

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

Anchorage, Alaska

June 19, 2008

9:03 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)

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Charlie Huggins, Chair  
Senator Bert Stedman, Vice Chair  
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)  
Representative David Guttenberg

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Kim Elton  
Senator Lyda Green  
Senator Lyman Hoffman

**OTHER LEGISLATORS PRESENT**

Representative Bob Buch  
Representative Harry Crawford

Representative Nancy Dahlstrom  
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 Wes Keller  
Representative Bob Lynn  
Representative Kevin Meyer  
Representative Kurt Olson  
Representative Jay Ramras  
Representative Bob Roses  
Representative Bill Stoltze  
Representative Bill Thomas

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

#### **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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#### **PREVIOUS COMMITTEE ACTION**

BILL: HB 3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(H)	READ THE FIRST TIME - REFERRALS
06/03/08	(H)	RLS
06/03/08	(H)	WRITTEN FINDINGS & DETERMINATION
06/04/08	(H)	RLS AT 9:00 AM CAPITOL 120
06/04/08	(H)	Heard & Held; Assigned to Subcommittee
06/04/08	(H)	MINUTE(RLS)
06/04/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/04/08	(H)	Heard & Held
06/04/08	(H)	MINUTE(RLS)
06/05/08	(H)	RLS AT 9:00 AM TERRY MILLER GYM
06/05/08	(H)	Heard & Held
06/05/08	(H)	MINUTE(RLS)
06/06/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/06/08	(H)	Heard & Held
06/06/08	(H)	MINUTE(RLS)
06/07/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/07/08	(H)	Heard & Held
06/07/08	(H)	MINUTE(RLS)
06/08/08	(H)	RLS AT 1:00 PM TERRY MILLER GYM
06/08/08	(H)	Heard & Held
06/08/08	(H)	MINUTE(RLS)
06/09/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/09/08	(H)	Heard & Held
06/09/08	(H)	MINUTE(RLS)
06/10/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/10/08	(H)	Heard & Held
06/10/08	(H)	MINUTE(RLS)
06/12/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/12/08	(H)	Heard & Held
06/12/08	(H)	MINUTE(RLS)
06/13/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/13/08	(H)	Heard & Held
06/13/08	(H)	MINUTE(RLS)
06/14/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/14/08	(H)	Heard & Held
06/14/08	(H)	MINUTE(RLS)
06/16/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/16/08	(H)	Heard & Held
06/16/08	(H)	MINUTE(RLS)
06/17/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/17/08	(H)	Heard & Held
06/17/08	(H)	MINUTE(RLS)
06/18/08	(H)	RLS AT 9:00 AM ANCHORAGE

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

BILL: SB 3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08 (S) READ THE FIRST TIME - REFERRALS  
06/03/08 (S) ENR  
06/03/08 (S) REPORT ON FINDINGS AND DETERMINATION  
06/04/08 (S) ENR AT 10:00 AM TERRY MILLER GYM  
06/04/08 (S) Heard & Held  
06/04/08 (S) MINUTE(ENR)  
06/05/08 (S) ENR AT 9:00 AM TERRY MILLER GYM  
06/05/08 (S) Heard & Held  
06/05/08 (S) MINUTE(ENR)  
06/06/08 (S) ENR AT 10:00 AM TERRY MILLER GYM  
06/06/08 (S) Heard & Held  
06/06/08 (S) MINUTE(ENR)  
06/07/08 (S) ENR AT 10:00 AM TERRY MILLER GYM  
06/07/08 (S) Heard & Held  
06/07/08 (S) MINUTE(ENR)  
06/08/08 (S) ENR AT 1:00 PM TERRY MILLER GYM  
06/08/08 (S) Heard & Held  
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06/09/08 (S) ENR AT 10:00 AM TERRY MILLER GYM  
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06/12/08 (S) ENR AT 10:00 AM FBX Carlson Center  
06/12/08 (S) Heard & Held  
06/12/08 (S) MINUTE(ENR)  
06/13/08 (S) ENR AT 10:00 AM FBX Carlson Center  
06/13/08 (S) Heard & Held  
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06/14/08 (S) ENR AT 10:00 AM FBX Carlson Center  
06/14/08 (S) Heard & Held  
06/14/08 (S) MINUTE(ENR)  
06/16/08 (S) ENR AT 9:00 AM ANCHORAGE  
06/16/08 (S) Heard & Held  
06/16/08 (S) MINUTE(ENR)  
06/17/08 (S) ENR AT 9:00 AM ANCHORAGE  
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06/18/08 (S) ENR AT 9:00 AM ANCHORAGE  
06/18/08 (S) Heard & Held  
06/18/08 (S) MINUTE(ENR)  
06/19/08 (S) ENR AT 9:00 AM ANCHORAGE

**WITNESS REGISTER**

SCOTT SMITH, Vice President  
Black & Veatch  
Houston, Texas

**POSITION STATEMENT:** Provided the presentation by Black & Veatch.

MIKE ELENBAAS, Senior Consultant  
Black & Veatch  
Seattle, Washington

**POSITION STATEMENT:** Assisted with the presentation by Black & Veatch.

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

**POSITION STATEMENT:** Provided comments and responded to questions during the day's presentations.

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

**POSITION STATEMENT:** Responded to questions during the presentation by Black & Veatch.

DEEPA PODUVAL, Principal Consultant  
Black & Veatch  
Houston, Texas

**POSITION STATEMENT:** Responded to a question during the presentation by Black & Veatch.

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

**POSITION STATEMENT:** Gave a PowerPoint presentation on TransCanada's proposed pipeline project and answered questions.

BLYTHE CAMPBELL  
Anchorage, Alaska

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

TAMMIE SMITH  
Anchorage, Alaska

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

CHUCK BECKER  
Anchorage, Alaska

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

JACK HAKKILA  
Anchorage, Alaska

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

PAUL D. KENDALL  
Anchorage, Alaska

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

SCOTT HAWKINS, President  
Advanced Supply Chain International (ASCI);  
Chair

ProsperityAlaska.org  
Anchorage, Alaska

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

HEATH HILYARD, Staff  
Advanced Supply Chain International (ASCI);  
Board Member

ProsperityAlaska.org  
Anchorage, Alaska

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

MIKE KENNY  
Anchorage, Alaska

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

DANIEL DeNARDO  
Anchorage, Alaska

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

MIKE ROGERS

Anchorage, Alaska

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

CARY CARRIGAN

Anchorage, Alaska

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

RICK BARRIER, Executive Director

Commonwealth North

Anchorage, Alaska

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

JED WHITTAKER

Anchorage, Alaska

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

RICK CAREY

Anchorage, Alaska

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

FRANK BAINES

Anchorage, Alaska?

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

WILLIAM BASSETT

Anchorage, Alaska

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

CASH FAY

Anchorage, Alaska

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

LORNE BAILEY

Anchorage, Alaska

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

DOMINIC LEE, Owner, Chief Executive Officer (CEO)  
Little Susitna Construction Company  
Anchorage, Alaska

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

VESTA ELLIOT, Owner  
Organic Hair Design  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001 to promote renewable energy resources.

ANDREW HALCRO  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001 to express concern regarding the contractual terms of AGIA.

TOM WALSH, Managing Partner  
Petrotechnical Resources Alaska (PRA)  
Anchorage, Alaska

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

DAVID GOTTSTEIN, Co-chair  
Backbone II  
Anchorage, Alaska

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

ERNIE STUTZER  
Anchorage, Alaska

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

KELLY WALTERS  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 3001 and SB 3001 in support of an all-Alaska gas pipeline.

#### **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 [9:03:44 AM](#).

HB 3001 - APPROVING AGIA LICENSE

SB 3001 - APPROVING AGIA LICENSE

[9:04:21 AM](#)

CHAIR HUGGINS announced that the hearing would begin with a presentation by Black & Veatch regarding net present value (NPV), followed by [a review of the application by] TransCanada Alaska Company, LLC ("TransCanada"), followed by [a review of the delayed findings].

[9:05:01 AM](#)

SCOTT SMITH, Vice President, Black & Veatch, referencing the fact that some information had been provided yesterday, said that price is an important aspect of a risk assessment. He went on to note that the Wood Mackenzie forecast of AECO Hub prices were what his company used in its base case analysis for understanding cash flows and net present value (NPV). Referring to [slide 12 of] his PowerPoint presentation [titled "Net Present Value (NPV) Analysis"], he said that the AECO Hub price forecasted [by Wood Mackenzie and illustrated by the black line] starts at slightly higher than \$5 [per million British thermal units (MMBtu)] in today's terms and then increases over time into the \$20-plus range due to inflation and what he termed "real cost" growth, though prices in the [AECO Hub] market today are right around \$10 - or a little bit higher because of market volatility. Also included [on slide 12] and illustrated by the red line is the Energy Information Association (EIA) forecast of AECO Hub prices. He said that one of the reasons the latter forecast was not selected for his company's base case is because the EIA doesn't project an AECO Hub price outright; instead, it projects a price for south Louisiana [Henry Hub], and therefore Black & Veatch had to make some assumptions - similar to those used by TransCanada - of deducting \$.75 in order to arrive at an equivalent AECO Hub price, and this deduction was based on the traditional relationships seen between AECO Hub prices and Henry Hub prices.

MR. SMITH said that Black & Veatch also developed its own forecast, which is illustrated by the blue line. He added, "This is not the base case result; it's one of the sensitivity cases that we do run, but when we talk about results, we're

always referring to the Wood Mackenzie price forecast unless we say explicitly otherwise." Black & Veatch's price forecast is fairly close to the Wood Mackenzie price forecast up to 2025, and then Black & Veatch shows a lower price growth beyond that [date] than Wood Mackenzie; the Black & Veatch forecast falls in between the EIA forecast and the Wood Mackenzie forecast. Generally, when developing price forecasts, one is trying to make assumptions about different aspects of the market; for example, one might try to predict what the gas supply will be "in north Texas out of the Barnett Shale field", or what gas demands will be for power generation in New York. One then adds all those factors up, putting them together in a model and letting that [model] balance out and generate a price. "So we're basically forecasting the different components of the market - supply, demand, elasticity of demand relative to those prices - and that lends itself to generating an equilibrium price that clears through time," he added. All who develop price forecasts are using some fundamental economic model, all use a fairly similar approach though with different assumptions.

[9:09:10 AM](#)

REPRESENTATIVE ROSES, offering his recollection that the Federal Energy Regulatory Commission (FERC) had referenced an infrastructure that's currently underway with a liquefied natural gas (LNG) capacity of 20 billion cubic feet (Bcf) [per day], asked whether Black & Veatch included a potential for 20 Bcf/day in its calculations.

MR. SMITH indicated that part of Black & Veatch's calculations involved "putting in place" what the expected infrastructure would be: what pipelines are in place to move production from one point to another, what import terminals [are available], et cetera. With both the Black & Veatch and Wood Mackenzie analyses, there is an expectation that there will be infrastructure in place - predominately in the gulf coast - to take LNG imports. With regard to how much LNG "is showing up," he offered his understanding that the Wood Mackenzie import expectation for 2020 is around 17 Bcf/day on average over the course of the year, whereas the Black & Veatch import expectation is 12-14 Bcf/day, and there will be some growth thereafter depending on the scenario one looks at. Black & Veatch, within its model, allows for the ability to add new infrastructure if the market needs it - "We just imply some expected capital costs for that to be built out should there be a requirement for gas demand or gas supply for that," he added.

MR. SMITH, in response to a question regarding Black & Veatch's disclaimer statement, explained that it's used in all of Black & Veatch's reports. He added that Black & Veatch has clearly stated what its assumptions were, with regard to some key drivers such as LNG imports and demand, when developing its price forecast.

SENATOR STEDMAN said he is trying to determine whether Black & Veatch is providing a totally independent view or part of an integrated team approach.

MR. SMITH said that all of Black & Veatch's assumptions specifically around the "flex analysis" were developed independently from the State, and that there were many different sources for those assumptions. For example, the demand assumption is reliant on "EIA as a base case," and the "finding and development" costs for supply were developed independently and were based off of reports developed several years ago by the [National Petroleum Council (NPC)] and updated with some analyses from [Cambridge Energy Research Associates, Inc. (CERA)]. Black & Veatch felt it was appropriate, "as an analysis lead," to not make [its forecast] the base case, because of the risk that it would be viewed as biased relative to Black & Veatch's engagement. Instead, the Wood Mackenzie forecast is used as the base case analysis because it truly is independent, and the State contracted with Wood Mackenzie to acquire that forecast. One reason Black & Veatch was retained and asked to do a price forecast had to do with the company's ability to understand the risk associated with prices.

[9:15:28 AM](#)

SENATOR STEDMAN noted that when looking at oil prices, the legislature has had a lot of debate over the last several years regarding taxation structure - switching from "tax royalty" to a production-sharing arrangement - and the discussion concentrated on oil prices below \$60, but not much on oil prices above that amount. According to the current data, though, "most all of it is above \$60/barrel oil, going out to 2044," he added.

MR. SMITH said that the price forecast from Wood Mackenzie starts at about \$75 and increases from there through the valuation period. So, yes, in general, the price forecast for oil is higher than \$60, with both oil and gas price [forecasts] being lower than what their actual prices are today.

REPRESENTATIVE GATTO asked whether the prices today are within a range that might have been forecasted five years ago.

