually not capitalized by the financial equity community and treated as a debt-like liability, but are viewed as operating expenditures. However, when calculating enterprise value and calculating a company's assets, the future expenditure associated with FT contracts would be included. He further explained that within the credit community and rating agencies in North America, rating agencies generally do not include FT contracts as debt-like liabilities. Internationally, inclusion has occurred in isolated cases; however, he opined that FT contracts may not be disregarded as agencies have moved toward inclusion. Further, the magnitude of this project means it will get more scrutiny from the rating agencies and he said that "some type of debt-like attribution is a pretty good assumption."

MR. SCHWARTZ then noted that when agencies look at such contracts they do not see the obligations in isolation, but also look at the benefit, such as the commercialization of Alaska's natural gas reserves. He acknowledged the difficulty of forecasting the impact on producer ratings; in fact, while FT

contracts may be treated by the rating agencies as debt, they also would look at projects financed on a joint venture basis as debt-like liabilities. Mr. Schwartz observed that during the hearings the focus has been on FT contracts versus zero; however, the correct frame of reference is "the total capital employed in the pipeline for the producers versus the present value of the FT contracts."

[2:01:50 PM](#)

SENATOR HUGGINS asked Mr. Schwartz whether destabilizing events around the world and in the U. S. "come to bear on this project."

MR. SCHWARTZ said that the credit and financial markets today generally are in a chaotic state. In fact, for companies rated "high yield or sub investment grade or below the rating agency threshold of triple B minus or V. double A3, there are very, very marked challenges." In the investment grade category, where TransCanada and the producers are rated, investment grade energy is viewed as a "safe haven in the financial world," because the companies have very strong cash flows and are very well capitalized. He referred to his firm's findings that regardless of a credit crisis or good times, this proposal is looking to raise an extraordinary amount of funding, "that could prove to have its challenges." In response to a question, he said that this project is "potentially doable."

[2:04:31 PM](#)

MR. DICKINSON asked how a credit analyst would compare two scenarios, one with the parent company putting up the money for the project and making FT commitments to itself, and another project where producers make an FT commitment to a third party, and thus would not have cash out until the tariff was being charged.

MR. SCHWARTZ opined that credit analysts can disagree; however, drawing upon his experience he expressed his belief that "there are definitive risk mitigation benefits to doing it through a third party in the terms of that the third party would then be on the hook for project completion." Also, there is the opportunity to have "placed financing" through the FT agreements in that the builder will need to source bonds in advance for capital expenditures, versus [the shipper] signing the FT agreement. On the other hand, credit analysts may not agree as to what degree throughput agreements would result in risks to

producers, particularly in the case of YTF reserves. He described a variety of economic factors affecting credit analyses.

[2:07:41 PM](#)

MR. DICKINSON questioned whether a producer building a pipeline would incur higher financing costs than a third party.

MR. SCHWARTZ said that it would depend on the financial strength of the producer group; in the case of the producer group represented [at this hearing], their costs would be dependent on economics and project execution.

[2:08:58 PM](#)

CHAIR HUGGINS recalled that Mr. Scott Smith [Vice President, Black & Veatch] said the biggest risk to the project are price and capital costs and these risks would be "ring-fenced" relative to the liability of certain parties. He asked Mr. Schwartz to describe financial structures, including that which would create ring-fencing.

MR. SCHWARTZ explained that ring-fencing is a concept of isolating a company or subsidiary away from the rest of the company. The technique is used in situations where the subsidiary is extremely strong, and the parent company does not want the actions or the financing of the parent company to affect the subsidiary. There is also the concept of non-recourse financing, whereby a subsidiary is created, and the obligations of that subsidiary, for example, the joint venture pipeline company, can not seek recourse back to the parent company in the case of default. He acknowledged that from a financing structure, the most likely occurrence with the proposed project is the [possibility] that there would not be a guarantee from TransCanada and if there were troubles at the pipeline company [recourse] would be isolated to it. Regarding cost overruns and price, Mr. Schwartz opined that the producers experience price risk on the cost of the natural gas and are at risk for cost inflation on the pipeline.

SENATOR HUGGINS asked for advice regarding ring-fencing by parties to AGIA.

MR. SCHWARTZ remarked:

If that were employed under AGIA I think the thing to keep in mind when that's occurring is that if there were a conceptual agreement that was put forth in the TransCanada proposal which was driving the basis of our findings, which is there would be solid FT commitments from a very big group of shippers, such as we have here today. [And] that that project even though non-recourse to TransCanada, would be very financeable because we have the strong counterparties and there's good risk mitigation techniques involved in it. ... I wouldn't want that term to also cause an overreaction of concern that it couldn't receive financing because it was non-recourse to TransCanada.

[2:13:55 PM](#)

REPRESENTATIVE ROSES noted that the representatives from ConocoPhillips and BP want to participate today as shippers rather than as owners. He asked Mr. Massey whether he had changed his mind after testifying to the House Resources Standing Committee that the 20 must-haves in AGIA were too restrictive.

MR. MASSEY said no.

REPRESENTATIVE ROSES observed that any partner of TransCanada must [abide] by the must-haves in AGIA.

MR. MASSEY said yes.

REPRESENTATIVE ROSES stated:

Yesterday when you were asked about partnering up in the pipeline you stated that "we'll partner up with whoever it is that delivers the best economic value to us" and it appears that there may be some other criteria about partnerships that has to do with the 20 must-haves. And that also has to do with ... if I quoted it accurately, "before being a partner we would want to resolve the withdrawal partner liability issue." Did I hear that correctly?

