

ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE SPECIAL COMMITTEE ON ENERGY
HOUSE RULES STANDING COMMITTEE
FAIRBANKS, AK
June 14, 2008
10:11 a.m.

MEMBERS PRESENT

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Charlie Huggins, Chair
Senator Lesil McGuire
Senator Donald Olson
Senator Joe Thomas
Senator Thomas Wagoner

HOUSE RULES COMMITTEE

Representative John Coghill, Chair
Representative Anna Fairclough
Representative Bob Roses
Representative Craig Johnson
Representative Ralph Samuels
Representative David Guttenberg
Representative Scott Kawasaki
Representative Beth Kerttula

MEMBERS ABSENT

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Bert Stedman, Vice Chair
Senator Kim Elton
Senator Lyda Green
Senator Lyman Hoffman
Senator Gary Stevens
Senator Bill Wielechowski
Senator Fred Dyson

HOUSE RULES COMMITTEE

Representative John Harris

OTHER LEGISLATORS PRESENT

Senator Gene Therriault
Senator Gary Wilken
Representative Mike Chenault
Representative Mike Doogan
Representative Les Gara
Representative Berta Gardner
Representative Reggie Joule
Representative Mike Kelly
Representative Mark Neuman
Representative Jay Ramras
Representative Woodie Salmon
Representative Peggy Wilson

COMMITTEE CALENDAR

SENATE BILL NO. 3001

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

HEARD AND HELD

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HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(S)	READ THE FIRST TIME - REFERRALS
06/03/08	(S)	ENR
06/03/08	(S)	REPORT ON FINDINGS AND DETERMINATION
06/04/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/04/08	(S)	Heard & Held
06/04/08	(S)	MINUTE(ENR)
06/05/08	(S)	ENR AT 9:00 AM TERRY MILLER GYM
06/05/08	(S)	Heard & Held
06/05/08	(S)	MINUTE(ENR)
06/06/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM

06/06/08 (S) Heard & Held
 06/06/08 (S) MINUTE(ENR)
 06/07/08 (S) ENR AT 10:00 AM TERRY MILLER GYM
 06/07/08 (S) Heard & Held
 06/07/08 (S) MINUTE(ENR)
 06/08/08 (S) ENR AT 1:00 PM TERRY MILLER GYM
 06/08/08 (S) Heard & Held
 06/08/08 (S) MINUTE(ENR)
 06/09/08 (S) ENR AT 10:00 AM TERRY MILLER GYM
 06/09/08 (S) Heard & Held
 06/09/08 (S) MINUTE(ENR)
 06/10/08 (S) ENR AT 10:00 AM TERRY MILLER GYM
 06/10/08 (S) Heard & Held
 06/10/08 (S) MINUTE(ENR)
 06/12/08 (S) ENR AT 10:00 AM FBX Carlson Center
 06/12/08 (S) Heard & Held
 06/12/08 (S) MINUTE(ENR)
 06/13/08 (S) ENR AT 10:00 AM FBX Carlson Center
 06/13/08 (S) 10am - 5pm - Testimony <Invitation
 Only>

BILL: HB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

06/03/08 (H) READ THE FIRST TIME - REFERRALS
 06/03/08 (H) RLS
 06/03/08 (H) WRITTEN FINDINGS & DETERMINATION
 06/04/08 (H) RLS AT 9:00 AM CAPITOL 120
 06/04/08 (H) Subcommittee Assigned
 06/05/08 (H) RLS AT 9:00 AM TERRY MILLER GYM
 06/05/08 (H) House Special Subcommittee on AGIA
 06/06/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
 06/06/08 (H) House Special Subcommittee on AGIA
 06/07/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
 06/07/08 (H) House Special Subcommittee on AGIA
 06/08/08 (H) RLS AT 1:00 PM TERRY MILLER GYM
 06/08/08 (H) House Special Subcommittee on AGIA
 06/09/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
 06/09/08 (H) House Special Subcommittee on AGIA
 06/10/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
 06/10/08 (H) House Special Subcommittee on AGIA
 06/12/08 (H) RLS AT 10:00 AM FBX CARLSON CENTER
 06/12/08 (H) House Special Subcommittee on AGIA
 06/13/08 (H) RLS AT 10:00 AM FBX CARLSON CENTER
 06/13/08 (H) House Special Subcommittee on AGIA

WITNESS REGISTER

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

POSITION STATEMENT: Presented a report and answered questions in support of SB3001/HB3001.

PAT GALVIN, Commissioner
Department of Revenue,
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding SB3001/HB3001.

FRANK SHELTON

Fairbanks, Alaska

POSITION STATEMENT: Testified about issues related to SB3001/HB3001.

BERT SHARP

Fairbanks, Alaska

POSITION STATEMENT: Testified about issues related to SB3001/HB3001.

DICK HANCOCK

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB3001/HB3001.

TAMMIE WILSON

North Pole, Alaska

POSITION STATEMENT: Testified about issues related to SB3001/HB3001.

MERRICK PEIRCE

Fairbanks, Alaska

POSITION STATEMENT: Testified against SB3001/HB3001.

WILLIAM SACKINGER

Fairbanks, Alaska

POSITION STATEMENT: Testified about issues related to SB3001/HB3001.

JERRY WALKER

Fairbanks, Alaska

POSITION STATEMENT: Testified against SB3001/HB3001.

JAY QUACKENBUSH

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB3001/HB3001.

PAM BRADLEY

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB3001/HB3001.

RICHARD "OD" ODSATHER

Alaska

POSITION STATEMENT: Testified about issues related to SB3001/HB3001.