MR. SMITH indicated that the prices today are higher than what Black & Veatch forecasted for the State in 2005-2006. A lot of the information used in that forecast, however, was based on the costs of "finding and development," so what needs to be factored in now in a current price forecast is the fact that such costs in the "E&P sector" have increased dramatically since that time, just as have the capital costs for a pipeline. He noted that EIA price forecasts have similarly underestimated prices.

[9:19:35 AM](#)

REPRESENTATIVE GATTO asked whether Black & Veatch included the demand from India and China in its forecast.

MR. SMITH said no, not directly. In response to a comment about the unlikelihood of being able to forecast an accurate price for 30-plus years in the future, he offered, "we have to spin this [forecast] out fairly far" because this project has such a very long lead time, and "we tried to take a fundamental-based approach to making those assumptions." He mentioned that there are also other ways of forecasting cash flows and NPV, such as using a specific price as opposed to a forecasted one.

MR. SMITH, returning attention to slide 12 of his PowerPoint presentation, said that Black & Veatch looked at key drivers to prices, particularly prices in the AECO Hub market: "F&D costs; technology improvement, which would lower costs of finding and development; power generation demand; LNG imports; industrial demand." Black & Veatch then made separate high and low forecasts from those [key drivers], looked at whether they have a relationship, and then generated different scenarios in order to understand what could happen when unexpected but not improbable conditions occur. The solid, light blue line and the dashed, light blue line represent scenarios created by changing the different assumption embedded in the model with regard to the aforementioned key drivers. Having the resulting "distribution of prices" enables Black and Veatch to perform more risk analyses in its report, but is just supplemental to those analyses and helps provide some perspective with regard to project risk and commodity-price risk.

[9:24:21 AM](#)

MIKE ELENBAAS, Senior Consultant, Black & Veatch, referring to what he termed "the tornado diagram" that was shown yesterday, said that "the key takeaway from that" was that commodity prices were the largest driver of uncertainty, and that capital costs and schedule risks were also significant drivers of uncertainty but not as significant as commodity prices. Referring to slide 13, he explained that the chart shows models of uncertainty in prices as illustrated by the light blue curve - which he called a cumulative probability distribution. "We're showing the full range of uncertainty in both prices and cost and schedule risk to the project," he remarked, and calculated the NPV to the different stakeholders under this range of possible prices and costs and schedules.

MR. ELENBAAS said that the y-axis of the aforementioned chart illustrates probability in percentiles; that the x-axis illustrates NPV for the state; and that the light blue curve illustrates uncertainty with regard to prices, "capital cost scope risk," and schedule risk of the TransCanada project. This model, once run, allows one to capture statistical results with regard to how uncertainty changes NPV to the state. He indicated that information provided yesterday illustrates an NPV of approximately \$60 billion; that one of the slides in the PowerPoint presentation illustrates that NPV ranges between \$10 billion and over \$100 billion; and that at approximately what he termed a "P50 level" on slide 13 - via the dashed, dark blue line - the NPV is right around \$50-\$60 billion, but that is without price uncertainty. The solid, light blue line illustrates that when price uncertainties are included, the NPV can be much more uncertain as well.

CHAIR HUGGINS asked whether Black & Veatch is willing to guarantee its statement on slide 13 that its results indicate that there is no likelihood of a negative NPV to the state.

MR. SMITH said he feels that is a correct statement given the assumptions that were made and the variables that were looked at. A similar chart has been created regarding the producers that illustrates that there is a chance that the producers could have a negative NPV.

[9:30:17 AM](#)

MR. ELENBAAS said that the chart on slide 13 "was looking at the 4.5 Bcf per day project." In contrast, slide 14 shows lower-volume sensitivity cases: the dashed, blue line is 4.5 Bcf/day; the gray, solid line is 4 Bcf/day; and the dashed, green line is

3.5 Bcf/day. State NPV remains largely positive, though when there is less volume being sold through the pipeline, there is slightly less money coming to the state. Referring to slide 14, he noted that it illustrates producer NPV using all the same sensitivity assumptions that were made for the state. As with state NPV, commodity prices were the largest driver of uncertainty, though cost escalation and upstream capital costs also drive uncertainty. Producer NPV, using a 10 percent discount rate, is right around \$13 billion with a base case of 4.5 Bcf/day.

[9:33:08 AM](#)

REPRESENTATIVE SAMUELS asked whether the upstream capital costs include expenditures to find gas.

MR. ELENBAAS said those are the "yet-to-find" capital costs.

MR. SMITH, in response to questions, said that the question of whether the state should be in the business of transporting gas isn't something he is prepared to comment on; that there is a strong likelihood that the shippers will have a favorable outcome by being involved in this project; that since EconOne Research, Inc., issued its report several years ago, there has been a dramatic increase in costs and corresponding changes in price; and that the State has hired several different companies and engineering firms to estimate capital costs. Given all the data collected thus far, it appears that this will be a positive project, and there appears to be only a 5 percent chance that the producers will experience a negative NPV; in other words, there is a 95 percent chance that the project will prove to be economic for the producers, thus justifying their investment in and commitment to the project.

MR. SMITH, in response to further questions, after acknowledging that at issue is whether the state should commit to spending \$.5 billion to incentivize the development of the [gasline], explained that Black & Veatch is simply taking an independent look at prices and other variables in many different ways so as to be able to provide a representation of what other parties may be looking at when trying to evaluate this project. He offered his understanding that the producers and the "E&P community" are making investment decisions today and drilling very extensive wells in the Lower 48 that have F&D costs of \$6-\$8 and are doing so with an expectation of a return; he acknowledged, though, that that is not comparable with making commitments to underwrite - or make transportations commitments to - a "\$30

billion pipeline." However, there are companies out there willing to take that risk, he added, given today's price environment and F&D costs. Furthermore, a significant amount of the gas is already known to be there, thus eliminating the need to explore for it.

MR. SMITH surmised that the risks a shipper has to be concerned about are whether prices are going to clear the firm transportation (FT) costs, and whether those FT costs will come in as estimated. Black & Veatch relied upon information provided by the experts with regard to price and cost uncertainties, and this is the basis of the analysis being presented today. Another element that must be considered is whether the yet-to-find gas and available gas can fill up the pipe at some point down the road. Black & Veatch also looked at the NPV benefits to the producers should yet-to-find gas not show up, and that information will be provided later, he added.

[9:43:06 AM](#)

REPRESENTATIVE SAMUELS, referring to slide 11, sought confirmation that as long as a [gasline] is built, then on an NPV basis, the state can't lose because all it has to do is recoup its proposed \$.5 billion investment.

MR. SMITH said:

We effectively modeled the state physical system as well as the royalty system as (indisc.) taking royalty in-value [RIV], not [royalty] in-kind [RIK]. We've obviously incorporated [the] \$.5 billion investment associated with that. And so, effectively, the investment the state is out is the \$.5 billion. That results in a tariff deduction of approximately \$.06, which has benefit to the state in and of itself, and then obviously they're collecting revenues and cash flow, and those revenues ... from taxes as well the royalty revenue doesn't create a situation, given our analysis, that shows that they have a chance for a negative NPV.

MR. SMITH, in response to another question, referred to one of the slides and said it illustrates a 4.5 Bcf [per day] tariff at the bottom and the price forecast that Black & Veatch went through. He added:

These are all prices on a nominal basis, and effectively what we did is obviously measure the difference between here and the cost associated with a commitment to the tariff. And you can see, obviously, the base case price forecast is here, so obviously you're looking at this as basically cash in the door that the state's taking - either royalty revenue or, alternatively, [Alaska's Clear and Equitable Share (ACES)] ... tax-related revenue. The producers, likewise, are doing that, and then spending any of type of capital and operating costs to offset that. So our analysis shows that given these price scenarios that we've run, and we've ran several with the idea of trying to understand the sensitivity to it, they all clear that bottom element of ... paying for that tariff.

REPRESENTATIVE SAMUELS asked whether Black & Veatch included capital credits for exploration as part of the state's NPV.

MR. SMITH said yes.

SENATOR STEDMAN asked whether individual companies in the industry use "the same forward-looking price scenarios" in their models for purposes of making investment decisions. He surmised that the state must set up a scenario similar to that which would encourage such companies to come forward and make FT commitments. "Regardless of what we think the profitability is, it's what that boardroom thinks it is when they sign that FT commitment," he added. Therefore, what does the industry look at?

[9:47:38 AM](#)

MR. SMITH offered his understanding that other companies do have their own internal price forecasts but aren't willing to share them, and that most E&P companies are using the Wood Mackenzie forecast, but he doesn't know whether they are using it as a sensitivity case or as their base. With previous analyses that the state has done regarding this issue over the last few years, he observed, the tendency was to just pick a price and lock it in when making an economic forecast. He added that Black & Veatch tried to incorporate those analyses so as to look at the information in as many different ways as possible in order to determine whether there was a way to shoot holes in the project, given what is known about costs and tariffs, and whether there

was cause for concern from the perspective of either the state or any shippers willing to commit gas to the project.

SENATOR STEDMAN asked whether, if an oil company looking at the project hired Black & Veatch as a consultant, it would recommend that that company use "these prices" in its analysis, or a lower, more conservative, price, or a higher, more aggressive price. What would be Black & Veatch's recommendation to the board of directors of such a company as it seeks to make a similar multibillion-dollar decision?

MR. SMITH said that Black & Veatch would recommend that the company "do all the sensitivity analyses that we did." He added, "We tried, again, to do this as [impartially] as we could by picking a non-affiliated price forecast - it turns out to be the one that's a little bit more robust in the out years - we've looked EIA, we've looked at ours, as well as we've looked at flat real price forecasts to see what happens." He indicated that that's all that could be done since no one is capable of actually knowing what prices really will be in the future, adding, "we tried to make our estimates based on what we think supply:demand will be and where prices will go, but I think you've got to look at that and ... test it with different sensitivities ... to understand ... [the] implications it'll have to the project economics, both to the state as well as the producers."

[9:50:56 AM](#)

REPRESENTATIVE GATTO, referring to the graph on slide 13, expressed disbelief in its assertion that there is a zero probability that the state will make zero money. He said he is therefore questioning the validity of the rest of the graph's assertions as well as "everything else."

MR. SMITH - noting that the state, in general, is a collector of revenue - said that because the state would be investing \$.5 billion in the project, that must be considered relative to the gain in the tariff, and it is therefore just a coincidence that "it ends up at zero/zero." He noted that [slide 16] illustrating similar information for the producers indicates that there is a zero probability that the producers will realize a negative \$5 billion NPV.

REPRESENTATIVE GATTO opined, however, that there is always a probability greater than zero that something could go wrong and

the pipeline can't get built, and thus he is uncomfortable with slide 13's assertion.

MR. SMITH offered his understanding that all the permits will be in hand before the pipeline is built, and thus there is an expectation that the project will be completed. In support of the assertion made in slide 13, he added, "It's a function of how the regulatory process works and how permits are in hand [and] treaties are reached with ... [other] nations ... prior to that capital being spent, and that's essentially how we made those assumptions." The project will happen, he posited, and so the questions that remain will be with regard to what the tariff is and what the prices are at that time.

[9:55:20 AM](#)

REPRESENTATIVE DOOGAN asked whether there is any company that could give the state an absolute prediction of the future.

MR. SMITH said no.

REPRESENTATIVE DOOGAN surmised that the level of uncertainty with this project is higher than it would be if the state were to simply invest its \$.5 billion in treasury bills, for example.

MR. SMITH concurred that the project does incorporate more uncertainty than traditional investments with regard to what the state's returns will be.

SENATOR FRENCH opined that there is something wrong with simply assuming that the prices of natural gas are just going to keep rising, and said he would be interested in seeing old Wood Mackenzie price forecasts just to see how the assumptions about natural gas prices have changed in the last few years. Prices could easily go back down, he remarked, and thereby put the state close to being underwater.

MR. SMITH offered his understanding that Dan Dickinson has provided the legislature with historical information regarding the price of natural gas. He went on to explain that natural gas prices in the U.S. were regulated by the federal Natural Gas Act until the mid-1970s and as such were very, very low, low to the point that they caused a natural gas shortage in the 1970s and engendered the federal Natural Gas Policy Act of 1978, which provided new incentives - much higher prices - for drilling, and then at that point prices started to rise again. However, by the mid 1980s, there was too much natural gas, there were what

he termed "take-or-pay agreements" with the pipelines that couldn't buy all the gas that they'd contracted to buy, and this resulted in an industry restructuring for the purpose of "getting out of those old contracts," and so there was a free-market environment during the period when there was a surplus - late 1980s up through 2000. That surplus was then "burnt off," he added, and now there is a more marginal supply:demand [ratio]; that's why there has been an increase in prices since then - it represents the cost of finding new oil and gas reserves.

MR. SMITH said that although one could argue that there will be times when prices are lower, the basic assumption is that at some point it will become much more expensive to find and develop this finite resource - that's a fundamental driver behind why prices increase.

10:03:18 AM

REPRESENTATIVE ROSES asked whether Black & Veatch has created a slide that illustrates a tariff associated with 2.5 Bcf/day, or 3 Bcf/day, or 3.5 Bcf/day.

MR. SMITH said he would provide that information. Referring to slide 27, he said that it illustrates price forecasts that are all "real prices" with no inflation built in, and the tariff for "the three different projects" if the construction started today. One can see, he posited, that at the lowest price forecast, there are a few years where there is negative impact relative to price relative to tariff.