MR. MASSEY indicated yes. He expressed his understanding of the importance of the must-haves to the state. Furthermore, the administration has stated its willingness to listen to "a good case" if something needs to change. He said:

Comments about us working with TransCanada potentially going forward, if that's what you do, then we're talking about the things that they've got in their application and we're also talking about the must-haves, can we deal with those in a way that's satisfactory to the administration and, ultimately, the legislature. That's what we'll have to do to be able to have a viable project.

[2:17:20 PM](#)

REPRESENTATIVE ROSES then questioned whether Mr. Massey believes that the 20 must-haves are somewhat negotiable.

MR. MASSEY responded:

What I said is I understand how important those are to the state, and that's really the bargain that you're shooting for, is getting someone to support those must-haves, you know, for \$500 million. I don't know if they're negotiable or not.

REPRESENTATIVE ROSES offered his understanding that each of the shippers prefers to work through a "negotiated rate making process." However, according to testimony by the shippers, the structure of AGIA does not allow that process to take place. He then asked whether his understanding was correct and if that process is available under the Denali project.

[2:19:08 PM](#)

MS. KING stated that a shipper could have a "normal conversation with the Denali pipeline when Denali gets to that point in time." She pointed out several differences between the two proposals. Ms. King questioned where the state stands on endorsing the terms that are not the state's must-haves, but are included in TransCanada's application.

[2:20:10 PM](#)

MR. VAN TUYL said yes to Representative Roses' question and confirmed that BP's FT commitment evaluation includes the availability for the shipper to talk to the pipeline company and achieve the "right risk reward balance." He noted that Mr. Schwartz spoke about the completion risk taken by a third party and offered his understanding that this aspect is not available under the TransCanada proposal. Furthermore, AGIA prevents the

negotiated rates that are of critical importance to a shipper, he opined.

[2:21:32 PM](#)

MR. PALMER said that with regard to negotiated rates, TransCanada is fully able to negotiate rates within the boundaries of AGIA. Furthermore, several of the issues discussed are matters that are dealt with on every project, sometimes before the National Energy Board (NEB) or the Federal Energy Regulatory Commission (FERC). Referring to the rate of return, the debt equity ratio, and commercial terms, he noted that his company and its customers usually discuss these matters before regulatory agencies or in negotiations. Mr. Palmer opined that the AGIA boundaries deal with the must-haves and suggested that "the customers in this case are in a much better position to negotiate with me than they would be in a normal process where I have not had to reveal my hand through 12 to 18 inches of paper that I have filed publically in advance."

[2:23:58 PM](#)

MR. PALMER further suggested that TransCanada has 50 years of experience attracting and dealing with potential customers, "and I see no restrictions under AGIA for TransCanada to negotiate on the terms that are not included in the must-haves."

COMMISSIONER GALVIN surmised that the question is whether AGIA or the license would be a barrier to getting the shippers and the pipeline together. He stressed that there nothing in AGIA that would preclude TransCanada from negotiating an agreement with the shippers on the terms, for example, the completeness guarantees. Secondly, he offered his recollection that Ms. King was seeking clarification as to whether the state is obligated to hold TransCanada to the terms. His response is that the state is not required to defend and advocate for those terms; instead AGIA obligates the state to provide "the matching contribution and so forth." Commissioner Galvin explained that the opportunity provided by AGIA is simply to secure the must-haves in the form of a license, in the statute. He agreed with Mr. Massey that the state indicated its bottom line; in fact, those remain embedded in the statute and are not subject to negotiation by either the administration or TransCanada. He concluded:

So, when we analyze that ... well, are those 20 must-haves going to be a absolute barrier to getting the

parties together? And our analysis would indicate the answer is "no," that these are all things that are within the commercial framework, things that can be negotiated and our reasonable expectation out of the process given the opportunity on the other parameters that are going to be discussed among the parties.

COMMISSIONER GALVIN opined that it is important for the legislature and the public to understand that this is not a take-it-or-leave-it proposition to the producers, but the beginning of the discussion that will take place after the issuance of the license.

[2:27:42 PM](#)

REPRESENTATIVE ROSES recalled that Mr. Massey testified that [Exxon] has no interest in being a part owner "in anything where those must-haves were mandatory." He asked whether his assumption, "that the partners [with TransCanada] are going to have to come from somewhere else" is correct.

[2:28:49 PM](#)

COMMISSIONER GALVIN questioned what that previous testimony was based on one year ago. He remarked:

Were they testifying on the idea of coming to a point a year, two years from now, before an open season, where there's a discussion about "Are you willing to take on a role as an empty commitment, and as part of that do you want to participate as an owner?" After the competitive part of going after the license has been complete, the issue that they were facing a year ago was a negotiation with the legislature, with the state. ... Things change and we have to allow them to change their position without holding them to a statement ... because frankly, I think they should be allowed to look at the situation as it evolves and goes forward.

[2:30:44 PM](#)

CHAIR HUGGINS asked, "Are the must-haves negotiable?"

COMMISSIONER GALVIN answered, "No, you set them in statute, they're not negotiable."

[2:31:05 PM](#)

SENATOR THOMAS said, "As I read Denali project, and some other comments that have been made by folks, probably three-quarters of the issues of the 20 must-haves are about settled, anyhow." He then referred to slide 4 from the [Exxon] presentation on July 10 2008, and asked Mr. Massey whether there were questions from the board room that the "resource just simply exists, and they're not worried about that."