JANET CURL

North Pole, Alaska

POSITION STATEMENT: Testified in support of SB3001/HB3001.

GLORIA DESROCHERS

Fairbanks, Alaska

POSITION STATEMENT: Testified about issues related to SB3001/HB3001.

RANDY GRIFFIN

Fairbanks, Alaska

POSITION STATEMENT: Testified against SB3001/HB3001.

LISA PEGER

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB3001/HB3001.

PAMELA SAMASH

Nenana, Alaska

POSITION STATEMENT: Testified about issues related to SB3001/HB3001.

BERT COTTLE, Mayor

Valdez, Alaska

POSITION STATEMENT: Testified about issues related to SB3001/HB3001.

HUGH FATE

Fairbanks, Alaska

POSITION STATEMENT: Testified about issues related to SB3001/HB3001.

SUE HULL

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB3001/HB3001.

ACTION NARRATIVE

SB3001-APPROVING AGIA LICENSE
HB3001-APPROVING AGIA LICENSE

[10:11:05 AM](#)

CHAIR CHARLIE HUGGINS called the Senate Special Committee on Energy meeting to order in Fairbanks, Alaska. Under consideration was SB3001/HB3001.

[10:12:43 AM](#)

TONY PALMER, TransCanada (TC) Vice-President of Alaska Business Development, Calgary, Alberta, said he wanted to talk about why TC was pursuing this project, who they were, and how they would proceed if granted the AGIA license. He spent 30 years in infrastructure development, and 23 years in the gas pipeline business in North America and internationally. He said TC developed the first three gas pipelines across the Andes in South America, and at the same time constructed 7,000 miles of pipe in North America. He was very proud of that record and pleased TC had the opportunity to gain that experience. He began working on this project in 1985, worked on international projects in the interim, and had been back on this project for the last seven years. He said he hoped to be able to answer any questions posed.

[10:15:19 AM](#)

MR. PALMER said TC pursued the project because of its strong economics. The company looked at factors such as the supply/demand balance in North America, expectations of gas prices, and the cost of the project. He said they also considered the state's commitment to advance the project. TC saw support from Alaskans, the legislature, and the administration which was very important to their decision to participate.

MR. PALMER said TC bid according to the responsibilities set out in the AGIA statute and the RFP and expected a vote by the legislature based on those items.

MR. PALMER said this project was a strategic fit for TC and if successful should advance the company's overall goals. He said there was spare capacity in the existing system from Western Canada to the Lower-48 market as a result of increasing demand for natural gas in Alberta. He said they expected sufficient spare capacity in ten years to move the Alaska volume away from Western Canada to the Lower-48.

MR. PALMER said he heard speculation that Alaskan gas would end up in Alberta's tanks. He clarified that today Western Canada exports about 9 bcf/day to the Lower-48 in addition to its own use. That volume was expected to decline to 6 to 7 bcf/day he said, so when Alaskan gas comes to market that would add to the volume available for export into the United States. He said Canada did not need Alaskan gas as their needs would be supplied by Western Canadian gas.

10:20:22 AM

MR. PALMER said TC had sole rights in Canada and an expedited regulatory process. He said it was highly unusual to move gas from one country, across another producing country, and back into the originating country, but Canada and the United States established a treaty to do so about 30 years ago and there was specific Canadian legislation for this project. When AGIA was enacted TC had a decision to make. They determined this was an appropriate investment and believed the corporation was fundamentally aligned with the state's objectives to promote basin development in the long and short term, to enhance employment for Alaskans, and to provide in-state gas for Alaskans.

MR. PALMER said TC had been involved in a great number of gas pipeline competitions. He said it was also important to foster competition between producers at the upstream end of the pipe. He said in TC's experience, competition in the producing area led to greater development on a long term basis.

MR. PALMER stated he believed TC's application was strong and competitive. He said the company estimated it would cost upwards of \$600 million dollars to get through FERC certification as required under AGIA. TransCanada shareholders made a decision to invest more than \$100 million dollars to take the risk that this project would move forward and be successful and was not made lightly. He said pipeline companies had a regulated rate of return and the potential return to the State of Alaska was much higher than TC's. He said the State would benefit directly from royalties and as a sovereign collector of taxes, but also from the development that will come from this project.

10:26:24 AM

MR. PALMER said TC had a very large U.S. presence and owned 12,000 miles of interstate natural gas pipeline, and had employees, assets, and offices in the United States. He said TC believed circumstances in Alaska were similar to the development in the Western Canadian states. TC started with three customers

in Western Canada and currently had 300. Other similarities included working farthest from the major markets and potential for high reserves in the basin.

MR. PALMER said TC had the engineering, financial, regulatory capacity, and experience to do the project. He said TC was not a producer but a transporter moving twenty percent of North American gas. He also said independent benchmarking studies indicated TC operating costs were 25-35 percent lower than competitors in Canada and the United States. Mr. Palmer said Senator Lyman asked if similar third-party statistics existed on capital costs. He said there were not, but he did ask TC's engineering and operations departments for information. For the period 1993-2003, large diameter (42-48 inch) pipe construction capital costs in Canada were 19 percent lower than competitors and 38 percent lower than FERC competitors.

[10:33:05 AM](#)

REPRESENTATIVE GARDNER asked how close to estimate TC was when costs came in.

MR. PALMER said through the 1990's TC built 7,000 miles of pipe, came in on schedule, and were within 0.6 percent of budget in totality. He said every project was not on budget and on schedule but over the course of that decade TC had a remarkable record.