REPRESENTATIVE ROSES said it appears that it could be 2030 before the profit structure starts to increase. His concern, he relayed, is the uncertainty regarding what the volumes will actually be. "We started out with everything being assumed at [4.5 Bcf/day], but that was including Point Thomson, and now we've taken that out" and are assuming that the producers are going to [bring the amount] back up; however, there will still be additional costs associated with exploration and development, and uncertainty regarding price, he noted. He went on to say:

So I'm still struggling with trying to get a confidence level in what we think we're going to have for a volume, which affects the tariff, and balance that out against what the cost predictions are, to still have the same level of confidence that ... some of my colleagues seem to have in the fact that this is

going to be wildly profitable, and coupled with that the fact that if we agree to this ... [contract] that we have now limited the state's options for somewhere between 6 to 15 years as to any other options that we have while we're waiting for this horserace to end. ... That's why I keep going back to this to try to make this comparison so that I can, in my mind, strike a level of confidence enough to make me say, "Yes, I'm willing to put up \$.5 billion of the state's money."

10:08:36 AM

PATRICK GALVIN, Commissioner, Department of Revenue (DOR) - noting that there has been concern expressed that if Point Thomson doesn't come on line, the state will lose approximately \$15 billion in NPV - said it is important to understand that when speaking about a 4.5 Bcf/day line resulting in \$66 billion in NPV and a 3.5 Bcf/day line resulting in \$51 billion in NPV, that's assuming that that will be the volume for the entire 25 years. So even if the line is designed to handle 3.5 Bcf/day, but more gas actually comes on line right at or near the beginning such that with additional compressors 4.5 Bcf/day ends up going through the pipeline, the NPV will get back up to the level expected of a 4.5 Bcf/day pipeline. So although it is difficult to analyze what the NPV really will be as time goes on, it will end up being "somewhere between these two numbers."

COMMISSIONER GALVIN indicated that he is heartened by a couple of statements made by Cathy Foerster of the Alaska Oil and Gas Conservation Commission (AOGCC): given the current trends of oil production, there will be sufficient gas available from Prudhoe Bay to fill any of the pipelines that are currently being contemplated; and once a pipeline project is actually moving forward and gas starts being targeted, there will be more gas than [the state] will know what to do with. The issue for the state, therefore, is to start with the right size pipe - which, according to information presented to the state, is the 48-inch pipe. With that size pipe, even if output goes down to only 3.5 Bcf/day, TransCanada's project plan can be accommodated without the pipe needing to be physically adjusted. The state's analysis of this information indicates that even at 3.5 Bcf/day, there will still be a positive outcome with regard to getting financing, getting a pipeline up and running, and getting gas. And although there would be an even greater positive outcome at 4.5 Bcf/day, and the state would prefer to have output ranging between 4.5 Bcf/day and 6.5 Bcf/day, the 3.5 Bcf/day scenario has been analyzed to determine whether even that amount is

enough to finance the project. The state's conclusion is that it is enough, though the output is expected to ultimately end up being higher than 3.5 Bcf/day.

10:13:24 AM

REPRESENTATIVE ROSES expressed concern that the producers might not be willing to commit to 4.5 Bcf/day in the open season. What the producers are willing to commit to is really what will drive the project's financing and economical feasibility. It matters not that the amount could ultimately, after a lot exploration and development, be 7.9 Bcf/day, for example; the real question is what will the producers commit to.

COMMISSIONER GALVIN concurred, but pointed out that at a minimum there will be 3.5 Bcf/day of gas to commit to, and, again, that this amount is sufficient to finance the project. The state has analyzed, from several perspectives, the question of what the chances are of getting an FT commitment from the producers, and the state's conclusion is that from the producers' perspective, committing to 3.5 Bcf/day would still constitute a reasonable investment decision.

REPRESENTATIVE ROSES questioned, then, why the state itself doesn't simply commit to [2 Bcf/day], particularly given that many people have testified that they think the state should be investing in this project, and given the estimated rate of return.

COMMISSIONER GALVIN said that although the state might ultimately become more involved in the project in the future, it doesn't need to at this time - though it may want to for other reasons - because there is a private company willing to advance the project; furthermore, [the state] believes that at the appropriate time, the producers will be willing to act as reasonable commercial players and make the commitments necessary to drive the project ahead. Getting this project started, which is what the Alaska Gasline Inducement Act (AGIA) is all about, is the key; the economics of the project will ultimately drive it to fruition "if we can get it moving," he remarked, adding that other investment opportunities related to this project will present themselves once that occurs.

REPRESENTATIVE ROSES expressed concern that moving forward with AGIA could potentially close off other options the state might have 6-12 years in the future.

COMMISSIONER GALVIN, in response to comments regarding the accuracy of past predictions, pointed out that the purpose of the analysis isn't to predict future prices, but is instead to look at whether the investment decision being made today will produce positive results, and the answer, he surmised, is yes, it will.

10:24:03 AM

SENATOR STEDMAN, offering his understanding that industry doesn't actually use such robust price projections in its investment decisions, suggested that [Black & Veatch's] analysis leans more towards marketing this project to the legislature than it does towards providing accurate data for the decision-making process.

MR. SMITH disagreed, and reminded members that Black & Veatch used some of the same forecasts that industry uses, and is merely trying to highlight the cash flow implications and risks associated with this project. Using figures arrived at by industry experts, the Black & Veatch models illustrate that this project has a high likelihood of success for all parties involved.

REPRESENTATIVE GARA pointed out that in a capitalist system, there is never a guarantee that a company will make money; instead, the question is whether the chance of success is great enough to warrant taking a risk that a particular endeavor might lose money. He opined, therefore, that this project can go forward without a guarantee that the producers or pipeline builders will make money. He noted that yesterday, "Exxon" stated that when it submitted its application two years ago, it believed that there was 4.5 Bcf/day available, and that's why, he surmised, it proposed a pipeline with that capacity even back then. Since nothing has changed since then, won't that historical information factor into the chances of this project's success, he queried.

MR. SMITH explained that risk analyses tend to focus on worst-case scenarios, rather than on best-case scenarios, in order to determine whether one could still be comfortable making a particular investment decision. Furthermore, the decision being faced by the legislature today is different than what it faced a couple of years ago because of the differences in prices, costs, and tariffs.

REPRESENTATIVE GARA asked what will happen financially if, during open season, some of the major producers still refuse to commit their gas.

COMMISSIONER GALVIN said that AGIA is designed to ensure that the project will continue to move on to the permitting process through the FERC's regulatory process regardless of whether the open season is unsuccessful. Furthermore, there will be continuing efforts to acquire FT commitments and determine what might be preventing producers from making such commitments.

10:34:04 AM

PAUL BLOOM, Vice President, Public Sector and Infrastructure Investment Banking, Goldman Sachs Group, Inc., in response to Representative Gara, explained that the presumption is that the financing wouldn't occur at that point in time; instead, the financing wouldn't occur until the FERC certificate is issued. At open season, clearly, getting the contract signed up is one of the conditions precedent to being able to do the financing, but getting the FERC certificate issued and getting all the engineering and cost estimates, et cetera, pinned down all have to be done before the financing can occur. The open season is critical and the contracts are critical, but that's not when the financing occurs - the financing occurs later in the process.

REPRESENTATIVE GARA asked whether it is necessary that TransCanada find outside financing.

MR. BLOOM explained that there are two elements to the financing. First, the application suggests that the debt portion of the financing will be project-financed debt - that's debt backed by the revenues and assets of the project, not by TransCanada. The other element of the financing pertains to the equity, which TransCanada must come to the table with. But whether that's done via cash flow, or via raising debt on its own books, or via issuing more TransCanada equity to fund the equity it must inject into the project is a separate question. The debt component of the finance plan is not TransCanada debt - it's debt backed by the strength of the project.

MR. BLOOM, in response to a question, explained that in this type of project finance, the concept is that one creates an entity - a project company - that has assets, which are the revenue contracts and some physical assets, and obligations to build and operate the pipeline. Investors will be given a pledge of the revenue from the project, and the project company

will be "ring-fenced"; it will be a "bankruptcy-remote" entity, and bond investors will have recourse to the excess revenue and other assets of the project but not to TransCanada, and the federal loan guarantee will be guaranteeing a portion of that debt but not all of it. He relayed that the report his company prepared as part of the findings contains more information about that latter point.

CHAIR HUGGINS asked whether AGIA limits investment by the state to only \$.5 billion.

[10:38:17 AM](#)

COMMISSIONER GALVIN said that that is the extent of the state's matching contribution requirement under AGIA.

CHAIR HUGGINS questioned whether the administration would be coming back to the legislature asking for more money for this project, particularly given that project financing won't be available until a FERC certificate is issued.

COMMISSIONER GALVIN indicated that the administration would not, and offered his understanding that TransCanada has stated that it will be responsible for any additional costs necessary to obtain FERC certification. The state is only committed to \$.5 billion.

SENATOR STEDMAN - raising the issues of a possible failed open season, "downstream" financing, and the \$19 million spent on analyses and documentation - asked what the likelihood is of the "big utilities" financing "this \$30 billion project" and fulfilling the FT commitments.

COMMISSIONER GALVIN said the state did not do a probability analysis on FT commitments being made by "the consumers" because an analysis of the conventional "producer FT commitment" scenario indicated that it had a sufficient likelihood of success to warrant recommendation, and so there was no need to perform analyses of other scenarios. However, the administration has had continued discussions with those involved "on the utility side in the Lower 48," and the hope/expectation/demand for Alaska natural gas remains very strong. For example, the administration had discussions with the National Association of Regulatory Utility Commissioners (NARUC) about its involvement in allowing utilities to make long-term commitments of capacity and purchasing gas at set prices, and the NARUC seemed very open to that, and have passed

resolutions in support of "those things." So although the administration believes that that opportunity exists, it didn't feel a need to analyze that possibility in detail because the project is likely to succeed under a conventional scenario.

[10:44:04 AM](#)

SENATOR STEDMAN asked Mr. Bloom whether his firm has been asked to look at the feasibility of financing [by] "the downstream," and whether "the downstream" has financed projects over \$20 billion.

MR. BLOOM said his firm was not asked to look at that issue, and that he himself has not heard of any such projects, though typically many utilities in the Lower 48 do enter into long-term contracts for gas supply. He surmised that there is probably a reasonable potential for either the producers, or the state in marketing its own gas, to layoff some of the risk of this project by entering into such contracts, adding that he or someone else from his firm will be able to address that point further once the legislature returns to Juneau.

SENATOR STEDMAN offered his understanding that contracts for delivery get shortened as the markets become more dynamic. He clarified that his question isn't whether utilities enter into long-term contracts for supply but rather whether utilities finance "mega projects" and, if so, how their board of directors deal with the risk exposure of a regulated utility to finance such a project. He said he would also like to know what utilities have the capability of financing, at a minimum, a \$20 billion project and what utilities have done so. He indicated that there have been discussions regarding whether to finance the construction of the project "from the upstream" or "from the downstream," and about the "tie-in from the downstream to the ultimate upstream."

MR. BLOOM relayed that his firm would be prepared to address those points when the legislature returns to Juneau.

COMMISSIONER GALVIN pointed out that the state did not include in the findings an expectation of a utility-based financing package - it's just not part of the basis upon which the state is making its recommendation.

CHAIR HUGGINS expressed concern that the project won't be as economic as the administration is suggesting it will be.

MR. SMITH explained that Black & Veatch tried to capture the risk associated with the project with the input assumptions it used. Nonetheless, the project appears to have a potential for a very substantial return to the parties involved, with just a 5 percent chance of a negative return for the producers only. In response to a question, he provided some information regarding other clients that Black & Veatch has done work for.

CHAIR HUGGINS asked what this project's level of risk is, on a scale of 1-10, when compared with other projects Black & Veatch is familiar with.

[10:53:14 AM](#)

MR. SMITH said that what constitutes risk is in the eye of the beholder; for example, a \$30 billion project represents more risk than a \$1 million project, and an acceptable level of risk for one entity might not be an acceptable level of risk for another. This project does have a lot of associated risk, he acknowledged, such as price and capital costs; in spite of this, given the known factors, this project still looks to be successful.

MR. BLOOM added that based on size, costs, and the environment, there clearly is a tremendous amount of risk associated with this project regardless of who builds it, though a lot of the uncertainties related to cost, volume, shippers, reservoirs, marketing, and prices will be substantially reduced as time goes on, and the main point of the next few years is to reduce those uncertainties as much as possible so that all the principal parties - the state, the equity sponsors, and the shippers - can feel more comfortable before the actual "go" decision is made.

CHAIR HUGGINS indicated that the economic status of the project as time goes on is of major concern to him.

SENATOR STEDMAN indicated that pages 255-257 of the Black & Veatch report speaks about "an integrated ownership of a line and the upstream," and has a reference to "finance solely by equity." He said, "A 100 percent equity stuck out, not having an Alaska tariff portion," and asked that that issue be addressed further when there's more time.

MR. ELENBAAS, referring to [slide 17] of the PowerPoint presentation, indicated that the graph illustrates several "flat real" prices - ranging from \$5-\$10 - with only inflation added over time, and noted that currently AECO Hub prices are trading

above \$10/MMBTU. Slide 18, containing two graphs, illustrates producer NPVs for "real" prices ranging between \$5-\$10 under two different discount rates - one at a 10 percent discount rate, and one at a 15 percent discount rate - and under all of the scenarios the producers earn a positive return - a positive NPV - from the project. These graphs use a 4.5 Bcf/day pipeline, and provide another look at what could happen in terms of NPV if prices end up being half of what they are today. The graphs on slide 19 illustrate what happens to the producers' returns - shown by the dashed, black line - and NPV if the pipeline is built with the expectation that there's some yet-to-find gas but there never is any. These graphs use a 4 Bcf/day pipeline, and there would be no Point Thomson gas. A decline in production, of course, results in a decline in revenue if there is no exploration. Nonetheless, even under this extremely conservative scenario, producers have a positive NPV of \$10 billion using a 10 percent discount rate.