MR. MASSEY said that they are very worried about that. Looking at the known resources indicates that, without Point Thomson gas, the project is very threatened; in fact, the source of gas from the North Slope is also a worry. However, both [gas from] the North Slope and Point Thomson is sufficient to keep the pipe full at the optimum 4.5 bcf per day for over 10 years. He opined that for this to be successful, alignment between the other producers and the state is necessary.

[2:34:41 PM](#)

SENATOR THOMAS referred to slide 5 and asked whether in the Lower 48, Mr. Massey's company generally sells its gas at the wellhead.

MR. MASSEY said that is correct. He added that in the Lower 48 gas is sold at the well head for a good price and they are not required to make FT commitments.

SENATOR THOMAS commented about the previous testimony that was deemed proprietary. He then asked whether [Exxon] will be joining with the other Prudhoe Bay producers in the Denali project.

MR. MASSEY said that the information regarding Prudhoe and Point Thomson, and about the gas available to support making an FT commitment, is shared. However, the FT commitment is not gas, but is the "financial backing that you make to pay for that FT over an extended period, whether you have the gas or not ... and some folk's view about whether there's going to be additional gas available ... may make them make a higher commitment or a lessor commitment."

[2:37:23 PM](#)

MR. MASSEY, in further response said, "Our view is that, for this to be a successful venture, it requires alignment between

the three major producers and the state, so we're assessing which approach is going to achieve that alignment as early as possible. We don't need two projects of this magnitude competing with one another for resources."

SENATOR THOMAS assumed a certain amount of due diligence.

[2:38:29 PM](#)

REPRESENTATIVE HAWKER paraphrased Commissioner Galvin and said, "AGIA is not a barrier to shippers."

COMMISSIONER GALVIN clarified that what he said was "AGIA is not a barrier to an agreement between the shippers and the pipeline."

REPRESENTATIVE HAWKER said that what he has heard from the administration is that the value AGIA brings to the table is that it guarantees an independent, expandable pipeline. He remarked:

I'm having a little problem here with the paradox in that, this is good because it's a(n) independent pipeline that makes certain we don't have the producers involved in it. But, yet, the shippers ... are in fact, the same producers. ... It continues to trouble me.

[2:41:15 PM](#)

COMMISSIONER GALVIN explained that a year ago the discussion about AGIA pertained to whether the terms of AGIA precluded the producers from participating in AGIA at all. The state's position was that the producers could participate; however, the producers would need to act as an independent pipeline company in their interactions with FERC and the shippers. Furthermore, the state recognizes that the producers may become equity owners in the pipeline. He stressed that "the pipeline will act as an independent pipeline company because we have the commitments required under the AGIA license."

REPRESENTATIVE HAWKER responded that the producer/shippers have been equally consistent in saying "this will not get us to get our gas to market." He opined that a bridge was needed between the two sides.

COMMISSIONER GALVIN expressed his belief that the [shippers] have not said that they "can not ship their gas on a TransCanada pipeline. ... What they are saying is that they would much prefer to deal with Denali project; it provides them a better opportunity to work out the deal."

REPRESENTATIVE HAWKER disagreed. He remarked:

I think we actually did just say exactly the same thing and that is, that under the current approach we're not getting there from here.

COMMISSIONER GALVIN explained that the premise of Representative Hawker's statement is that [issuing a license under] AGIA will undoubtedly result in the shippers not participating. He said that he does not believe that statement and that the state's interests are best protected by the issuance of the license. Furthermore, the shippers are allowed to come into the project, although there will be a lot of discussion about the terms of their involvement.

[2:45:28 PM](#)

MR. VAN TUYL clarified that it is FERC regulation that determines how interstate pipelines are regulated; in fact, FERC has strict rules to assure independence of the pipeline. Secondly, there are concerns specific to TransCanada, TransCanada's application, and to the terms of AGIA. Also to be considered is the specter of making massive commitments to a third party and the financial implications.

MR. VAN TUYL further explained that the issues with AGIA and the proposal include the limitation on negotiated rates, the provision to subsidize competitors in contradiction of FERC law, the limitations on what may be negotiated, the withdrawn partner liability, the termination clause, the quality of the cost estimate, the return on equity, and the Alberta tie-in requirement.

[2:48:51 PM](#)

MS. KING referred to the two potential pipeline projects: Denali - The Alaska Natural Gas Pipeline ["Denali project"] and TransCanada under the AGIA license. She compared the two projects from the perspective of a shipper and pointed out that the AGIA applicant must accept a FERC certificate, regardless of the conditions of the certificate. Further, under AGIA the

project must be sanctioned, even if conditions have changed and costs have increased. The Denali project does not have either of these requirements. In addition, AGIA requires that the FERC certificate be obtained by a "date certain." Ms. King expressed her preference for a project sponsor that is using "proper front end loading and good solid project management practices to deliver the best cost for the project."

MS. KING acknowledged that the Denali project is planning on an open season by 2010; however, her concern is for timelines that occur during permitting. She then advised that the pipeline builder would need to spend \$500-600 million for a quality cost estimate and engineering and opined that the TransCanada cost estimate is insufficient. Continuing her comparison, she noted that AGIA discriminates against initial shippers because they have to pay 115 percent of the initial maximum recourse rate and future shippers will pay a lesser amount. In addition, the pipeline is asking for shippers to sign up for 20 to 25 years of fiscal stability. She remarked:

But in the AGIA framework, you have provided some financial fiscal terms in there, the resource terms by which the statute was changed and it does not provide any stability on taxes. ... So now there's no fiscal predictability within that framework. So those are comparisons between these two projects that I see right now, and from what I can see ... it's really about seeing a competitive environment by which projects can go forward ... and I see that there are some advantages from what I can see right now, to the alternative Denali is proposing.