CHAIR HUGGINS asked if Keystone was a part of that data.

MR. PALMER said TC just started a new construction project two weeks ago to build a \$5 billion dollar oil pipeline from Alberta to the St. Louis area and Cushing, Oklahoma. He said it would be another year or two before he could describe what the completion record would be for that project.

[10:35:33 AM](#)

MR. PALMER said other skills required to construct a project besides engineering and operations included understanding the regulatory situation in Canada and the United States, environmental issues, community needs, First Nation rights, and available customers.

MR. PALMER said TC had the financial capacity to complete the project. TC had access to the capital markets and a very large internal cash flow, and the capacity to raise money he said. Other positive factors included the U.S. government loan

guarantee and Goldman Sachs independent review indicating TC could do the project from a financial standpoint.

[10:37:24 AM](#)

SENATOR MCGUIRE asked if Mr. Palmer had conversations with members of Congress about accessing the loan guarantee and for an update on the resolution regarding First Nation issues.

MR. PALMER replied he had not discussed the loan guarantee with congressional members. TC did have initial discussions with staff members and Department of Energy (DOE) staff to let them know TC would pursue the loan guarantee if granted the license.

SENATOR MCGUIRE restated the second question [indiscernible].

CHAIR HUGGINS said the question had to do with First Nation right-of-way issues.

MR. PALMER said the proposed route through Canada was about one thousand miles from the Alaska/Yukon border to Alberta and traveled through a number of First Nation territories. He said TC had some significant advantages concerning right-of-way. In 1983, TC received a right-of-way through the Yukon which was an asset critical to advancing the project. Ten years later, an umbrella agreement was finalized between the Canadian government, the Yukon government, and the council of Yukon Indians that recognized TC's right-of-way and excluded TC from any future land claim settlements. He said since the agreement was made, six of the eight First Nations along the right-of-way had settled land claims and in each case TC's right-of-way was protected. He added there was no final right-of-way through BC into Alberta, but there was a formal process to establish a right-of-way which TC would follow if granted the license.

CHAIR HUGGINS asked the amount of TC's annual right-of-way payment.

MR. PALMER answered the payment was about \$200,000.

[10:45:19 AM](#)

REPRESENTATIVE GARA asked if TC qualified for the federal loan guarantee.

MR. PALMER answered he believed they qualified and the loan was applicable to both the Alaskan and Canadian portions of the line. He did not believe the nationality of the proponent was a contingency of the legislation.

REPRESENTATIVE GARA asked if TC's ability to go ahead with the project was impaired if the loan guarantee was not available to use for cost overruns.

MR. PALMER answered no it was not. He said TC intended to allocate a portion of the loan guarantee to cover capital cost overruns which was an innovative and creative way to manage completion risks. He said if the U.S. government did not accept that idea the loan guarantee would be applied to the base loan.

[10:47:31 AM](#)

REPRESENTATIVE GARDNER asked Mr. Palmer to describe TC's relationship with Embridge, a company proposing work on the Denali project.

MR. PALMER said he could not speak for one of his competitors and they had not approached TC as a potential shipper. He was not aware of any involvement on their part in the Denali project.

REPRESENTATIVE GARDNER asked if Embridge had any potential claim to TC's right-of-way.

MR. PALMER answered no.

[10:49:03 AM](#)

REPRESENTATIVE FAIRCLOUGH said she was concerned the Canadian government was prioritizing the McKenzie project to go before the Alaska project and wondered how that might affect the timeline.

MR. PALMER said he did not believe the Canadian government would hold back this project to advance the McKenzie project. He said the government agreed to a treaty to expedite the Alaska project. He did expect the government to do all they could to advance their own gas project, but did not think that conflicted with the Alaska project. He said the McKenzie project appeared to have a two to four year head start and complications could occur if that lead was maintained. He had not heard anything from the Canadian government about holding back the Alaska project and they would not be in a position to do so if they were going to honor the treaty.

REPRESENTATIVE FAIRCLOUGH said she hoped the administration was following the Canadian situation closely. She believed it would be natural for Canada to push their project forward first.

COMMISSIONER PAT GALVIN, Department of Revenue, Juneau, said the administration had consulted with two different sets of Canadian council on the issue. He said there was a report within the findings about the Canadian regulatory issues and the relationship between the McKenzie and Alaska projects.

10:51:59 AM

REPRESENTATIVE FAIRCLOUGH asked if Canada would try to get Alaska to pay maintenance dollars for the Alaska Highway through Canada and if there was a possibility to fold those costs into the TC tariff.

10:53:04 AM

MR. PALMER said he could not speak for the Yukon or Canadian governments on that issue. He said if TC would be required to include costs of a transportation upgrade in the tariff, it would impact every customer on the pipeline and decrease royalties and revenues to the State of Alaska and producers. He said highway upgrades on a massive scale were not something a pipeline company traditionally bore.

REPRESENTATIVE FAIRCLOUGH said she concurred. She said she wanted everyone to recognize the potential harm to exploration in the basin if tariffs were raised and to make sure the administration was following the issue.

CHAIR HUGGINS said Representative Fairclough brought up a very important issue and it was important to examine the resolutions under consideration.

10:56:06 AM

COMMISSIONER GALVIN acknowledged this was the tip of the iceberg concerning infrastructure and cross-border issues and recommended that members review the report. He said the administration concluded these issues were manageable.