[11:02:25 AM](#)

REPRESENTATIVE GARA asked whether the fuel cost for transporting the gas is included in the tariff of \$4.73.

MR. SMITH said it isn't, adding that there is a general assumption that the fuel is provided in-kind with the right to move the gas to the market.

REPRESENTATIVE GARA surmised that the fuel cost is factored into the NPV calculations.

DEEPA PODUVAL, Principal Consultant, Black & Veatch, explained that instead the fuel cost is incorporated into the revenue number; so it's a lower volume of product that's being sold at the AECO Hub market because some of it has been lost as fuel along the way.

MR. SMITH explained that in Black & Veatch's base assumption, a 25-year contract was assumed for the 4.5 Bcf/day case, but a 20-year contract was assumed for the 4 Bcf/day and 3/5 Bcf/day cases. Slide 30, in contrast, illustrates "what happens to yet-to-find gas required under different scenarios with similar-type contract terms given the size of the pipeline."

COMMISSIONER GALVIN indicated that the information illustrating the NPV to the state demonstrates, as is required by statute, that the state will benefit from going forward with a gas pipeline. He added:

We're going to monetize this huge resource that's going to provide both royalty and tax benefits to the state for a long period of time. So the fact that we have positive NPVs on the state returns ... [isn't] all ... that significant - it's not that earth shattering. We provide the information with regard to the NPV to the producers for the question of likelihood of success, and that goes to the question that is on everybody's mind, which is what is the ... likelihood of having a failed open season and, if that is a failed open season, of ultimately getting gas committed to this line. And for that reason we looked at it from a number of different perspectives.

COMMISSIONER GALVIN pointed out, however, that by showing that these are positive investment opportunities for the producers, it isn't really the case that if it weren't too good to be true then everybody would be wanting to invest in the project. Instead, one must recognize that this is a closed market - it is only the producers that are in a position to take advantage of this investment opportunity - it is not available to the regular investment community. This means that this issue has to be viewed from the producers' vantage point when attempting to determine whether this project is something they should go forward with. It is a tremendous obligation on the producers' part if they do go forward with, but it comes with tremendous value in return - they get to monetize their gas. In the end, however, the question remains: is this something the producers will take advantage of. The administration believes that in moving the project forward in order to present this opportunity to them, the producers, one way or the other, will take advantage of the opportunity to monetize their gas.

COMMISSIONER GALVIN said that's why the administration is going forward with the project, why the state needs to advance the gasline, and why the administration believes that in the end, giving the license to TransCanada is a good thing for the state because it can make that decision up front in a timely manner and force the issue in order to get to a gasline sooner.

[11:08:41 AM](#)

CHAIR HUGGINS, referring to the earlier-used term "ring-fenced," asked whether the state would be included in that protective mechanism.

MR. BLOOM said no, and explained that the term "ring-fenced" is simply a term of art used to mean that the project company that's created is "bankruptcy remote" from TransCanada so that the investors in the project company do not have recourse to TransCanada if something goes wrong with the project. In addition to protecting TransCanada and other potential equity sponsors from having to cover the debt if something goes wrong with the project, it also protects the investors should something go wrong with TransCanada - conceivably the project itself could continue. This sort of project financing is typical in the "oil and gas world."

CHAIR HUGGINS asked what the state's status is with regard to liability.

MR. BLOOM said he doesn't believe that under the construct in the proposal, the state has any liability whatsoever for the performance of the project, for the debt, or for any of the other obligations that the private parties enter into.

CHAIR HUGGINS said that's comforting.

COMMISSIONER GALVIN relayed that the FERC ruled today on the Trans-Alaska Pipeline System (TAPS) tariff issue, affirming the decision of the administrative law judge which ultimately will mean the recovery for the state of hundreds of millions of dollars of excess tariffs.

CHAIR HUGGINS asked how long the FERC took for that ruling.

COMMISSIONER GALVIN suggested that someone else might be better able to respond to that question.

The committees then recessed from 11:13 a.m. to 2:06 p.m.

[2:06:18 PM](#)

TONY PALMER, Vice President, Alaska Business Development, TransCanada Alaska Company, LLC, ("TransCanada"), began his presentation by introducing TransCanada and providing background on its decision to participate in AGIA. He gave a brief personal history and noted that he first started to work on an Alaska gas pipeline project 23 years ago. During the past 7 years that the project has been back under consideration, TransCanada has looked at many top issues and has worked hard to present a complete and comprehensive AGIA application. In fact, TransCanada has filed over a foot of paper in the AGIA

application and responses. He stated that comprehensive information on the project is available to the legislature, the public, and the administration, via the state's website. TransCanada has 3,600 employees across North America, in all disciplines, who are qualified to pursue and successfully complete this project. TransCanada employees presently administer 36,500 miles of interstate and interprovincial natural gas pipeline. In addition, they administer 7,700 megawatts of electric generation. Each TransCanada employee is responsible for 10 miles of pipeline and 3 megawatts of power. TransCanada's power business includes wind, nuclear, hydroelectric, coal, and natural gas projects.

[2:10:19 PM](#)

MR. PALMER said that TransCanada's board of directors considered several factors in last November's decision to participate in AGIA. The first consideration was whether the project has strong economics and a margin to succeed. Clearly, in order to have a successful project, the fundamentals of supply, demand, expected price, and the cost of the project must be understood. He pointed out the importance of the consultant's testimony regarding expected gas prices and construction costs, and acknowledged the skepticism about the correctness of the projections. However, when looking at the history of natural gas prices, there have been variations in price and cost. Today, gas prices and projections are higher, and costs of the project are higher. He opined that with some exceptions, price and cost usually move in tandem. TransCanada considered what the margin would be between the price of gas in the marketplace and the price of this project. The projections of high price and high cost indicate that there will be a sufficient margin for the project to succeed. Future low price and low cost also provide a sufficient margin for success. Any potential risk would be the result of a period of high costs during construction, and low gas prices afterward.

MR. PALMER encouraged the committee to look at the broad spectrum of risk and opportunity. He continued to explain that any large cross-country project needs the cooperation of the public, government, and stakeholders; no commercial party can deliver this project alone. TransCanada has worked through the AGIA statute, and heard testimony that the government and public are committed to the project. Furthermore, the AGIA statute sets out the rights and responsibilities of both parties. TransCanada, and four other parties, reviewed the requirements of the applicants and decided to proceed with the project. He

assured the committee that TransCanada decided to make this investment based on a number of criteria. First, this investment is a strategic fit for TransCanada's capabilities in that it is a gas pipeline opportunity and fits with TransCanada's core competency, that being to construct, own, operate, and expand long-distance natural gas pipelines. The corporation moves one-fifth of the natural gas in North America daily, but owns none of it. Second, the project is within TransCanada's geographic footprint and it has rights-of-way and legislative permits necessary for the Canadian portion.

SENATOR WIELECHOWSKI asked how the FERC will evaluate TransCanada's proposal versus "Denali-The Alaska Gas Pipeline project."

[2:19:37 PM](#)

MR. PALMER surmised that if the AGIA license is granted to TransCanada, and both projects hold an open season, the FERC will examine both applications and make a decision, which may be to push the projects together, to choose one over the other, or to grant certificates to both.

SENATOR WIELECHOWSKI offered his belief that if both parties continue to the open season, the Denali project will get gas commitments. He asked how TransCanada will overcome that.

MR. PALMER expressed his understanding that the Denali project, at the moment, is two North Slope producers acting as a pipeline company. There has been no public commitment of gas. He assured the committee that TransCanada moves gas for all producers and BP is its largest customer across North America.

SENATOR WIELECHOWSKI then asked whether TransCanada was counting on Point Thomson gas when it prepared its application for 4.5 Bcf/day.

MR. PALMER explained that TransCanada looked at the overall basin capability of Alaska, rather than individual pools of gas. The corporation wants to begin moving as much gas as possible as early as possible, and to expand over time. He stressed that TransCanada does not have proprietary information on potential fields; however, the materials presented by the administration and other witnesses indicate that there will initially be enough gas for a pipeline of 3.5 Bcf/day to 4 Bcf/day. The Point Thomson gas was not considered when TransCanada submitted its application, and TransCanada expects that the basin in Alaska

can produce 4.5 Bcf/day. The availability of Point Thomson may affect the response at the open season, though; regardless, if necessary, TransCanada can downsize the project to 3.5 Bcf/day or increase capacity.

REPRESENTATIVE GARA asked whether Mr. Palmer had any experience with lease holders attempting to block pipeline projects.

MR. PALMER said no.

[2:26:07 PM](#)

REPRESENTATIVE GARA stated his belief that gas commitments will be made if the pipeline is built. However, the oil companies have the ability to refuse to commit gas and create an atmosphere of uncertainty. He asked, "If they don't put the gas into a waiting pipeline, at what point do they risk losing their leases and the future value of the gas?"

COMMISSIONER GALVIN surmised that the oil companies take positions that maximize their commercial opportunities. He continued:

When we talk about the lease prerogatives, [the] duty to develop, and so forth, it's not so much that we're stating that it is a risk on their part, that they're going to lose billions of dollars of value by not doing so, it's just something that is in the decision framework ... in terms of ... whether to commit gas to a particular line ... [at a] particular point in time. As things unfold, we don't know how this is going to play out, either with regard to the TransCanada TC Alaska project going to an open season, [or] the Denali project going to an open season. ... I think Senator Wielechowski's comment that ... the gas will ultimately end up at the Denali project ... is the knee-jerk feeling. ... But as Mr. Palmer indicated, it's not that simple - it just doesn't work that way in the real world. ...

There are going to be a number of different considerations that are going to play out as they make that decision on where to commit their gas. Clearly TransCanada, throughout North America, has attracted gas, [has] attracted these same producers to put gas into ... [TransCanada's] lines in instances where the producers had just as much of an opportunity to build

the line themselves. ... There's an economic opportunity here, there's a lot of money to be made by all the participants that are here discussing it, and it's just going to be a matter of how it plays out. ... We believe that for the purposes of the decision that we have before us now, that all indications are that ... this gas will get to market.

REPRESENTATIVE GARA gave an example of the oil producers being willing to sell gas to their own project, but not to the project chosen by the state. If the state still prefers the TransCanada project, and other options have been exhausted, he asked whether the oil companies are risking, by their refusal, the loss of their leases in a lawsuit brought by the state.

2:30:48 PM

COMMISSIONER GALVIN indicated that the advancement of the Denali project is an alternative to get the gas to market. The choice of pursuing that alternative is within the producers' prerogative, although it means there will be no additional state concessions or changes to the system. Further, completion of the Denali project will satisfy the requirement of the leases. However, if the producers refuse to put their gas in any project, that will raise the question of whether that is a justifiable position for the producers to take.

REPRESENTATIVE GARA concluded that if the leases are violated and the facts support the state in a lawsuit, the producers risk losing their leases.

COMMISSIONER GALVIN said yes.

SENATOR McGUIRE recalled recent public testimony from a citizen concerned about the legislature not doing enough to bring all of the parties together to work as a team and move the gas pipeline forward. She observed that TransCanada is a successful pipeline builder and is prepared with right-of-ways, First Nation permitting, and access to the [AECO] Hub. Further, ExxonMobil Corporation ("Exxon"), British Petroleum ("BP"), and ConocoPhillips Alaska, Inc. ("Conoco"), are three large and successful corporations that own a significant amount of gas that they want to market. She pointed out that this vote will be a political decision made by legislators inexperienced in a business transaction of this proportion. Senator McGuire stated that she has misgivings even though the producers have changed their tone under pressure. In addition, the project is

supported by an extremely popular governor. On the other hand, there is the \$500 million cost to the state and the biggest concern is that AGIA binds the state to only support the licensee's project.

SENATOR MCGUIRE expressed concern about the possibility of an unsuccessful open season leading to lengthy litigation. She also mentioned that her constituents who work for Conoco and BP feel that a vote in favor of TransCanada is a vote against them. She informed the committee that there are very successful mediators serving at the Consensus Building Institute at the Massachusetts Institute of Technology; in fact, one of the mediators there has negotiated 47 mega-projects around the world. She suggested that the administration consider, before the vote on the license, one more attempt, with a trained policy mediator, to get all of the stakeholders together in executive session. She stressed that state business is "open and transparent"; however, the parties need to be able to communicate directly "in order for certainty to take place."

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COMMISSIONER GALVIN observed that Senator McGuire raised the crux of the question, that is, "How do we get from here to there?" He opined that there is an agreement on the ultimate goal. The question is a matter of sequencing and the tight timeframe. "Structurally, how do we get the state, in this commercial enterprise that we've got ourselves engaged in, to actually participate in a meaningful way," he asked. In a democracy, with a representational form of government, it is very difficult to operate similarly to the business sector. The state must make decisions on an ongoing basis and cannot be as nimble as a business in a commercial setting. In fact, there will be more structure and separation between decisions, and, because of that, the state must take a position that can be agreed upon by the legislature and the executive branch, and AGIA sets up the sequencing that will allow the state to reach that goal, in a certain manner.