[2:53:46 PM](#)

MR. ZAGER added that Chevron, when an open season is held, will be looking at the quality of the terms to see if it has confidence in the prices given, the execution, and the schedule. Chevron will make its own assessment at that time. He opined that some aspects of this project are not controllable and some are such as, project management, risk sharing, and fiscal terms. He encouraged all parties to work on issues that are within control. Mr. Zager concluded that Chevron will be happy to look at any open season material at some point in the future.

[2:56:05 PM](#)

MR. MASSEY related his company's belief that neither project will "result in a commercial viable project, so what we need to do is to bring the parties together." He expressed [Exxon's] commitment to the development of Alaska's gas resources and its willingness to work with the administration, TransCanada, BP, and [Conoco/Phillips] to put in place what is necessary for that to occur.

COMMISSIONER GALVIN, with regard to the point made by Mr. Van Tuyl, emphasized that the purpose of AGIA is to force the producers, if they are the owners, to act like a pipeline company in the sense that they would have to apply to FERC and ask for the things an independent pipeline company would ask for. He turned to the subject of rolled-in rates and said, "Even though they claim that the provisions of AGIA are going counter to what FERC would provide, they're against going to FERC and asking for the things that AGIA requires, perhaps because they expect FERC may come out with a different answer, if they're asked for. ... There is benefit to asking for the things that the state wants when going to FERC."

COMMISSIONER GALVIN re-stated that there is nothing that indicates that gas can not be committed to the project, subject to negotiation. He sought to clarify that on the issue of having to accept the FERC certificate, he said that AGIA allows an appeal if conditions are placed on the certificate. The purpose of this requirement is to preserve the state's interest and investment in the certificate. He corrected the statement that the applicant must sanction the project under any conditions and noted that the state will take possession of the certificate if the pipeline company declines. Furthermore, the obligation of a date certain for the application of the FERC certificate can be amended at the discretion of the commissioners, without an amendment to the statute.

COMMISSIONER GALVIN observed that negotiations have begun, both relating to the shippers and the pipeline, and the shippers and the state. Clearly, this discussion will deal with the Denali project, also. He encouraged members to "step back." He concluded:

I think the only statement that I've heard today that really gets to heart of the issue that is before you, is something Mr. Massey said at the end. ... There's money to be made in this project, otherwise they wouldn't be proceeding with [the Denali project]. ... Having the license issued provides the state with a

position from which to have those discussions. Without the license we've got nothing, and we're back to having an open book.

[3:03:43 PM](#)

The committee took an at-ease from 3:03 p.m. to 3:15 p.m.

[3:14:33 PM](#)

CHAIR HUGGINS called the meeting back to order at 3:15 p.m.

[3:16:11 PM](#)

MR. PALMER offered his understanding that Ms. King is under the impression that under AGIA, there is a commitment that the licensee must receive the FERC certificate by a date certain; however, no such language is in the statute. Secondly, he commended Mr. Massey for his comments on compromise and offered his belief that compromise, collaboration, and commercial creativity will be required to finalize this project. He related that he was not in a position to compare his proposal to the Denali project because he has not seen Denali's commercial terms, nor could he compare its quality as a pipeline company.

MR. PALMER, in regards to the estimated cost of the project, emphasized that TransCanada has 50 years of experience in the gas pipeline business in North America. Within its interstate and interprovincial system, it moves 20 percent of North American gas every day; in fact, TransCanada has put forth cost estimates on multiple projects for years. He assured the members that TransCanada will exact the same standards as it has in the past. Furthermore, TransCanada also holds assets and information in Canada that will assist it in the cost estimation process. Mr. Palmer concluded that although there are uncontrollable costs involved in any project, spending extra money on estimating the costs of steel and labor, years before their procurement, will not improve the estimate. He cited an example.

[3:21:17 PM](#)

MR. DICKINSON asked for the date on which TransCanada would be applying for the FERC certificate.

MR. PALMER said that the date is October 2012.

MR. DICKINSON further asked for the process by which the date can change.

MR. PALMER explained that TransCanada's license application was submitted in November and assumed that the license would be approved in April. Now that TransCanada believes that there will be a decision in August, if the license is granted, it has committed to the dates under AGIA.

[3:24:02 PM](#)

REPRESENTATIVE CRAWFORD said that the benchmark for him is when he sees a piece of iron going in the ground. He stated that one of the main criterion [of shippers] is to have the lowest tariff possible. However, on a pipeline owned by shippers, history seems to show that there is an advantage if the tariff costs are higher and [shippers/owners] shift the profit from the upstream to the midstream. He opined that this is a disadvantage to the state but an advantage to the producers. Representative Crawford continued to explain that of the two pipeline proposals, one will provide a 20-30 percent lower tariff because of a higher debt to equity ratio and other factors. The other producer-owned pipeline might have a much lower debt to equity ratio and other factors that might raise the tariff. According to information presented on July 10 2008, the "sweet spot" for the tariff is \$4.73. He asked each of the four producers whether a tariff of \$3.73 on the independent pipeline would "outweigh the advantage of the producer-owned line."