10:57:01 AM

REPRESENTATIVE NEUMAN asked Mr. Palmer to provide more information on the Canadian statute regarding the McKenzie and Alaska pipelines and which one goes first. He also said he would like to see as many Alaskans and Alaskan companies working on the line as possible. He asked how TC planned to keep overhead costs down and what they would do to insure Alaskans had an opportunity for jobs.

MR. PALMER said the treaty between Canada and the United States was available on the internet, but he would try to provide a copy next week during the Anchorage meeting.

MR. PALMER added TC's commitment to maximize business and employment opportunities for Alaskans under AGIA would be reflected in the contract. He said in any geographic location it made sense for large engineering procurement construction management firms to sub-contract work out locally to the maximum extent possible. As for any party, local businesses would have to meet TC standards for safety, quality control, and be competitive in terms of prices. He said a pre-registration process for contractors would be available later on the TC website if the license was granted, and anyone who would like to understand how that process worked was welcome to go to the website and click on the Keystone project. He added there was generally a cost savings by using local contractors for sub work. He said TC had a quality record of balancing the issues of local opportunity and employment and balancing costs.

REPRESENTATIVE NEUMAN asked if a standard construction contract was available for Alaskan companies to review.

MR. PALMER said he did not know, but would find an answer.

[11:03:38 AM](#)

REPRESENTATIVE NEUMAN asked for a side by side comparison of the AGIA and Stranded Gas proposals submitted by TC.

MR. PALMER said the Stranded Gas Development Act application was submitted confidentially under the rules established by the previous administration. He said TC had provided current members of the body full access to that information but did not intend to publish it publicly.

CHAIR HUGGINS reminded the body a confidentiality process was in place for members to get access to the document.

[11:04:40 AM](#)

SENATOR WAGONER asked if a schedule was in place for the two First Nations groups with unsettled lands claims.

MR. PALMER said he was not aware of a schedule or if they were in active negotiations.

[11:05:58 AM](#)

REPRESENTATIVE ROSES said he had some concerns with the McKenzie versus Alaska pipeline and which one got completed first. A news article he read quoted a former TC employee stating how important it was for the McKenzie line to be completed first because of TC's ability to handle the volume of gas coming out of the McKenzie and Alaska lines. He said the fear was if the Alaska line were finished first it would totally shut down the opportunity for the McKenzie line to be developed. The article also said if both pipelines were being built at the same time it would drain the supply as well as the work force and therefore drive up the costs of both projects. He was also concerned tariffs would be higher if the McKenzie line went first because growth of the line would be necessary raising expansion rates.

11:08:22 AM

MR. PALMER said the former employee quoted in the article was now president of the Aboriginal Pipeline Group, one of the sponsors of the McKenzie project, so he could see why he would want it to go forward as quickly as possible. He also said TC had more than \$130 million dollars supporting the project so they were highly motivated to see it completed. He did not believe the McKenzie project moving forward would preclude advancement of the Alaska project. He added he did not think one project would force the other out of the market. He then said construction capacity to build both of the projects simultaneously was likely, but uncertain, and could increase the costs of both projects. He thought the Canadian government and the McKenzie project proponents were aware they needed to move things along or face potential procurement and construction conflicts. He added the data he provided assumed McKenzie gas would be flowing prior to Alaskan gas and sufficient capacity existed to move Alaskan gas. He said if the McKenzie project happened after the Alaska project there would be even more spare capacity.

REPRESENTATIVE ROSES asked if that capacity included the need to expand the pipeline.

MR. PALMER said no, based on their best estimates of supply and demand in western Canada.

11:12:29 AM

SENATOR THERRIAULT asked about the possible benefits to the citizens in the Yukon from Alaskan gas getting to market.

MR. PALMER said he had not heard any opposition from the government, citizens, communities, or First Nations groups in

the Yukon. He thought there was very strong support for the project. He said benefits could include construction opportunities, employment, property tax collections, and income tax collection. Also, remote communities along the right-of-way would have access to the gas and possible producer opportunities with easy access to the line.

11:15:40 AM

SENATOR McGUIRE thought it would be helpful to meet with representatives from the Yukon and Canadian governments to discuss some of the issues that repeatedly surface, particularly around the McKenzie project.

MR. PALMER said TC would be willing to participate in that discussion but could not speak for the government.

SENATOR McGUIRE asked if someone who deals with work force development issues could be made available to answer questions.

MR. PALMER said yes, he would be happy to bring someone in if there was going to be an extensive line of questioning.

CHAIR HUGGINS said scheduling would be coordinated with the administration. He then reminded members that "regulatory day" was scheduled for Anchorage and the NEB would not be present as requested.

11:18:49 AM

REPRESENTATIVE GARDNER said she was interested in learning how TC would promote and support the effort to use Alaskan sub-contractors. She thought Alaskans were interested in insuring policies would be in place to promote the use of Alaskan contracting firms.

MR. PALMER said TC would be bound by some AGIA requirements and it was TC policy to use local sub-contractors when possible. He said that was their practice in any geographic location and they intended to follow that procedure in Alaska.

11:20:16 AM

REPRESENTATIVE KELLY asked if the Denali project participants were facing the same issues as TC.

MR. PALMER answered yes, any project that proposed to follow the same route through Canada would face the same issues. He added that all information about how TC intended to deal with those issues was before the body and available to the public. He also

said he believed TC had some advantages over other parties as he had stated previously.

[11:23:45 AM](#)

REPRESENTATIVE RAMRAS asked what kind of corporate citizen and what their donation practices to charitable organizations would be.

MR. PALMER said TC had a corporate policy on donations which would be applied to Alaska, the same as it was across North America. He added TC would be an active and straightforward participant in the community if granted the license.