COMMISSIONER GALVIN pointed out that interaction with the other parties will establish what the state is willing, and unwilling, to do. A review of the state's work over the last few years shows that limits for what is possible are being established. He opined that it is "absolutely critical at this juncture in the process, for the state and the legislature and the executive branch, together, to establish what is the framework for further discussion, and we do that by approving this license and saying,

'These are the terms that Alaska wants to operate within.'" Any diversion from doing just that will expand the discussion beyond the current framework that allows for consensus, and will open up the expectation that there is a whole realm of alternatives. He suggested that a decision must be made on this license in order for Alaska to state its position, and this will be a major advancement in the ability to get the parties together.

COMMISSIONER GALVIN warned that there may be an impasse at some point, and mediation would then be appropriate. In response to previous testimony, he said that there are no identifiable barriers within AGIA, and it is the best mechanism for a democracy to use in order to provide the tools to enable the administration to achieve its goal.

SENATOR MCGUIRE re-stated her concern that fierce positions will be staked out and further complicated by the dispute over Point Thomson, thus interfering with the administration's plan. In her opinion, she relayed, the department is now faced with the ultimate conflict of interest; to deal with the revocation of leases [at Point Thomson] and to also review, for the same parties, applications on the Denali project. She concluded that these positions could become adversarial and could lead to litigation instead of reconciliation.

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REPRESENTATIVE CRAWFORD recalled that Mr. Haymes, ExxonMobil Alaska Production Manager, indicated that ExxonMobil would like to own a percentage of the line commensurate to its throughput. He asked Mr. Palmer to comment on how much of a percentage TransCanada was considering offering to shippers.

MR. PALMER clarified that members of the legislature and others "would like TransCanada to remain north of 50 percent, because you're looking for an independent pipeline." Since AGIA is not prescriptive on this point, TransCanada has offered equity to parties who commit their gas at the initial open season in order to improve the probability of a successful open season. He stated that although there have not been discussions with producers regarding the volumes of shipping or shareholding, a producer may expect to have a volume commitment equal to its share ownership, and TransCanada's task would be to bring a balance that would work for all parties.

REPRESENTATIVE CRAWFORD relayed his personal experience working on the Trans-Alaska Pipeline System (TAPS). He asked whether

TransCanada considered negotiating shares for line-workers as part of its project labor agreement (PLA), in order to keep costs and the tariff down.

MR. PALMER advised that TransCanada has not started to develop its strategy and tactics for a PLA. However, at a nuclear plant in Ontario that TransCanada is refurbishing, the workers are "a direct partner" with TransCanada.

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REPRESENTATIVE SAMUELS said he agrees with the decision to dissolve the unit leases of Point Thomson. As far as leverage goes to ensure the commitment of gas, the state can use taxes, permitting, and Point Thomson to apply pressure. However, to think the state could take back leases at Prudhoe Bay from an operating oil field is unreasonable. He opined that seizing the Prudhoe Bay leases is not a realistic leverage point, although there is real leverage at Point Thomson. Representative Samuels then asked for Commissioner Galvin's opinion.

COMMISSIONER GALVIN observed that at issue is what the state can do if the producers choose not to commit their gas to any project. For example, if the producers decided to hold out for a long-term tax break, he opined that the state would have some recourse as the lessor. Furthermore, the situation could be that either there is no pipeline or economic justification for a pipeline, and the producers' refusal to commit gas is reasonable, or it is clearly economic and the producers are holding out to extract additional value from the state. The situation will probably be some combination of the aforementioned, and so any resolution must be based on the facts of the case. Commissioner Galvin advised that the state can not make a prediction about this. At this time, the legislature does not have to make decisions regarding changes in taxes, or steps to support TransCanada's project. The purpose of AGIA is to advance the state another step, gather information, identify the options, and take the next step. He expressed his confidence that this is the best step for the state to take right now, to maximize its opportunities. He warned against forestalling legitimate options that the state may want to pursue in the future, and said that the duty to develop is not "off the table."

REPRESENTATIVE SAMUELS said the problem is that this is going to be a commercial and economic decision made in Calgary, London, and Houston, and be based on a review of the numbers, the risks,

and the economics. Legislators, in contrast, are looking at the political world; campaign promises and changes in legislative members and the administration. The business world must feel frustration with decisions made through a political prism. He opined the government is trying to become a player at a commercial table, and cannot be successful due to potential changes in the administration. Representative Samuels recalled Mr. Palmer's previous testimony that TransCanada would not seek an agreement with the producers, outside of AGIA, unless the state agreed. The political environment could change that position.

COMMISSIONER GALVIN acknowledged that Representative Samuels's comments get to the heart of the discomfort and disconnect with AGIA. With regard to resources, the state is a commercial player as the owner of the resources. Granted, politics prevent the state from acting in the business world, as a business, because it is not a dictatorship. This situation creates burdens on commercial entities regarding long-term investment decisions or contractual commitments that can change after election night. However, AGIA addresses these burdens by fiscal assurances and treble damages. It acts as a mechanism to overcome the lack of ability to provide a contractual partner, with reassurances that agreements will not change without penalties. Furthermore, AGIA does not bind future legislatures or prevent changes from being made, but puts a price tag on any such changes. This issue has been seriously considered, along with upstream fiscal certainty, which needs to be imbedded in a way that can be relied upon. Commissioner Galvin agreed that there is an awkward connection between the state's commercial interests and the inherent structure of a democratic government.

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REPRESENTATIVE FAIRCLOUGH raised the question of the potential conflict of interest within state agencies regarding applications coming from the Denali project and applications from Exxon and Chevron Corporation ("Chevron") asking to advance projects. She asked how the state would be held harmless given that on June 6, 2008, Mr. Palmer stated his expectation that the state will act as a partner and maintain a good working relationship with TransCanada. She further asked how TransCanada will view the state processing the applications for the Denali project and for Point Thomson.

MR. PALMER referred to AGIA, AS 43.94.40, which read:

The review processing or facilitation of a permit, right-of-way, or authorization by a state agency in connection with a competing natural gas pipeline project does not create an obligation on the part of the state under this section.

MR. PALMER expressed his belief that this is a specific provision to allow the state to process permits without a breach of contract.

COMMISSIONER GALVIN advised that within the Department of Natural Resources (DNR), there is an office that coordinates the permitting for large projects. He explained that the relationship is established through the reimbursable services agreement (RSA) between the permittee and the DNR and, by extension, through the other state agencies. This allows for the applicant to contract for dedicated permitting services for a fee. This is a usual mechanism that has been offered to the Denali project, ENSTAR Natural Gas Company, and Alaska Natural Gas Development Authority (ANGDA). Further, in response to concerns, he maintained that the state will process, evaluate, and ensure that there is a timely adjudication of applications of any gas pipeline, regardless of their source. He stressed that the RSA process allows an applicant a relationship with the state very similar to what TransCanada will enjoy.

REPRESENTATIVE KERTTULA said that in terms of working in the marketplace, the legislature has the goal of avoiding anti-trust violations, of seeing competition and letting the market work. She remarked that if they've learned anything from the TAPS, it's that they should support openness and true competition, because that's been a long time coming.

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MR. PALMER, continuing with his presentation, said that the pipeline is a synergetic business opportunity for TransCanada because it has spare capacity on the existing system leaving Western Canada that it wants to refill with Alaska gas; this would also be beneficial for Alaskans and for customers in Western Canada. He explained that the [AECO] Hub is the 15,000 mile pipeline system in Alberta that is owned by TransCanada. Going into this system will improve the economics for Alaskan gas as was demonstrated by a recent independent analysis purchased by the Legislative Budget and Audit Committee. Netbacks will be higher as a result of going into existing facilities that are somewhat depreciated and thus, will have

lower tolls. Additional benefits are: Alaska's gas will have market diversity, just like Western Canada's gas has today, to serve markets across the Lower 48; there is a liquid market, meaning that gas on the system can be traded for free; and the risk of capital overruns is lowered by not building a facility to transport the gas to Chicago.

MR. PALMER said that he has heard other parties indicate that Alaska's gas should go to a different system in Alberta. He assured the committee that another system would provide lower value to Alaskans on a netback basis when rationally looking for the best economic value. Turning to the subject of whether Alaska gas will be used in processing the Alberta oil sands, he stated that Canada has a significant surplus of natural gas. After exporting gas to the U. S. for forty years, Canada has a current surplus of 9 Bcf/day, which is more than double the capacity of the proposed pipeline. At this time, production in Western Canadian is relatively flat and demand is increasing because of oil sands development, heavy oil development, and electric generation. Therefore, the present surplus is expected to decline from 9 Bcf/day to 6 or 7 Bcf/day within the next 10 years. However, Alberta will still be exporting 6 or 7 Bcf/day when the Alaska gas comes to market.

MR. PALMER stressed that Western Canadian gas will continue to serve the oil sands market for the next 10 years and beyond. As Alaskans expect the Alaska natural gas market to be served first, so does Alberta intend to serve its local market. So, he continued, when Alaska gas comes to market in 10 years, its 4 Bcf/day will add to Canada's export of 6 Bcf/day. He concluded that it is inaccurate to say that Alaska's gas will go to Alberta's oil sands. He acknowledged that the gas will be comingled, but the net effect is that it will go to the Lower 48, refilling the pipeline, and lowering the toll.

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REPRESENTATIVE GARA asked what the anticipated use of natural gas is for the oil sands "if they're up and running fully as an exploration project."

MR. PALMER replied that generally, natural gas is used to provide heat and steam. Huge amount of incremental oil sands development is expected in the next 10 or 15 years by either an open pit mining process, or by steam assisted gravity drainage (SAGD) whereby the oil is collected via a horizontal well. Both processes use natural gas, though parties are currently looking

for ways to use "bottom of the barrel" products instead. If that is unsuccessful, oil sands and heavy oil development in Western Canada will increase the demand for natural gas by 2 Bcf/day within the next decade, he predicted. In response to other questions, he stated that the numbers he'd cited earlier for Canadian exports assumes an increase in demand at the oil sands of about 2 Bcf/day, and exports of about 6-7 Bcf/day in 10 years time - which is down from 9 Bcf/day today.

MR. PALMER, continuing with his presentation, stated that TransCanada's objectives are highly aligned with those of the state. Those objectives are: support basin development, both short term and long term; and support the open competition established under AGIA. He remarked that the legislature and the administration decided to support an open and transparent process rather than a contractual negotiation. TransCanada has participated in public request for proposal (RFP) processes around the world and understands how this process, and negotiated contract processes, work. Furthermore, TransCanada agrees that competition is important; in fact, there is competition for who will build, own, and operate the pipe, and, more importantly for the resource owner, there is competition at the wellhead.

MR. PALMER pointed out that TransCanada began 50 years ago with just 3 customers in Western Canada and today has 300 customers; no one can suggest that there is less competition with 300 customers than with 3. He opined that TransCanada has no inherent conflicts, in pursuing this project, with any of its other business goals. In addition to its large system in Canada, TransCanada has employees, offices, and assets across the U. S., including 12,000 miles of natural gas pipeline, making TransCanada "one of the largest U.S.-based pipeline companies," he remarked, and observed that the natural gas and oil business in North America is integrated for all parties. He then noted that TransCanada offices are located in Houston, Omaha, Portland, Michigan, Connecticut, and Boston; however, he stressed that Western Canada is most similar to Alaska. In fact, there are several areas in which TransCanada's experience is similar to Alaska's; for example, TransCanada began in Alberta with a small local market, 0.25 Bcf/day, and surplus gas was then exported.

MR. PALMER said that furthermore, like Alaska, Western Canada is far removed from major markets such as New York, California, and Chicago. TransCanada also began with a small number of initial customers, and now serves large and small companies. Alaska's

basin has a high potential for exploration, as did Alberta 50 years ago. He noted that there have been questions asked concerning TransCanada's capacity and ability to build the pipeline. He assured the committees that TransCanada is well suited for this project as it moves 20 percent of North American natural gas across interstate and interprovincial pipeline. The vast majority of the natural gas pipelines are owned by third-party pipeline companies, and TransCanada is the largest interstate and interprovincial pipeline natural gas company with proven technical, engineering, and operational competence. Its operating costs, as verified by a third party, are lower than its competitors by 25-35 percent.

MR. PALMER relayed that TransCanada's internal auditors have determined that between 1990 and 2003, its capital costs for large projects using 42-inch to 48-inch diameter pipe are 19 percent lower than Canadian competitors and 38 percent lower than others in the U.S. Furthermore, during the 1990s, TransCanada built 7,000 miles of pipe on schedule and within 0.6 percent of the budget. TransCanada built an original pipeline across Canada 50 years ago that was longer and more difficult than this project, competitively and with the cooperation of the government. He relayed the importance of looking beyond engineering and operating skills to construct and operate a project of this nature, because it will take much more than those to complete this business.

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SENATOR FRENCH asked Mr. Palmer to address the argument made by some that TransCanada doesn't care if it runs over budget on this pipeline because it will get all of its money back in a guaranteed rate of return through the FERC and the tariff. He asked whether TransCanada has financial motivation to bring this project in on budget.

MR. PALMER explained that TransCanada cannot succeed as a third-party business and expand its system if it has cost overruns; that TransCanada has a long history of controlling costs; that TransCanada stipulated in its AGIA application that it would take a lower rate of return on its capital in the event of cost overruns; and that TransCanada has proposed that there be an allocation of the U. S. government loan guarantee to cover capital-cost overruns. Overruns would be funded with 100 percent debt, and TransCanada would not earn additional money, but would instead receive a lower rate of return on equity. He pointed out that TransCanada's record of cost control on the

construction of interstate and interprovincial pipelines is unmatched.