[3:27:35 PM](#)

MR. MASSEY said it is a question of a producer-owned pipeline as opposed to a third party-owned pipeline, and offered his belief that a producer-owned pipeline can generate a tariff as low as a third party pipeline company. He surmised that the capital cost will drive the tariff; in fact, this project is so big that the producers feel the need to participate in ownership "equal to our throughput." In addition, the financial strength of the owners and shippers will enable them to achieve the lowest cost debt from the financial markets. He also pointed out that the producers can "go to the market and pour in the maximum amount of debt to support the project, maybe upwards of 80 percent." Mr. Massey concluded that there might be a slight advantage to having a producer-owned pipeline given the strength that comes with the parties.

REPRESENTATIVE CRAWFORD clarified that his question is, "If there was a third party pipeline and it was a 20 or 30 percent lower tariff, would that become more attractive than the producer-owned pipeline with the other advantages that come from a producer-owned pipeline?"

MR. MASSEY responded that the producer-owned pipeline will deliver the lower tariff so he can't deal with the hypothetical.

[3:30:21 PM](#)

MR. ZAGER said he has not done any analysis in that regard yet, because it's not an "apples to apples comparison," and using the example of a 10 cent tariff is not realistic. He disagreed with the premise that there is a significant advantage to an independent pipeline in terms of [the cost of the] tariff; in fact, the case could be made the tariff will be lower for a producer-owned pipeline.

[3:31:24 PM](#)

MS. KING surmised that the strength of the pipeline sponsors and what the cost of the debt will be are factors in the financing of the project. However, having a strong project sponsor will result in a lower toll. She said she doesn't believe that any party is motivated to waste capital. On the other hand, because the costs flow back to the shippers, an incentive is created to keep the costs down. Ms. King referred to the Trans-Alaska Pipeline System (TAPS) and recalled that there is an agreement with the state on the calculation of the tolls and the oil pipeline has delivered a lot of oil to the marketplace. "I don't consider the history, over the last 40 years, a failure," she said. She offered her belief that this project is an opportunity "[to] have that same possibility again." She restated the testimony by the FERC that the protections for access to the pipeline are there and opined that there is a strong case for what can be offered by project sponsors that have strong financial strength.

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MR. VAN TUYL agreed, and added that [the ability to obtain financing] is key to the project, so being able to have a backstop of the financial strength of the producers is very important. With regard to the cost and the value of the FT commitments, he said that BP currently carries commitments just under \$4 billion; in fact, the FT commitments on this project

might be 10 times that amount, or more. He stressed that the value of that commitment weighed against a percentage change on the tariff is not equivalent. Mr. Van Tuyl continued to explain that keeping capital costs down will get the gas to market at a reasonable rate. Turning to the subject of the TAPS experience, he pointed out that gas lines and interstate gas transmission is regulated by different and more stringent rules; in fact, gas line regulation is designed on depreciated original cost. He opined that the success of the project is delivered by those who can get the project financed and built for a low capital cost.

REPRESENTATIVE CRAWFORD reiterated that he wants to see iron in the ground or "up." He expressed his frustration at hearing repeatedly that this project is very big and very difficult. He advised that the state can assist the project with financing and other problems

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REPRESENTATIVE FAIRCLOUGH sought clarification from Commissioner Galvin on the point that the administration has the power to negotiate changes to AGIA without coming back to the legislature.

COMMISSIONER GALVIN said that the administration can agree to modification to the project plan submitted by TC Alaska, as long as it meets the requirement of AGIA which is "it can't diminish the value of the project to the state or decrease the likelihood of success."

REPRESENTATIVE FAIRCLOUGH surmised that the 20 must-haves will still be in compliance; otherwise it would be necessary to return to the legislature.

COMMISSIONER GALVIN concurred.

REPRESENTATIVE FAIRCLOUGH asked whether the administration could negotiate and modify terms in TransCanada's application, for example, termination rights, [the obligation to] the Alberta Hub, and the return on equity. She pointed out that these terms are not in the original statute.

COMMISSIONER GALVIN observed that these are things that TransCanada, not the state, would be negotiating. TransCanada would then bring the issues back to the state as a modification to its plan, and the administration could approve them. These issues would most likely be advantageous to the shippers.

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REPRESENTATIVE FAIRCLOUGH referred to testimony provided by TransCanada in prior meetings, and offered her belief that upstream competition is what Alaskans fear. She acknowledged that TAPS has been the "lifeblood of Alaska for decades" and praised the good business practices of the producers and their employees. Nonetheless, the fear is that, the situation of open access on the gas line will be similar that of TAPS, with the "big three players shipping oil down TAPS and we want to have more exploration on the North Slope basin." ... She asked, "How, if you own the line or if you have too much equity interest, that Alaska isn't in jeopardy of the big three, or now the big four, sort of pushing out other exploration and competition on the North Slope basin."

MS. KING explained that there is capacity in TAPS today and new discoveries would be allowed to flow in the pipeline; in fact, it is a common carrier pipeline which means that capacity could be prorated down to insure capacity. So, as much as one might like to see TAPS full it is a function upon what resources are available and whether it is financially attractive to develop those resources.

REPRESENTATIVE FAIRCLOUGH recalled that the owners of TAPS have repeated that there is open access to the pipeline; however, in reality the administration maintains that the tariff charges are making the "smaller puddles" that are being discovered not economical. She said that the administration has convinced her that the owners' cost allocation methods are preventing smaller explorers from monetizing their [oil].