[11:25:39 AM](#)

SENATOR THOMAS said he believed this project was smaller and more manageable than the oil pipeline construction. He said people should not assume this was the same type of project because construction needs were vastly different.

[11:27:37 AM](#)

REPRESENTATIVE COGHILL said Mr. Palmer's presentation would probably take longer than the time left before the scheduled break. He asked Mr. Palmer to review highlights of his report titled, "TransCanada's AGIA Application, Statewide Legislative Hearings (June/July 2008)" and advised members of the public copies were available.

MR. PALMER said he would be happy to forego lunch to answer questions if the committee wished.

CHAIR COGHILL reiterated public testimony would begin at 1:00pm.

MR. PALMER continued with his report. He said TC evaluations indicated a bigger project had more value and investment returns would be better initially to the state and TC for a project through Canada. He realized however, that some believed otherwise so during the initial open season potential customers would have the opportunity to nominate gas along the route in Alaska. He said if customers believed LNG was the best option and they nominated Valdez for example, if sufficient volume existed and all the terms and conditions were met, then TC would build a pipeline to Valdez. He reiterated customers that wished to nominate Valdez, Alberta, Fairbanks, or Tok would have the opportunity to do so in the initial open season.

MR. PALMER said TC had a 50-year successful track record in Western Canada. He said they started with three customers there and now have over three hundred.

[11:31:02 AM](#)

MR. PALMER explained the FERC rules for expansion of an Alaska pipeline. He said if a pipeline company does not propose an expansion voluntarily, it could be required through the FERC. He said AGIA required pipeline sponsors to voluntarily propose an expansion in engineering increments and also required rolled in tolls up to 115 percent of the initial toll. If other parties wished to build an alternative pipeline, the specific language said:

"...if an expansion is mandated pursuant to section 105 of ANGPA (federal Alaska Natural Gas Pipeline Act), it authorizes FERC to order an expansion of an Alaskan pipe under certain criteria. If they do so, FERC can establish rates on an incremental or rolled in basis, but FERC must ensure that the rates do not require existing shippers to subsidize, underline the word 'subsidize,' expansion."

MR. PALMER said some parties had taken positions that "subsidize" meant any increase. He thought it was important to understand the distinction between incremental and rolled in tolls in the basin, because once the supply is higher than 5.9 bcf/day it will mean significantly lower tolls for expansion customers than under incremental. He said AGIA specifically required TC to voluntarily propose expansion and did not know whether a competitor without a license would do so.

[11:35:21 AM](#)

MR. PALMER continued, explaining pages 4 and 5 from the document. He said the pipeline from Alberta to Winnipeg, which was longer than the Alaska pipeline project, was put in service 50 years ago and was now being converted to oil service. He said page 6 showed pipeline development in Alberta over the last 50 years and added it was the type of development TC hoped to achieve in Alaska. He said there were 1,100 points to get on and off the system and employment opportunities on a long term basis would come from drilling and expansion.

MR. PALMER said there were two pieces to the Alaska project, the in-state portion of the line and the line away from Alaska to the market. As a comparison he referred to page 6 of the report which showed six parallel pipes leaving Alberta.

MR. PALMER said pages 7 and 8 of the document listed the "must haves" required by AGIA. He said TC had met them all and was gratified that the administration had recommended them. He said TC bid to win and had expected competition.

[11:39:04 AM](#)

MR. PALMER pointed out some valuable points TC offered to the state (page 10) and added TC proposed a higher debt ratio than AGIA required after service begins; they will provide an opportunity for producers to become equity partners in the initial open season; and they will take a reduction in their rate of return if capital costs overrun. He said an opportunity also existed to reduce the cost for all western Canadian producers by Alaskan gas going into the Alberta system and TC proposed to share that "up-side" with Alaskans in the first ten years. He also noted one-third of the existing system was in place.

[11:40:54 AM](#)

MR. PALMER said the norm in Canada was to have rolled in tolls and the expansion he had shown would not have occurred if rolled in tolls would have priced them out of the market. He said rolled in tolls had benefited both initial shippers and expansion shippers.

MR. PALMER said he heard comments that TC would benefit by cost overruns. In response, he said if the project had a 40 percent capital cost overrun TC would only have a 7 percent return and shareholders were not attracted to that kind of return.

MR. PALMER displayed an updated schedule from page 14 of the document. He said when TC prepared its application in November they did not know when a license would be granted. He said it appeared it may be by the first of August so 10 months had been lost on the original schedule. He said if a license was granted by August 1 an open season would be held 24 months later. He added TC looked to be in service about 10 years from now assuming all the necessary approvals were obtained.

[11:43:40 AM](#)

CHAIR HUGGINS asked if the 60/40 debt equity for expansion was what TC was requesting or if they saw it as binding (page 13).

MR. PALMER said TC believed that complied with the RFA as stipulated and what TC would be granted for expansion. He added that TC made a proposal that exceeded the AGIA requirements for

the initial project to have more debt than required. He said the loan guarantee facilitated having that level of debt and without it the project was not financeable, in his opinion. He thought a more traditional debt/equity structure was very fair for expansion.

CHAIR HUGGINS said he wanted to understand what was binding and what was not and asked Commissioner Galvin to respond.

[11:45:24 AM](#)

COMMISSIONER GALVIN said the state was bound to provide a \$500-million dollar matching contribution and a coordinator position.

CHAIR HUGGINS asked only for clarification of the 60/40 debt ratio question.