SENATOR FRENCH asked for an explanation of the effect of a loan guarantee on cost overruns.

MR. PALMER explained that a cost overrun would result in more debt, guaranteed by the U. S. government, but there would be no incremental equity. For example, if there was an overrun of \$6 billion, without the loan guarantee, the \$6 billion would be funded with 75 percent debt and 25 percent equity, which would result in \$1.5 billion of equity invested by TransCanada. He further explained that a 40 percent cost overrun, for example - if TransCanada's proposed cost-overrun structure was not approved - would result in only a 7 percent return on TransCanada's "incremental investment dollars." Mr. Palmer then remarked:

Our proposal is to adjust the U. S. loan guarantee to allocate a portion of it to cover overruns and that would insure that TransCanada earned, as a shareholder, not one penny more from a cost overrun.

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REPRESENTATIVE SAMUELS argued, though, that that 7 percent return would come out of the pockets of the shippers of royalty gas. With regard to the loan guarantees, if TransCanada obtains them for cost overruns but then doesn't have any overruns, the federal government might not allow TransCanada to use the loan guarantees for the project's original capital costs.

MR. PALMER acknowledged that a portion of the risk would remain with the shipper, while only a limited portion of the risk would remain with TransCanada. That would always be the case on a project of this scale, particularly under the capital structure required by AGIA. He added:

You will not find a party - I can assure you, as a pipeline company - that's going to go forward with a 75:25 percent debt equity that's going to guarantee you that that party will take 100 percent of the capital cost risk. ... [With regard to] the issue of the 7 percent, it is something that is not attractive to our corporation. You're correct that the shippers will have to bear some of that ... risk as well. Our structure that we propose, in the event the U. S.

government does agree to it, also has a surcharge mechanism which would ... reduce some of the risk on the shipper and put some of that risk on the U. S. government. ... I will also tell you, the AGIA process has been highly unusual in that ... we have had to reveal our commercial secrets on this project ... before we have won anything. And that is, if not unique, highly unusual; I have never done that before in my career.

The committees took an at-ease from 3:49 p.m. to 4:07 p.m.

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MR. PALMER stated that there are other critical skills, besides engineering and operations, that are needed to obtain success in a project of this nature. Regulatory, community, First Nation, and environmental issues must be addressed, in addition to commercial and financial aspects. TransCanada has begun discussions with the government of Canada about the structure of this project through Canada; in fact, there has been and remains a structure in place through Canada as established between two sovereign nations. This proposed project has a 30-year history. Although the legislation and regulatory structure is different than in the U. S. - for example, Canada's norm is for rolled-in tolls - there is a valid treaty that established the rights and responsibilities of both nations. Furthermore, Canadian legislation - the Northern Pipeline Act - provides a "single-window regulatory agency" for this project. Turning to the subject of LNG alternatives, Mr. Palmer reiterated:

TransCanada provided in its application ... that when we hold the initial open season, customers will be able to nominate any location along the right-of-way, in Alaska, Yukon, British Columbia, or all the way to Alberta, or to Valdez, simultaneously. ... In the event that there is a potential LNG project that can go forward at that time, and they nominate gas and meet all the standard terms and conditions - as any customer would have to - they will have that opportunity to nominate Valdez or Alberta or Fairbanks or Whitehorse.

REPRESENTATIVE CRAWFORD expressed his understanding that there are environmental groups that are unhappy with the prospect of new gas coming to Canada to support the tar sands project. He asked whether TransCanada would have the ability, after the open

season, to redirect the project to Valdez if the Alberta market closed.

MR. PALMER responded that if all of the gas is committed to Alberta at the open season, and if, while TransCanada is in the process of obtaining approvals, there was a significant obstruction, TransCanada would have to contact its potential customers to see if they would make a change. He elaborated that in the highly unusual circumstance that the project was stopped, TransCanada would seek commercial alternatives with its potential customers and with government.

REPRESENTATIVE SAMUELS asked whether, at the open season, the same information about costs would be available for both the route to Valdez and the route to the AECO Hub.

MR. PALMER said yes.

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MR. PALMER addressed the issue of what the state gets for its \$500 million investment. He estimated that TransCanada will also be investing more than \$100 million before it obtains the first license; in fact, Alaska's return on its money will be higher than TransCanada's, and, for its \$500 million, the state gets a reliable, world-renowned partner that is capable of advancing the project. TransCanada will provide an open season within two years and voluntary expansions every two years thereafter and is committed to proposing the rolled-in toll structure that the state has requested in AGIA. He noted that with a mandatory expansion, the FERC indicated that the tolls would be incremental, not rolled-in. Incremental tolls are a substantial hurdle to new explorers because they would face higher tolls than the existing parties and so may have to go in front of the FERC and argue their case with no certainty with regard to outcome.

MR. PALMER said TransCanada is committed to promoting long-term development, to proceeding to FERC certification, to building a pipeline to Valdez if there is a market, and to delivering gas to Alaskans. He concluded that TransCanada has a long history of moving gas from western Canada and is motivated to continue major expansion. He reminded members that employment opportunities come from pipeline expansion and exploration drilling, not from the operation of the pipeline. The Alaska portion of the pipeline totals about 750 miles, therefore, the operation of the completed pipeline will require only 50 to 75

employees. In contrast, there are thousands of jobs during construction, and long-term employment comes from further drilling and expansion. In addition, in-state gas development is also important to TransCanada; in fact, there are 1,100 receipt and delivery points on its system in Alberta.

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MR. PALMER began his PowerPoint presentation. He displayed maps showing the transportation system that TransCanada has built. Under construction is the Keystone oil pipeline that has the potential of becoming a \$13 billion project. Slide 4 illustrates TransCanada's growth from a pipeline in 1958 that delivered 0.25 Bcf/day 250 miles. Slide 6 illustrates the construction of "pipeline looping," which is a second piece of pipe laid parallel in the same right-of-way. Slides 7 and 8 illustrate the AGIA requirements for an application. He opined that the competition for AGIA, as in any RFP process, occurred prior to the submission of the application. He reviewed TransCanada's competitive response to AGIA and highlighted that the proposed toll reduction of \$0.09/MMBtu would mean a \$150 million reduction per year for the life of the project.

MR. PALMER then pointed out that TransCanada has filed with Canada's National Energy Board (NEB) to change the jurisdiction of its Alberta system from provincial to federal, partially in order to be able to structure a system wherein "the value of the incremental Alaskan gas to Western Canadian producers" is shared with Alaskan customers. And that structure, if acceptable, would achieve the aforementioned toll reduction, which, over the course of 15 years, would ship \$3 billion worth of value to Alaska producers and away from Western Canadian producers. Slide 10 illustrates the proposed Alaska pipeline project, and Mr. Palmer noted that 33 percent of the [AECO] Hub pipe is in the ground. Slide 12 illustrates the capital cost of \$26 billion and specified rolled-in tolls for the Canadian and Alaska portions of the pipeline. Slide 13 illustrates the financial parameters of the project and indicates a debt to equity ratio of 60:40 for all expansions.

MR. PALMER remarked:

I will also assure you that 60:40 is a structure that is not unusual in the U. S. and Canada; in fact, that is the capital structure of our Canadian pipeline systems that I described for you, and, for many U. S. pipelines, that actually is a relatively low equity

structure. You heard talk over the last several days about Rockies Express - [the] existing pipeline under construction from the Rockies in Wyoming, going east to the Midwest and beyond - that structure has 55 percent equity. ... And, in fact, if you take the 75:25 for [the] initial project, and 60:40 for ... expansions, and you ... do a weighted average up through 7 [Bcf/day], you still do not get back to 70:30. So TransCanada's made a significant step out here.

MR. PALMER described the return on equity and the return on equity adjustment in the event of capital-cost overruns. Slide 14 illustrates the project schedule, with the license to be issued sometime in July or the beginning of August 2008. The open season is scheduled for July 2010, with a completed project scheduled for September 2018.

REPRESENTATIVE BUCH asked for the meaning of "a binding" open season, and about the circumstances that would lead to two open seasons.

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MR. PALMER explained that the initial open season is a binding open season that is scheduled to be completed by July 2010. Over the next 12 months, TransCanada will be doing the necessary field, environmental, and engineering work in order to conduct the open season. As in any open season, there could be insufficient volume to proceed. In that event, AGIA requires that TransCanada continue to pursue the FERC certification, to seek customers, and to hold a second open season by 2012. Clearly, the preference is for customers to nominate their gas in 2010. Slide 15 illustrates TransCanada's offer of equity opportunity to shippers that subscribe for a threshold volume in the initial open season. Mr. Palmer added that his company continues to seek a partnership alignment with the three North Slope producers and the state. Regarding upstream fiscal terms, Mr. Palmer said that that is a matter between the state and the leaseholders. He stressed that TransCanada can and will accommodate natural gas liquids (NGLs) extraction as customers' desire, and the gas will subsequently be moved to market.

SENATOR FRENCH asked whether the extraction of NGLs affects the price of natural gas.

MR. PALMER expressed his expectation that the liquids will be removed either in Alaska or in Alberta, before the gas goes to the marketplace, due to their value. Ethane, propane, and butane are generally more valuable on a volume or Btu content [basis] than natural gas. Furthermore, TransCanada's calculations assume that the liquids are included in the gas going to Alberta, and are based on a Btu content of 1,118 or 1,067. He cautioned that when the Btus go down to 1,000, the unit tolls will increase.

SENATOR FRENCH opined that selling the liquids and the gas separately offers more value than selling a combined product.

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MR. PALMER said, "That's correct; if you are selling 1,118 Btus as methane, you would generically obtain less value than if you spilt it, and that's why they're generally removed somewhere before they hit the ultimate customer." He added that the Alberta system is "straddled" by a number of complexes owned by third parties that will compete for "that business."

COMMISSIONER GALVIN opined that the state wants to get maximum value for the gas, and that will result if the state sells the liquids as well. In addition, having the separation take place in Alaska will encourage this industry; in fact, there is nothing in AGIA that would discourage the development of this industry.

MR. PALMER re-stated his description of the regulatory structures in Alaska and Canada, and then turned to the subject of long-term basin development. The AGIA "must-haves" promote basin development: open season every two years; in-state deliveries through distance-sensitive tolls and a minimum of five delivery points; low equity ratio; and state fiscal incentives. With regard to the value to Alaskans of long-term basin development and expansion of the pipeline, Mr. Palmer said that assuming an average price in nominal dollars of just under \$10.00, there is a "netback" of \$350 billion over 25 years, whereas if the pipeline is expanded to 5.9 Bcf/day after 10 years, for example, that [netback] goes up to \$600 billion, and up to \$700 billion if the pipeline is expanded to 7.2 Bcf/day.

MR. PALMER, referring to a slide on his PowerPoint presentation, noted that the basin in Western Canada grew from 180 wells in 1955 to 13,000-16,000 wells currently. He also spoke of Alberta's available reserves; 50 years ago the potential was for

75 trillion cubic feet (Tcf), but twice that amount has already been produced and there remains another 125 Tcf in the reservoir. The original proven reserves in Western Canada three years before TransCanada completed its pipeline was 15 Tcf, but 10 years after TransCanada was in service, that had grown to 55 Tcf. "If you have a basin that is similar to Alberta, and Western Canada, that would imply your 35 Tcf of proven reserves would be north of 100 Tcf 10 years after in-service," he predicted.

MR. PALMER turned to the issue of rolled-in tolls and said that the Legislative Budget and Audit Committee asked TransCanada to "Examine a scenario where you start at 4.5, for two years, then you expand to 5.9 and then 6.5 for two years and then 7.2 thereafter." The graph on slide 23 of the PowerPoint presentation illustrates that the incremental cost of constructing a 4.5 Bcf/day pipeline - just the pipeline - is under \$2; that expanding the pipeline to 5.9 Bcf/day via compression will have lower incremental costs; that expanding the pipeline to 6.5 Bcf/day, perhaps via partial looping, will result in still higher costs, as would expanding the pipeline to 7.2 Bcf.

MR. PALMER then referred to slide 24 illustrating the impact of rolled-in tolls, AGIA standards, and the FERC standards on the previously described scenario. He explained that the pipeline company will have to apply for rolled-in tolls under the following structure: at 4.5 Bcf/day, \$1.76; at 5.9 Bcf/day, \$1.67; at 6.5 Bcf/day, \$1.76; and at 7.2 Bcf/day, approximately \$2.00. Under this structure, all customers would be paying these rates. However, under the FERC's rules, if the incremental costs are lower than the base, there would again be rolled-in tolls for all customers. Furthermore, whenever the incremental costs are higher than the base, the FERC requires incremental tolls for new customers, and the difference is \$1.00/mmBtu. Thus, he emphasized, an explorer looking for gas must consider paying an additional charge for 25 years.

MR. PALMER concluded that TransCanada believes that AGIA was structured to encourage the construction of the base project, long-run basin development, and open-access terms for initial and future shippers, and to provide service to in-state, Lower 48, and LNG markets. TransCanada has the credentials to build, own, operate, and expand the pipeline. Moreover, TransCanada's objectives are aligned with AGIA and the state's objectives of early in-service; long-run basin development; and open access

and equitable treatment of all customers, original and later, big and small.