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MR. PORTER offered his understanding that the question regarding TAPS stems from the closing down at Endicott and that Conoco/Phillips left because it did not have ownership. He advised members to assume that Endicott's costs were \$10, that the TAPS tariff was \$5, and that the sale price of [oil] was \$14.80, resulting in a loss. In this case the TAPS tariff was very important; but if the price of oil is \$130, then the TAPS tariff is immaterial. Mr. Porter said, "There is not an issue on TAPS now of a concern for people getting in that pipe. ... I don't think you will find a serious explorer today who says, 'the reason I don't drill is because of the TAPS tariff.' ...

It's such an insignificant amount of their profit today," he opined.

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REPRESENTATIVE FAIRCLOUGH said, "I go back to the original thing that I said, as far as upstream competition, three versus three hundred."

MS. KING relayed that Conoco/Phillips has drilled the most wells in the last decade and continues to be a very active explorer in Alaska. She asked the members to understand that Conoco/Phillips usually does not drill exploration wells at 100 percent working interest, but prefers co-venturers. However, it is not advantageous to have a co-venturer that does not have access to a pipeline. Conoco believes that there must be a way to allow co-venturers access to the natural gas pipeline; in fact, a provision in the Alaska Natural Gas Pipeline Act (ANGPA) allows for FERC to mandate expansion. This, and the rebuttable presumption of rolled-in rates, are provisions to facilitate access to the pipeline. She then cautioned that the initial shippers would not expect to have to bear the risks of exploration efforts.

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MR. VAN TUYL affirmed that this gas pipeline will be an open access pipeline regulated by FERC. During open season any party can obtain access on just and reasonable terms; in fact, testimony from the representative from FERC was that Congress and FERC "in promulgating the regulations ... specifically for this project, had a balancing act to try to manage." One part was to create terms that were appropriate to get a pipeline built; the other part recognized the need to stimulate development and have future expansions. Mr. Van Tuyl further noted that the Denali project has expressed interest in soliciting demand for expansion every two years, which is encouraging. As a shipper, he wants rates to remain low, and one of the things that will ensure that is a lot of gas flowing in the pipe and many shippers sharing in the tariff cost.

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MR. MASSEY said he agrees with Mr. Porter that the tariff is not the issue with the development of oil resources on the North Slope. Also, it is [Exxon's] belief that it is not the driver historically; instead, it has been "the assessment of the

quality of the resource remaining to be explored for." When one considers the gas pipeline, there will be significant incentive for exploration; in fact, there are 15 tcf of yet to find [gas] just to fill the base pipeline. Furthermore, expansion is possible with basically the same tariff. He predicted that exploration will occur as soon as companies realize that the pipeline is going.

MR. ZAGER said that for Chevron the problem with exploring on the North Slope has not been access to the pipeline, but with dry holes. Furthermore, there is no concern about getting Chevron's oil into TAPS. He opined that the structure, and the protections from FERC, will ensure that people who have gas to commit will be able to do that.

SENATOR HUGGINS asked whether Pioneer Oil has TAPS access.

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MS. KING relayed that Conoco/Phillips had success with Pioneer in a facilities sharing agreement at Kuparuk last year.

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COMMISSIONER GALVIN, with regard to the ratio between the tariff and the price, agreed that at one point there was a very low margin with oil but now, the margin is tremendous and is no longer a significant driver to that issue. However, at this time the margin with gas is low and the rate of the tariff is very important to the economics of the fields that may be developed. He then addressed the shippers' advice to "trust FERC to protect your interest as a state, when it comes to expansion." He pointed out that the shippers have also said that, on the issue of rolled-in rates, they can not trust FERC to protect their interests. Finally, there is the juxtaposition by the shippers of FERC's authority under ANGPA to require expansions, with the rebuttable presumption of rolled-in rates. He stressed that if FERC mandates the expansion, then the rebuttable presumption is off; additionally, the rebuttable presumption is cut off with the concept of subsidy. He remarked:

Rates go down, of course, they use rolled-in rates as the price goes down, and the rates go down. ... When the rates start going up, in order to protect the interest of the new shippers, suddenly you're dealing

with fighting the whole system in order to try to get that interest met.

COMMISSIONER GALVIN then referred to a statement made during the hearing on July 10 2008, about whether the Denali pipeline has committed to solicit demand every two years for additional gas to the pipeline. He recalled that the commitment was unclear and asked, "Who's making that decision, and for what purpose?"

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MS. KING, on the issue of rolled-in rates, noted that the FERC has provided a process in its Order 2005 A that said that there is a rebuttable presumption of rolled-in rates up to the point of the subsidy. But unique to AGIA is a requirement that the pipeline company and the shippers agree to the 115 percent regardless of whether that is a subsidy. She opined that this requirement takes away the shipper's right to argue that point before the FERC, and in fact, ties the hands of the shippers before all the facts are known. She remarked:

You could see yourself in a place by which you might be paying more to move state gas into the marketplace, but yet, it's for federal lands moving through that gas. ... That's the fact based case that FERC laid out. ... We want to preserve that right, too; [to] be able to look at the facts at the time and understand, [whether] this a subsidy or not.

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MR. PALMER said that TransCanada's record of expansion stands on its own. He advised that the rules state that if there is a voluntary expansion by the pipeline company under FERC there's a rebuttable presumption of rolled-in tolls, and AGIA requires the pipeline company to voluntarily expand. However, if there is a mandatory expansion, the subsidization test is there. He expressed his understanding that initial shippers are always concerned about tolls in the future. This is a matter of public policy; in fact, this is one of the principal must-haves in AGIA, he opined. He noted that this is public policy in Canada and there is no 115 percent limit. Thus, customers in Canada know that, genetically, they will face rolled-in tolls on the Canadian section of this pipe, or on other pipes. Furthermore, the ANSPA special provision about mandatory expansions has been the law in Canada for over 20 years. The National Energy Board is in the position to require pipelines to expand and generally,

do so on a rolled-in basis. He concluded that the public policy decision was made by the legislature last year; however, it is clear that potential initial shippers are opposed to this policy.