COMMISSIONER GALVIN said the state was not bound to defend the TC proposal before FERC. However, he did recognize the partnership inherent in the arrangement.

[11:46:36 AM](#)

REPRESENTATIVE SAMUELS clarified the FERC would decide what the split would be. He pointed out Alaskan royalty gas would be worth less with a higher equity position and higher tariff, and would be the same no matter who built the pipeline. He said the state would be on the opposite side of TC on a 60/40 split because a lower tariff would be more desirable.

COMMISSIONER GALVIN said he could not say what the state's position would be in the future. He said this administration believed the offer presented in the application was a reasonable commercial opening offer.

[11:49:23 AM](#)

MR. PALMER said in the future the state would take a position as it saw fit.

REPRESENTATIVE SAMUELS said all parties would argue in their best economic interest, but ultimately the FERC would decide.

COMMISSIONER GALVIN agreed and said it was to the state's advantage to have the pipeline company go to FERC with an obligation to the state.

MR. PALMER said AGIA had limited his bargaining power somewhat. He said TC voluntarily agreed for expansion and a 60/40 split.

REPRESENTATIVE SAMUELS said he understood, but the assumption had been that the state would get an enhanced expansion pipeline in return for \$500 million dollars. He said the fact was FERC would decide and that depended on who those five commissioners would be, appointed by a president 20 years in the future.

[11:52:13 AM](#)

MR. PALMER added it would make a difference what TC proposed, what their history was, and their economic interests. He said TC's interests were highly aligned with the state's. He conceded that FERC would decide, but under rules that were in the legislation.

MR. PALMER continued with his presentation reiterating optional partnership opportunities during the initial open season.

MR. PALMER said the state would decide upstream fiscal taxes for future or current leaseholders and would not be involved in that issue.

MR. PALMER addressed the issue of LNG development. He said it was the business of customers of the pipeline if they wished to extract liquids in Alaska. He said TC would move the gas downstream assuming it met a certain minimum heat content. He added the system in Alberta was straddled by three very large LNG complexes owned by third parties and he thought they would compete vigorously for the business.

MR. PALMER said AGIA promoted basin development, which was important for Alaska's long term interests. He said other interests included open season every two years, a requirement to expand an engineering increment, and in-state deliveries with a distant sensitive toll. He added that TC was committed to five delivery points and if there were fiscal incentives granted by the state for volume higher than 500 Mmcf/day, it would be targeted to the pipeline.

MR. PALMER moved to page 21 of his report, which explored the value of potential expansions and revenues producers and the government might share.

[11:57:37 AM](#)

MR. PALMER explained page 22 of his report referring to basin development. He noted additional employment came from expansion and development not from operating the pipeline. He said there were 180 gas wells in Western Canada before their pipeline was completed. Over the last five years, between 13,000 and 16,000 gas wells had been completed per year. He reiterated that long

term value to the state will come from expansion and development. He added that 50 years ago proven reserves in Western Canada were 15 bcf, and 10 years after service they had almost quadrupled to 55 bcf. He believed the basin was very prolific and had the opportunity to develop in the long term.

MR. PALMER then explained the graphs representing tolling on pages 23 and 24 of the report.

[12:00:28 PM](#)

REPRESENTATIVE RAMRAS said there were five take-off points but the only gasified area of the state was in Southcentral. He asked Mr. Palmer to explain TC's philosophy regarding the other four take-off points to those communities that will nominate gas incrementally as the gasification of those regions take place.

MR. PALMER said he asked his engineers about Fairbanks, for example, as a take-off point. He asked them if TC would be in a position to serve that market without expanding the pipe if Fairbanks use gradually grew to 100 Mmcf/day. He said the answer he received was yes, it would just be a matter of how the pipe was operated. He said that was in response to the specific geography from Prudhoe Bay to Fairbanks and he was not suggesting it could be done down to Valdez.

MR. PALMER concluded his report by saying AGIA was established as an open and competitive process to advance the gas pipeline project and TC had participated in the process in good faith. He said AGIA was structured to encourage construction of the base project, long term basin development, and open access terms for initial and future shippers both in-state and in the Lower-48, and to LNG markets. He thought TC had proven their credentials and capacity to build, own, operate, and expand the project and their objectives were fundamentally aligned with AGIA and the state. Finally, he expressed his thanks for the opportunity to participate.

[12:04:37 PM](#)

CHAIR HUGGINS, on behalf of the Legislature, thanked all the legislative staff for their support. He reminded the public that testimony would begin at 1:00p.m. and be limited to three minutes.

[12:05:53 PM](#)

CHAIR HUGGINS called an at ease until 1:00p.m.

[1:08:18 PM](#)

CHAIR HUGGINS called the meeting back to order.

[1:08:55 PM](#)

FRANK SHELTON, Fairbanks, said he was not in favor of running a gas line through Canada. He said the Canadians would take care of their own interests and Alaskans should do the same. He was not convinced that Alaska would still have control of the gas once it crossed into the Yukon. He added that the state should control its own resources and use them to the benefit of all Alaskans as the constitution required. He said everyone should be thinking beyond the next 40 years so future generations benefit from the project.

MR. SHELTON thought a "medium size" gas line should be built with spur lines to different points in the state. He also said there could be four LNG shipping points out of the state. He urged the legislature to "look out for what's right for all Alaskans first and what's going to bring the best returns to the state over the long haul."

[1:14:32 PM](#)

BERT SHARP, Fairbanks, said the primary goal should be to make LNG available to all Alaskans. He said off-take concerns could be eliminated with the big line by building a small diameter line from the North Slope and distributing gas all the way down to the Kenai Peninsula. Manipulation of the tariff could be done fairly easily by owners of the pipeline and he urged the legislature to think about benefiting the people first and then benefiting the treasury.