The committees took a recess from 4:53 p.m. to 6:01 p.m.

[6:06:09 PM](#)

BLYTHE CAMPBELL opined that \$500 million is not a trivial amount of money, and said that even after following the gas pipeline issue pretty closely for the past several years, she cannot figure out why the state needs to spend that money. She said that although Mr. Palmer repeatedly used the term "commercial decisions" in his earlier presentation, she cannot imagine that "this process" is similar to any commercial decision-making process Mr. Palmer ever engaged in. She opined that the state doesn't belong in this kind of process - it's not the state's role to manipulate markets, particularly given that historically the state is not very good at it. She concluded:

Voting "no" on the license gets the state out of the middle of a commercial project, and given the robust economics and the low risk we heard about earlier today, it's really just about time we did that. I may be greedy, but if we can try to get TransCanada's expertise on this project and their best commercial decision-making without spending \$500 million, I'd really like to do that.

SENATOR BUNDE said the \$500 million troubles him as well, though he noted that the state's previous attempt [during the Murkowski administration] at getting a gas pipeline would have cost the state \$10 billion to the producers. He asked Ms. Campbell whether she disapproves of all subsidies.

MS. CAMPBELL replied that she respectfully disagrees with Senator Bunde "about the \$10 billion." She reiterated that she thinks it is not at all the state's role to be "mucking around in the market."

SENATOR BUNDE said he would not argue with that. However when the state considered the issue of stranded gas and the production profits tax (PPT) legislation, it was over \$10 billion that the state would have been offering in tax incentives.

[6:08:34 PM](#)

TAMMIE SMITH said there is nothing more she would like than for Alaska to remain "a great place to live, work, and raise families." The action that the legislature takes in regard to the gas pipeline will greatly affect the future of all Alaskans, she opined. She relayed that she worked for ExxonMobil Corporation for nearly six years in the early 1980s, and her husband took part in the cleanup of the Exxon Valdez oil spill. She noted also that she has worked in the construction and engineering field for the past 16 years.

MS. SMITH said she has been following the gas pipeline issue since the AGIA request for proposal (RFP) was issued last summer, and has studied the matter extensively in the last eight months since the firm for which she works submitted an application to build the gas pipeline last November with the Chinese oil firm, Sinopec. That application was rejected by the administration; however, Ms. Smith said that that has not diminished the passion she has developed for the all-Alaska gasline project to a Valdez LNG facility for shipment to any part of the world, especially to Alaska's current largest trading partners - the Asian market.

MS. SMITH said the testimony she has heard over the last week - that there is plenty of gas in the Lower 48 and that the gas market is changing - is correct. She said Alaska needs to be a front runner in the current global economy and do what is right for the state, its citizens, and [the rest of] the United States. She stated that she feels AGIA has created an atmosphere of fear, which she said is one of the factors driving up the price of oil. She said the legislature should not award a license to the wrong project - the pipeline into Canada - out of fear that if that is not done there will not be any pipeline built, because she believes another will be built. She continued:

All of these factors - the AGIA process, the Denali project, the devaluation of our dollar, which helped cause the high cost of oil and gas - ... have all come together at the right time to create the circumstances for the right project for Alaska, and I believe that project is the all-Alaska LNG project to Valdez, no matter who it is built by.

MS. SMITH said the all-Alaska gasline project would provide the best deal to Alaskans, including long-term jobs, a new petrochemical industry and its associated jobs, and cheaper fuel for the state's homes and businesses; that project would make it

possible for Alaska to reduce the United States' national trade deficit with China by selling China the only thing it needs from the United States - energy. Saying she is not in agreement with AGIA, she added, "If you want to amend it to make it more applicable to an all-LNG project, that would be fine, but the way it stands now, I hope that you will not be awarding TransCanada a license."

[6:12:04 PM](#)

SENATOR BUNDE noted that the night before, another testifier had made a plea for an all-Alaska gasoline, and he had told her that an export license would be needed to send gas to China; however, according to information the legislature has received from the federal government, that that's not going to happen, at least not until the Lower 48 is served first. He offered his understanding that the testifier had been told by the "Port Authority" that it had an export license but was not told that that license needs to be renewed. He said the people who have spoken with those in the U.S. Department of Energy (DOE) have been told that it is highly improbable that that license would be renewed.

MS. SMITH remarked that there is nothing about this project that will not be problematic, but that's not to say it's unachievable. She said she thinks an export license could be issued "if you get to the right people and give them the right information."

REPRESENTATIVE RAMRAS offered his understanding that the DOE has a concern about long-term export of energy to other countries because of the current climate here in the U.S.; that that's why "the Conoco export license" has to be renewed every two years; but that obtaining a limited expansion of the export license is in fact possible. He mentioned, however, that "some of us got together with the director after he testified here, and he ... , said that Alaskans ought to build their own pipeline first and look after their own needs first." He posited that putting together different in-state Alaskan markets and a modest expansion of the export license is a very reasonable plan.

MS. SMITH opined that if starting with a smaller project proves necessary, then that would be the right thing to do, because every step taken - even if it's a little step - is a step in the right direction, much like making payments on one's credit card balance.

6:15:53 PM

CHUCK BECKER, noting that he's recently retired from the U.S. Commercial Service, said he's closely followed developments in Alaska's economy for a number of reasons, one of which is that he and his wife want to continue to live in the state as retirees. He then said:

I want to take this opportunity to commend Governor Palin and her administration for spurring interest of at least four multibillion-dollar companies that together have the capacity to develop a transportation system to monetize Arctic natural gas - a critical element in the prosperous future for Alaska. I also commend each of you for taking large amounts of your time in studying the issues associated with a gasline project. It appears clear that the fundamentals in the market are such that the numbers associated with the development of a natural gas pipeline make economic sense. The imperative is to minimize the enormous, varied risks that loom over the project like the Sword of Damocles.

To achieve that end, good faith cooperation among the companies that have expressed interest in developing the trans-Alaska and Canadian gas pipeline must begin immediately. Now that you and the administration have got their attention, the next step is for the governor to call the parties together to begin the requisite negotiations. I believe this body should decline adoption of the AGIA proposal with an instruction commending the administration for their achievements in spurring the project and urging the governor to call for a timely gathering of the key players that can make the project a success.

6:17:53 PM

JACK HAKKILA remarked that he taught economics at the University of Alaska in 1969, back when oil was "somewhere in the \$2-\$3 range," and when the oil pipeline was built. He noted that he has met with about 100 oil companies in Calgary over the years. He mentioned a friend who was involved in Canada's discovery of oil at Leduc, outside of Edmonton, in 1948; the authorities at that time decided not to let the "Seven Sisters" [of the petroleum industry] come in and control Alberta, and instead formed their own company in 1948. By 1981, that company was the

largest petrochemical producer in North America, and was not controlled by any of the major producers.

MR. HAKKILA said he does not understand why Alaska would want to develop its oil and gas "for the benefit of the Canadians," and suggested that Alaska should instead build its own gasline and develop its own petrochemical industry. He offered his belief that developing a petrochemical industry would not require a large number of people, and Alaskans could benefit from that industry in terms of employment and funding for future development. He opined that the state should not "do any of this stuff just to accumulate money into a treasury," but should instead be doing something that benefits Alaskans rather than Canadians.

[6:21:15 PM](#)

PAUL D. KENDALL said he is in favor "of those people who would make the determination on AGIA." He stated his purpose in testifying tonight is to convey his "full faith and trust." Those involved in the process are "all well-intended," he remarked, and "just need to focus"; regardless of what the legislature decides, he will support that decision. He stated that he amazed at "the historical moment of this occasion," and that he has a great deal of respect for those contemplating a project of this magnitude. He added, "We as [Alaskans] ... must come together as one people in our understanding of energy; we must understand that true free enterprise ... is the result of a stable and viable society, not the result of an economically-plundered, over-populated, confused, predatory, kept, or parasitical society." All things in society - amenities, essential services, schools, roads, utilities, taxes, banks, sexual identities, organized religions, entertainments, values, commerce, and governments - are "begotten from a single family home and a rental," he opined, and characterized clean air, clean water, and clean energy as three essential needs "that we all owe each other." And freedom, he posited, is connected to energy.

MR. KENDALL suggested, therefore, that Alaska should immediately begin to make itself an all-electric-based society, and called electricity and hydrogen harmonic fuels, fuels that live in harmony with life's cycles. He remarked upon Alaska's vast hydroelectric potential. He characterized large, free-enterprise oil companies as the emperors of capitalism and profits, and said they represent the "rim" with the Middle East being the "hub." He said it is imperative that the legislature

question why the major oil companies have been in Alaska for 20 years but have allowed the pipeline to go two-thirds empty, and should "suspect something unusual." If one considers energy to be an essential need, and if "true, free enterprise" is not applied, then that energy becomes a controlled substance. Alaska is in a position to control that substance and thereby generate capital immediately.

[6:26:10 PM](#)

MR. KENDALL opined that Alaska needs to be prepared for today's "new world," wherein a nation's energy abundance will determine its people's fate for many years to come; and that the next new great society will be based on clean energy - energy that's available by simply turning on a switch. Magnetic fields and hydrogen molecules - new energy's future technology - constitute the only viable future that society can give to its children, he remarked. In response to a request that he clarify what his position is regarding AGIA, he said, "I love the deal," adding that he would like to see the oil companies immediately offer the state a performance bond because they are now moving into "power plant positions across the world" and so could offer the state multiple geothermal, hydroelectric, and hydrogen projects, and electric vehicles. He expressed concern about [how things will stand] in five to ten years, particularly given the rapidity with which technology is evolving. He said that even though the legislature may be well-intended, the oil companies have the ability to manipulate whatever market there is out there. In conclusion, he said, "I want to bequeath my faith and trust to you people - whatever you determine."

[6:29:15 PM](#)

SCOTT HAWKINS, President, Advanced Supply Chain International (ASCI); Chair, ProsperityAlaska.org, explained that the latter affiliation was formed about nine months ago to educate and empower citizens to participate in issues affecting their prosperity. He opined that Alaska is at a point where finally there is a pipeline within its grasp "after many year of wishing for one," and acknowledged the efforts of the legislature and the administration for moving a project forward to where it is now. However, ProsperityAlaska.org has concerns about AGIA. He noted that the first concern is that Alaska's government does not have a sterling track record of investing in economic development projects such as the Healy Clean Coal Project (HCCP) and Alaska Seafood International, LLC. He said the failed projects have one thing in common: a certain hubris in the

public sector that projects can be legislated and funded into existence and become successful economic entities competing in the private sector. He said that that is a difficult proposition, and that AGIA suffers from it as well.

MR. HAWKINS stated that years ago, when he ran the Anchorage Economic Development Corporation (AEDC), he used three criteria in evaluating whether or not there was a role for government in a project. The first criterion was whether the government's role is a minority one, not a majority role. He explained, "Because any time you have a government taking the lead and providing the bulk of the resources for a project, it's a red flag." The second criterion, he noted, was whether the investment is for legitimate government activities, such as roads, public utilities, or even training assistance. The third criterion was that if the benefits of the investment are not mainly public, and the project is not successful, then government should get some enforceable commitment to get its money back. He said those principles served the AEDC well; for example, the AEDC was involved in a number of significant projects, without a single failure. He offered his belief that AGIA fails all three of the aforementioned criteria, and so his concern is that AGIA runs the risk of going down in history as "another embarrassing boondoggle."

MR. HAWKINS also expressed the concern that the state policy-makers involved in AGIA are running the risk of outdistancing their technical expertise. For example, on the issue of rolled-in rates, the FERC is a credible agency that has existed for a long time, and so he is not sure that the state ought to "lay down markers and muddy the waters on issues like that." He also expressed concern with the treble-damages clause, and characterized it as bad policy because it limits the state's options to do something different, even necessary, in the future. He said that ProsperityAlaska.org is also troubled by the AGIA process in that the major oil producers are "getting a tone of confrontation from state government." Characterizing himself as a student of economic development, he said he has watched political jurisdictions world wide succeed and fail, and has yet to see any of them ever confront their way to prosperity.

MR. HAWKINS, stating his belief that there is probably benefit in having more than one competing proposal on the table at this stage, suggested that the legislature amend AGIA such that there is a better balance between the private and public resources being put into the project; such that the treble-damages clause

is eliminated; such that the provisions around rolled-in rates are toned down; and such that something is put in place so that the major producers could join in at some point in time. Alaska finally has an opportunity to advance this project, but he is troubled by the approach that is being taken, he relayed.

MR. HAWKINS concluded:

I think there's a way out here; I think victory is within our grasp. We have to be careful not to overplay our hand, as a state. ... By making some courageous decisions today, the odds of getting a pipeline built can be enhanced and not diminished. We need sound policy - not sound politics.

MR. HAWKINS, in response to questions, provided information about ProsperityAlaska.org, and confirmed that none of the major oil companies are members.

REPRESENTATIVE GARA pointed out that before AGIA and government involvement, "voluntary" involvement by the producers hadn't resulted in a pipeline; therefore, he asked Mr. Hawkins why he would expect that if AGIA is not adopted, suddenly the major companies would propose an acceptable pipeline plan.

MR. HAWKINS clarified that he is not saying that there is no role for government in this process or that AGIA should be eliminated; rather, AGIA should be made less confrontational, and its terms should be changed so that there is less government involvement and more private-sector involvement. TransCanada is a solid company, and the state does have interests in this process, interests which are generally pretty well-aligned with, though not identical to, those of the producers.