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MR. PORTER sought clarification from Commissioner Galvin regarding "when the producers had ever asked not to trust FERC." He first offered his understanding that FERC defined a subsidy as "if the cost is basically the initial shipping cost or less, there is no subsidy." TransCanada's expansion elements show that getting above the basic cost will not happen until transportation passes 6.5 bcf per day, which is a 2 bcf per day expansion over a "very optimistic" 4.5 [bcf per day pipeline]. He stated that that is a lot of gas to find, even though everyone is very optimistic about the reserves. Mr. Porter explained that the oil pipeline is half full, and if half full, it provides incentive for the explorers to explore for [oil]. In fact, the report that said there is 137 trillion cubic feet of yet to find gas also reported 28 billion barrels of yet to find oil; on an equal basis, the state should be building a second oil pipeline. He opined that this is a very optimistic report. Mr. Porter further advised that by the time [the pipeline company] gets to looping, the gas will be coming from Chukchi federal lands, where the state does not get any revenue or taxes; in fact, the state may be shipping their gas for free and may be on the wrong side of rolled-in rates. He concluded that the state is in a good position for rolled-in rates up to about 6.5 [bcf per day].

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MR. PORTER continued to explain that if a producer-owned pipeline and a third party-owned pipeline have similar construction costs there are three factors that result in the differential between the two: the return on equity, the cost of the debt, and the equity ratio. Looking at the return on equity, TransCanada proposed a 14 percent return with a floating rate. He noted that FERC has never approved a floating rate, although it has approved rates in the 14 percent range. In Canada though, the 14 percent rate is fairly high and probably a rate of return that TransCanada won't get. Looking at the cost of debt between the two [pipelines], TransCanada hopefully will have shippers, but if it has to go to the market on its own balance sheet, its cost of debt will be higher by several basis points than that of the producer's pipeline.

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MR. PORTER, on the debt equity ratio, opined that the Denali project is focused on a low tariff and TransCanada would like a reasonable tariff. TransCanada's proposed debt equity ratio is 70:30, 75:25, and 60:40. However, Mr. Massey said that [Exxon] is willing to discuss 80:20 [ratio] and the other producers are looking at the same. He suggested that the producers would be interested in an 80:20 ratio if it reduced the cost of the tariff, thus "they win both ways." Mr. Porter concluded:

The highest chance factor, just on a tariff straight up standpoint, is that the producer's tariff would probably be lower, could be lower, I should say ... based on the statistics, than the TransCanada proposal.

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The committee took an at-ease from 4:13 p.m. to 4:27 p.m.

[4:27:39 PM](#)

CHAIR HUGGINS called the meeting back to order at 4:27 p.m.

[4:28:53 PM](#)

MR. PALMER noted that Mr. Porter had prefaced his statement by saying "assume that both parties would have the same capital cost for the project." He recalled that Senator Hoffman had asked to compare TransCanada's capital cost performance to its competitor's performance in the North American interstate and interprovincial gas pipeline business. An internal study by TransCanada revealed that its capital costs for 43-48 inch pipeline projects, from 1990 through 2003, were 19 percent lower than its competitors in Canada and 38 percent lower than its competitors in the United States. Unfortunately, there is no data to compare cost performance with the Denali project sponsors on a similar project.

MR. PALMER further addressed the issue of TransCanada's rate of return on equity and compared its proposed return, multiplied by the equity ratio, relative to other projects and to TransCanada's mainline in Canada. He reiterated that there are other FERC pipelines, such as Rockies Express, that at 55 percent equity multiplied by 13 percent, results in a figure of

7 percent on a weighted average basis. TransCanada's proposal of 14 percent times 25 percent equals 3.50 percent. Furthermore, if one were to take TransCanada's return on its mainline today as approved by the National Energy Board, it has a 40 percent equity and an 8.71 percent allowed return. When multiplied out, the result is 3.48 percent, which is .02 percent lower than the proposal for this project.

MR. PALMER continued to address the statement that TransCanada's cost of debt would be higher [than the Denali project.] He opined that the cost of debt would depend on whether the Denali sponsors are going to provide funding and the financial "backstopping," or if Denali would rely on transportation contracts as the support for its financing. Currently, that information is not available; however, he cited the Mackenzie project where producers proposed a cost of debt of 6.5 percent based on a proxy for an "A" rated pipeline rather than their credit ratings. In addition, this project proposed a 70:30 ratio with a rate of return 221 basis points above the National Energy Board rate of return.

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COMMISSIONER GALVIN responded to Mr. Porter's request for information about trusting FERC. He explained that the administration feels that there is an advantage to going to the FERC with an applicant who is proposing terms acceptable to the state. On the other hand, other entities argue that ultimately FERC will decide and there is no advantage. However, the producers have expressed concern about going before FERC on the rolled-in rate issue. He observed that having an applicant go forward "has a likely impact on the outcome from FERC." Commissioner Galvin turned to the issue of the rate of return on equity, equity ratio, and cost of debt and said it is important to understand that the return on equity is what has been included in TransCanada's application. This issue will be negotiated and determined by FERC for the recourse rates; in fact, AGIA does not obligate the state to the rate in the application or preclude TransCanada from changing the rate in the course of negotiations.