[1:18:10 PM](#)

MR. SHARP said the big gas line would not get built until economics were right and the producers were on board. He urged the legislature to keep control of the state's royalty gas.

MR. SHARP added that the Healy Clean Coal Project, which is "sitting there in a stalemate" could be completed and brought on line to supply power needs for pipeline construction. He urged resolution for that project.

[1:21:07 PM](#)

DICK HANCOCK, Fairbanks, said he thought a license should be granted because there had been enough delays. He did not think producers should build the line because it would result in higher tariffs. He thought TC had responded to the AGIA requirements and if they were turned down it would look like Alaska was a very strange place to do business.

[1:23:34 PM](#)

TAMMIE WILSON, North Pole, said she was looking to the legislature to protect state interests and to make sure jobs and training were available for Alaskans. She thought the state was being given a "second chance to do it right" with this project. She did not want to see Alaskan gas shipped out of state and then coming back at four times the price. She said the energy crisis needed to be addressed now, as well as providing for ten years from now.

[1:26:31 PM](#)

MERRICK PEIRCE, Fairbanks, served on the Port Authority Board, but was speaking for himself. He said he opposed approval of the license because once the deal was signed the legislature would be completely out of the loop and all decisions would be made by the administration and TC. He added the state should know exactly where the five off-take points were going to be. Another problem with the project was it would not provide gas to the Interior until 2020.

MR. PEIRCE said a probable \$9 billion state surplus created a different set of circumstances and suggested using the surplus to build a 48-inch gas pipeline to Delta Junction. With some debt equity and the surplus a pipeline could be built to Valdez, he added. He said the state could build a pipeline quicker and wanted the state to control the route, take-off points, and timing of the project.

[1:30:52 PM](#)

MR. PEIRCE speculated gas could bring \$5 trillion dollars to the state if it went to Japan instead of the Lower-48. He also cited the Alaska Permanent Fund and the Bradley Lake Hydro Project as examples of successful state owned projects that could be models for an Alaskan owned and operated pipeline.

[1:33:49 PM](#)

WILLIAM SACKINGER, Fairbanks, said he was a retired electrical engineering and geophysics instructor at University of Alaska, Fairbanks, and also a researcher about problems related to the Alaskan oil industry. He said the world needed energy, which was more strongly than ever tied to the advancement of civilization. Alaska, he said, needed to fulfill its responsibilities to the human race by providing the energy it had to the world.

MR. SACKINGER said he knew of three proposals that "all seemed pretty good" and thought all three together might be the way to

proceed. He was strongly in favor of any proposal that provided for Alaskan use.

[1:41:13 PM](#)

MR. SACKINGER said all three proposals could be served by a 48-inch line from Prudhoe Bay to Delta Junction. He was also concerned about the depletion rate at Prudhoe and whether TC could have a gas line operating in time. He wanted the TC line to be completed faster. He also suggested a limit on equity that TC would offer to the producers.

[1:45:20 PM](#)

MR. SACKINGER ended by recommending that a state-owned corporation make an equity investment in the ENSTAR project in order to provide an opportunity for future expansion and in-state use. Additionally, he wanted to see the Susitna hydro project proceed as soon as possible.

[1:46:22 PM](#)

REPRESENTATIVE KELLY said TC had expressed a strong interest in the benefit of a large line to Delta. He said the state had the resources now to partner in that effort.

[1:48:03 PM](#)

REPRESENTATIVE RAMRAS asked Mr. Sackinger if he thought the state was allocating enough resources towards the in-state gas issue.

MR. SACKINGER replied he didn't know how to answer that but a lot of things were possible now that were previously thought unworkable.

[1:51:26 PM](#)

JERRY WALKER, Fairbanks, said he was against granting a license to TC. He believed AGIA hindered the free enterprise system and he supported an environment where the market could work efficiently.

[1:55:15 PM](#)

JAY QUACKENBUSH, Fairbanks, said he was in favor of granting the license and viewed it as an investment in Alaska's infrastructure and future. He thought AGIA was strong and set standards and guidelines that protected Alaska's needs. He felt TC's proposal met the requirements and should move forward.

[1:59:22 PM](#)

REPRESENTATIVE RAMRAS asked Mr. Quackenbush for his thoughts about the Denali proposal which offered similar opportunities, training, and jobs but without the government subsidy.

MR. QUACKENBUSH replied he had not studied the Denali proposal. He believed the \$500 million dollars was an investment for Alaskans.

[2:00:52 PM](#)

PAM BRADLEY, from Fairbanks, urged approval of the TC proposal. She would like to have seen an owner equity proposal, but did not trust any business entities to serve the citizen's best interest any more than TC.

[2:02:56 PM](#)

RICHARD "OD" ODSATHER, Fairbanks, whose specialty was Arctic engineering, said he supported the AGIA concept with some conditions. He requested gas capacity be made available in the pipeline for in-state use and urged the administration and legislature to take a more active role supporting gas distribution and sufficient off-takes in Alaska. Further, he suggested the state must champion gas exploration and the injection of speculative gas into the future pipeline. He also believed .5 bcf/day was too low for Alaskan use ten years from now.

[2:05:39 PM](#)

MR. ODSATHER said pipeline construction and operation was extremely complex. He was in favor of petrochemical plants in Alaska and exporting products such as methane. He would like to see a "win/win solution" for the life of the project with employment and training opportunities and maximum amounts of money staying in the Alaskan economy.

[2:09:55 PM](#)

MR. ODSATHER said he hoped the legislature's efforts would bring focused growth and prosperity across Alaska in general, but more to the rural communities where it was so desperately needed. He also urged finding a way to accelerate transfer of remaining federal lands selected under the Statehood Act.

[2:12:26 PM](#)

REPRESENTATIVE RAMRAS said the decision the legislature faced was an "up or down vote without modifications or amendments." He asked if Mr. Odsather supported AGIA given all the changes he wanted to see made.

MR. ODSATHER clarified that AGIA said there would be off-takes and he wanted those off-takes to make gas available to Alaskans. He reiterated that he did not think the .5 bcf/day was adequate.

[2:14:23 PM](#)

REPRESENTATIVE KERTTULA thanked Mr. Odsather for his years of service and asked if there were any lessons from TAPS he wanted them to remember.

MR. ODSATHER suggested creating a synopsis which would be helpful financially, and from a construction, quality control, and assurance standpoint. He said contracts should be drawn concisely showing a clear benefit to Alaskans. He further suggested developing an office at the cabinet level, staffed with people with institutional and inside political knowledge of oil companies.

[2:18:01 PM](#)

CHAIR HUGGINS said Mr. Odsather's observation that the .5 bcf/day for Alaskan use pointed up AGIA potentially limits the state's prerogative concerning volume.

[2:18:44 PM](#)

JANET CURL, North Pole, said TC was an extremely well managed, ethical company and supported granting them the license. She also thought Alaskans should have first access to any gas that comes off the line.

[2:20:56 PM](#)

CHAIR HUGGINS called a brief recess at 2:20-2:35p.m.

[2:35:39 PM](#)

CHAIR HUGGINS called the meeting back to order.

[2:36:19 PM](#)

GLORIA DESROCHERS, from Fairbanks, said she agreed with comments made by Tammie Wilson and Lisa Peger.

[2:37:23 PM](#)

RANDY GRIFFIN, Fairbanks, said he worked on TAPS as a laborer. He said he was opposed to granting TC a license because the Denali project was already on its way and was "in perfect alignment" with the aims of the leaseholders. He believed the oil companies were highly motivated to build the line, and anxious to monetize the tremendous gas resources available. He thought the producers were most motivated to keep costs down.

[2:43:03 PM](#)

MR. GRIFFIN said his number-one priority was to get the gas line built. He did want the best deal for the state, but was also in favor of bargaining.

[2:47:07 PM](#)

LISA PEGER, Fairbanks, said she supported the proposal, and said that it should not be compared to anything except the line through Canada. She also rejected the notion that gas should not be sold to Canada because Canada supplies the U.S. She urged passage of AGIA so Alaska got a competitive playing field. She also said options for low cost energy should be at the top of the list of projects to be done. She opposed keeping "the gas buried in the dirt" when Alaskans were spending billions of dollars on high power costs. She was also in favor of building a LNG facility, dredging good shipping lanes at tidewater, and establishing an oil and gas reserve tax.

[2:51:54 PM](#)

MS. PEGER said the next priority should be new low cost energy bills and a relief program.

[2:53:08 PM](#)

PAMELA SAMASH, Nenana, recommended listening to the elders and to the concerns of local communities about energy costs. She said they were in need of help.

[2:57:41 PM](#)

BERT COTTLE, Mayor of Valdez and Chairman of the Alaska Gasline Port Authority, Valdez, said Alaskans need Alaska's gas and affordable energy. He supported any gas line route that would get gas to Alaskans first.

[3:02:06 PM](#)

MAYOR COTTLE said Alaska could not wait ten more years for another company to come in. He said the studies should end and a bullet line should be built to Glennallen.

[3:06:55 PM](#)

REPRESENTATIVE RAMRAS asked Mayor Cottle if he thought the administration was addressing the urgent need of in-state gas and energy along the rail belt, in Valdez, or Fairbanks.

[3:08:14 PM](#)

MAYOR COTTLE said he could not speak on behalf of the governor, but he believed she had gotten closer than any other. He reiterated that Alaskans needed gas now whether it was achieved

through AGIA or another process. He preferred the state take ownership of the pipeline.

[3:10:30 PM](#)

Ms. Desrochers added that Frank DeLong had a lot of wisdom to offer.

[3:11:32 PM](#)

HUGH FATE, from Fairbanks, thought the legislature's job was difficult because all three lines were economic. The question was which one offered the maximum benefit to the people of the state.

[3:14:25 PM](#)

MR. FATE said in the past Pt. Thompson was thought to be an integral part of determining the success, economics, and risks of a pipeline. He was concerned that circumventing Pt. Thompson and proceeding based on future development and discovery of gas increased the risk. He hoped the administration and legislature could solve the Pt. Thompson problem. He added that any delay escalated the cost of the pipeline costing Alaskans billions of dollars.

[3:16:48 PM](#)

SUE HULL, from Fairbanks, was in favor of granting a license. She thought deciding against it called into question the state's integrity to negotiate. She had confidence in TC and thought they had the expertise and skill to build the line, but she was glad there were other proposals to help get the gas to market. She also felt it was incumbent on the administration to specify how local hire was defined.

[3:20:18 PM](#)

CHAIR HUGGINS said there were no more requests for testimony. He thanked the community for participating in the process and urged further input. [SB 3001 and HB 3001 were held in committee.]

[3:23:18 PM](#)

CHAIR HUGGINS adjourned the meeting.