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COMMISSIONER GALVIN, with regard to the description of what is the likely outcome of the Denali project's tariff issues, said that the bottom line is that no one knows. Therefore, one must instead look at the various pieces of information available,

such as TAPS tariff issues and motivation issues. The administration believes that the state has a better outcome if it has a hand in the terms proposed by the pipeline company, as opposed to simply relying on the negotiations between the producer/shippers and a producer pipeline. He remarked:

It is an uncertainty, and that's what AGIA is trying to accomplish, is to limit those uncertainties as it relates to the state's interest, the state's outcome. Producers are going to protect their interests. AGIA is intended to protect ours.

REPRESENTATIVE FAIRCLOUGH asked whether there will be increased value for the propane that would be stripped for the Alaska communities that will not have access to the pipeline.

MR. PALMER agreed that is generally the case, adding that there are occasions where the value of the liquids falls below the value of the natural gas methane, but normally propane would have a higher unit basis value than the natural gas.

REPRESENTATIVE FAIRCLOUGH asked whether the volume of the propane to be stripped in Alaska would affect the value of the gas moving to the Alberta Hub.

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MR. PALMER said that although no specific study has been conducted by TransCanada with regard to that issue, he has seen a study produced by the Alaska Natural Gas Development Authority (ANGDA) that illustrates the potential volumes would be small and would not have a significant impact on the total heating content of the gas moving to Alberta.

REPRESENTATIVE FAIRCLOUGH, referring to the treble damages in certain circumstances, asked whether Alaska could offtake propane to serve its smaller communities without reaching quantity restrictions.

MR. PALMER indicated yes.

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REPRESENTATIVE FAIRCLOUGH asked for clarification regarding "Nova" and "paid receipt tolls" and whether they are the same, whether they are "inside of the tariff or outside" and if so, whether they are an additional cost to shippers based on volume.

MR. PALMER said that Nova Corporation was a predecessor company to TransCanada and merged with TransCanada ten years ago. The numbers "receipt toll" is the number to get to the hub based on volume and has some relevance to mileage and zonal rates. He affirmed that the numbers are included in the application; in fact, the \$2.41 in the application includes the cost to get to the Alberta Hub which is the receipt toll for TransCanada's Alberta system.

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REPRESENTATIVE FAIRCLOUGH questioned whether in order to sell at the Alberta Hub, there is an additional fee outside of the tariff for exchanging at the Alberta Hub and moving the gas to market.

MR. PALMER said that there is no cost to trade at the hub. Further, there are "Nova inventory transfers {NIT)" so, once on the Alberta system and the receipt toll is paid, one can trade one's gas to other parties for free. If, however, one wants to deliver downstream of the hub and off of the Nova system, there is a delivery charge. He offered his understanding that the Legislative Budget and Audit Committee purchased a study that indicated that [the Alberta system] provides Alaska with the best net-back, and most liquidity, and the lowest capital cost risk.

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REPRESENTATIVE RAMRAS asked who will be the president of TCAlaska, and what the company's structure will be.

MR. PALMER explained that he is the President and Chief Executive Officer of TransCanada Alaska and Foothills Pipe Lines Ltd. TransCanada has not established the specific structure for operations after the license is granted; however, "we have a structure that we will go forward immediately on, but the permanent structure has not been established." He described some of the actions that have been taken.

REPRESENTATIVE RAMRAS asked whether Mr. Palmer would live here.

MR. PALMER said he has not made such a decision yet.

REPRESENTATIVE RAMRAS recalled his meeting with FERC officials where they discussed a pipeline project in Oregon that had three

pipelines and two LNG facilities permitted. He stated his interest in "first gas," and who could provide first gas to Fairbanks and Alaska. He asked who would be first to provide gas with the likelihood of a failed open season in 2010 for TransCanada and a successful open season for the Denali project in 2011.

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MR. PALMER said that rather than the hypothetical example, TransCanada is instead intending to invest \$100 million of its shareholders money with the expectation of its success in the open season. The target is to complete the project by 2018 with commitments to dates for an open season and FERC filing.

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MR. PORTER observed that usually there are a couple of years of summer field work to compile data for cost estimates. He asked if TransCanada has chosen to have an open season before the summer data is incorporated.

MR. PALMER said that TransCanada believes that it can compile the necessary field data through 2009 and is proposing to conclude, not initiate, the open season by July 2010; therefore the initiation of the open season would occur early in 2010, based on the information collected this summer and throughout 2009.

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COMMISSIONER GALVIN, on the question of first gas, opined that it is also important to consider the state's interest. The administration's contention is that having the license issued will result in gas "sooner" regardless of who may have the first final investment decision (FID) because the licensed project will be operating under established timeline commitments to the state rather than a project subject to delays.

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MR. VAN TUYL acknowledged that BP wants to get its gas to market, but that is weighed against a schedule-driven project that can result in massive cost overruns. He recalled that the Denali project has timed its open season within 36 months and initiated in 2010, scheduled the FID about 2013, and first gas around 2018. He opined that the key is having confidence in the

pipeline builder to deliver the offer made at open season and to deliver the project at a low capital cost and with a high netback, which is in BP's interest and in the best interest of the state.

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

ADJOURNMENT

There being no further business, the joint meeting of the House Rules Standing Committee and the Senate Special Committee on Energy was adjourned at 4:58 p.m.