[6:38:58 PM](#)

HEATH HILYARD, Staff, Advanced Supply Chain International (ASCI); Board Member, ProsperityAlaska.org, stated that although tremendous headway and advanced discussion has been made by the administration and legislature with regard to AGIA, he does not think a \$500 million inducement is required to move a commercially-viable project forward. In response to a question, he stated that his position on AGIA "would be one of a qualified opposition."

REPRESENTATIVE GRUENBERG said "It seems to me whether you provide cash to somebody or you allow them to keep money in

their pocket by giving them a tax break, the bottom line is pretty much the same."

MR. HILYARD concurred.

[6:41:53 PM](#)

MIKE KENNY, after expressing a preference for an all-Alaska gasline route, said that although he welcomes the transparency of the AGIA process, he still believes it resulted in only one applicant who filled out the application correctly and "went through the process." He continued:

I don't know that the almost unanimous vote for AGIA would necessarily mean that this would be a rubber stamp for the result of this first round of AGIA, or, maybe, it'll turn out to be the final round. There are many reasons that I think AGIA has produced a result that will not be in the best interests of the citizens. Number one is the time: 2020. We can't wait that long; ... that's beyond the pale.

MR. KENNY noted that he had passed out a report, including an interview with Peter Lougheed, the Alberta premier from 1971-1985 and father of that province's petrochemical industry. Mr. Kenny said former Premier Lougheed was completely shaken after a helicopter ride over the Alberta "tar sands," during which he saw the worst devastation he has seen. Former Premier Lougheed, Mr. Kenny relayed, predicted that there would be a decades-long fight in Canada between Alberta's right to develop its resource and the Canadian's right to control the amount of greenhouse emissions in the air. Mr. Kenny said there are several indications that no one had any idea that the devastation that they're now seeing would be the end result, and mentioned that an abnormal number of cancer cases are presenting in Canadian villages.

MR. KENNY, with regard to the tar sands, said it makes no economic sense for any of the producers to send their gas down to Chicago when just 1 Bcf of gas is going to produce 800,000 barrels of oil a day at whatever the price a barrel of oil is. He offered his belief that environmentalists and First Nations people are going to preclude development of the gas pipeline on the proposed route anyway, and that the need for oil in the Lower 48 - particularly given "the deterioration of our relationship with Venezuela and what's happening in Iraq" - far

outweighs the need for natural gas. That oil is going to come from Canada's tar sands.

MR. KENNY said he does not have anything against monetizing the tar sands in Canada, but suggested that if that is going to be done, "why not save ourselves 1,700 miles of pipe and monetize West Sak, Schrader Bluff, and Ugnu, and get our heavy oil to market, and put that in our pipeline" in stead of building a gas pipeline. In response to an inquiry regarding his stance on AGIA, Mr. Kenny stated, "I'm not supporting the result of AGIA."

[6:47:41 PM](#)

DANIEL DeNARDO testified in opposition to AGIA. He told members that he was Alaska's first petroleum revenue auditor and handled all the petroleum audits of the oil companies, as well as all the royalty and production tax payments. Referring to the Alaska Petrochemical Company (Alpetco) project, he characterized it as a financial and political fraud, and indicated that he views AGIA similarly. Acknowledging that legislators will vote as each sees fit, he noted that the first paragraph of Article I, Section 10, of the Constitution of the United States of America reads:

No state shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility.

MR. DeNARDO referred to Sinopec and characterized it as "a communist-controlled facility in a corporation," and opined that "the decisions you're being asked to make in this situation are decisions that nations make, not corporate controlled states." He concluded that it is Alaska's destiny to develop a gasline for in-state use only, not for transport outside of state boundaries. He asked legislators to look out for the integrity of their constituencies when making their decision.

[6:54:18 PM](#)

MIKE ROGERS offered his understanding that U.S. domestic markets will have the ability to obtain Alaska natural gas after some is used in [the Canadian] oil sands. He said he questions whether those oil sands would be uneconomical or wasted if Alaska's

natural gas is not at some point dedicated to extracting that problematic resource. On the issue of exporting LNG to markets in Japan, Korea, and Taiwan, he noted that although some people would suggest that "American gas needs to go to Americans," Alaska's molecules of methane fetch top dollar in Asian markets, and so Alaska should advocate for extending an LNG export license to Asia, including China. The U.S. must find something to sell to Asian bond holders in order to preserve its financial system, he warned, because not doing so might result in a precipitous drop in the U.S. dollar, or devastation of the Social Security and Medicare systems. In conclusion, he offered his belief that a "nay" vote on TransCanada's license will result in huge opportunities for Alaska. In response to a question from the chair, he clarified that he does not support AGIA at this time "in this form."

7:01:05 PM

CARY CARRIGAN said he doesn't really support AGIA in its current form because he doesn't think that the state needs to spend \$500 million to get a pipeline. Legislators should consider what AGIA actually represents and what its costs will be. The process encompassed in AGIA, he offered, is a good one, but what AGIA gives away is too great. In conclusion, he offered his understanding that the producers are currently trying to put together parts of a pipeline, and expressed support for an all-Alaska gas pipeline.

7:03:27 PM

RICK BARRIER, Executive Director, Commonwealth North, stated that Commonwealth North has been in existence for about 30 years, has studied gas pipelines for probably 25 of those years, and has issued a report on TransCanada's proposal under AGIA. Although neither for or against that proposal, Commonwealth North would like the legislature to consider certain points: getting gas to market as soon as possible; having a competitive oil and gas exploration business in Alaska; pricing energy as low as possible for Alaskans; knowing what the cost of this proposal will be to the state in terms of infrastructure and other state responsibilities; and developing some sort of value-added processes in state for commercializing petroleum products.

MR. BARRIER relayed that Commonwealth North would also like the legislature to consider the following questions. Why would the state's contribution of \$500 million not entitle the state to some equity position or return on its investment? Should the

state have an equity position? How can the shippers or TransCanada produce an informed estimate of project profitability without knowing what tax regime might be in place during the life of the project? What would the potential impact on the project be if Point Thomson gas is not available? Would granting an AGIA license put up a barrier to some other types of projects that might be successful and that would include all the various parties? Why wouldn't the state want to lead an effort to bring these parties together, which could possibly result in a more efficient product and lower tariff? And, if the state decides it does want to do that, would it still face treble damages?

MR. BARRIER indicated that Commonwealth North would also like the legislature to consider the following questions related to TransCanada's proposal. Why is it necessary for TransCanada to receive \$500 million from the state if "the other project that's been under way" can proceed without support from the state? Why would TransCanada only spend approximately one-fifth of what the producers said they were going to spend to reach open season and FERC certification? If TransCanada reaches open season and "it's not successful," why would the state want to support that with a \$500 million infusion to get the FERC certification? Would any new participants that joined TransCanada be bound to the same "must-haves" as TransCanada? Could the state somehow compel lease holders to make firm shipping commitments on the TransCanada pipeline? If the ANGDA, ENSTAR Natural Gas Company, and the Alaska Gasline Port Authority (AGPA), or some other entity were able to secure commitments to build a pipeline in open season that exceeded 500 million cubic feet (MMcf) per day, would this trigger AGIA's treble-damages clause?

[7:08:22 PM](#)

MR. BARRIER indicated that Commonwealth North would also like the legislature to consider the following questions related to both the Denali project and TransCanada's proposal. What assurance do the people of Alaska have that the Denali project would proceed in a timely fashion should the TransCanada project not move ahead? Since AGIA limits equity financing, how would the tariff structure be impacted by a differential in the cost of borrowing for the Denali project versus the cost of borrowing for TransCanada? Will Alaska be better off if oil companies, rather than TransCanada, own the gas pipeline? How would it be better for the pipeline to be owned only by a pipeline company? How will TransCanada's proposal and the Denali project ensure that there would be open access to gas development, expansion,

and shipping, as well as fair and reasonable tariffs for new gas developers? How does the Denali project ensure that the state can pursue both meeting its in-state needs and using natural gas and gas liquid to develop the petrochemical industry in Alaska? And how would future possibilities for LNG be accommodated under either the Denali project or TransCanada's proposal?

[7:09:57 PM](#)

SENATOR BUNDE said he has heard that the real economic impact for jobs for Alaska won't necessarily be in the building of the gas pipeline - though that will result in a short-term construction boom - but rather in the development of multiple wells due to rolled-in rates; for example, "In Canada, when they built the first line," there were a 100 wells, and that's since grown to 13,000 wells. He asked whether Commonwealth North has considered this, and if, in its view, that would likely be the scenario in Alaska - that the major impact for jobs and economic growth in the state would be from continued exploration rather than from the initial construction of the pipeline.

MR. BARRIER answered that he has heard that as well, but pointed out that "you can't have any jobs until you have a gasline." The questions of what then happens in terms of exploration, and how fast and how much the basin will be developed are unknown and depend on who is doing the developing. He reminded the legislature that there is a limited supply of gas.

JED WHITTAKER noted that the \$500 million proposed for TransCanada's proposal and the \$1.2 billion in energy relief proposed by Governor Palin adds up to 6.6 percent of a \$30 billion pipeline. He said agrees with former Governor Walter Hickel that the state should build and own its own natural gas pipeline, because that will be the quickest and most profitable way of "accomplishing this goal." Furthermore, in doing so, the state would not be reliant on a corporation's possibly disparate goals. He concluded by saying that if the goal is to manage the state's natural resources according to the [Alaska State Constitution] - in other words, for the maximum benefit of the people - one has to consider future generations, and owning a gas pipeline would be highly profitable for many years to come.

[7:15:41 PM](#)

RICK CAREY stated his belief that "AGIA is the right way to go" based upon what little he has read in the newspaper and upon the United State's participation in the North American Free Trade

Agreement (NAFTA), adding, "If you agree with ... NAFTA and you want to deal with the world, this is the way it is." He offered his understanding that originally a gas pipeline was to be constructed in order to take care of in-state needs only. If, after those needs are met, there is any extra natural gas, it should be offered to the rest of U.S. first and then perhaps to other countries. He said he has heard some legislators express interest in selling Alaska's gas to those who can offer the highest price even if that means not selling to the Lower 48. He expressed disfavor with that concept, but clarified that he is not saying that the state shouldn't sell its gas to China, for example. In conclusion, he expressed a concern that the terms being used by the various parties are not clearly defined.

[7:18:53 PM](#)

FRANK BAINES said he opposes AGIA. He stated that he would like to see an all-Alaska gas pipeline built because that would provide the most jobs for Alaskans and would solve the problem of what will happen to the gas once it crosses the border. He said he thinks the gasline should "benefit Alaskans the most" by helping bring the [cost] of energy down. An LNG plant, perhaps in Valdez, could provide LNG to both the Lower 48 and the Asian Pacific theatre. He indicated that it should be possible to provide a product for consumers all over the world.

[7:21:13 PM](#)

WILLIAM BASSETT testified that oil has put food on his table for the last 49 years, both as a direct employee of oil companies and via contract services to oil companies. He remarked upon other ventures that the state has attempted to undertake but failed at, and offered his understanding that at a presentation by BP after the AGIA legislation was introduced, the company said it could not [apply for a license under AGIA] because doing so would violate federal laws, and that Conoco and Exxon were taking a similar stance. And if such laws don't actually exist, he queried, why then didn't the oil companies make an application under AGIA. He noted that under TransCanada's proposal, TransCanada will get \$500 million just to start the initial certification paperwork, and that that money won't be used to actually build any of the pipeline. He suggested, therefore, that the state could make better use of its money in other ways such as by building a bridge, or fighting the environmental organizations that stop oil exploration and the development of off-shore oil, ANWR, geothermal power,

hydroelectric dams, coal bed methane (CBM), and road construction.

MR. BASSETT expressed disappointment that some legislators indicated that holding hearings across the state was a waste of time. He offered his understanding that Point Thomson has oil and high-pressure gas, and asked how any gas could be delivered to market without a gasline. He offered his belief that the reason North Slope producers have not built [a gas pipeline] already is because the cost of doing so far outweighs any expected returns; unless the price of gas goes up, a gasline is not practical. He opined that the state needs to stand aside and let the "professionals" do the job; for example, if the owners of the proposed Denali project want to hire TransCanada, then let them do that - let them make that decision - because he has no faith that the state can do any better than it has in the past. If nothing else, he remarked, build a smaller pipeline to the coast and supply gas to Alaskans and industry. He expressed disfavor with AGIA as it currently stands, and indicated that supporting the Denali project is currently the only viable approach to take.

[7:25:00 PM](#)

CASH FAY, after noting that he has worked for an oil and gas company for over 17 years, characterized TransCanada as a good, reputable company, but opined that "the process" - not AGIA itself - has failed because it did not foster competition as it was touted to do. Characterizing the \$500 million as a subsidy, he offered his understanding that the treble-damages clause could result in a loss to the state of up to \$1.7 billion; that TransCanada might be risking only about \$111 million in comparison; and that even before AGIA was signed into law, the producers had indicated that they wouldn't be requiring any subsidies to build a gas pipeline, and thus he doesn't understand the need for providing TransCanada with \$500 million. He said it is important to note that neither the Denali proposal nor the TransCanada proposal can or will guarantee that a pipeline will ever be built - instead, economics will drive that decision.

MR. FAY, regarding hydrocarbon leases, expressed concern that litigation will hold up the building of a gasline, and offered his understanding that the producers have lived up to their lease requirements, to which the AOGCC has testified repeatedly. Gas reinjection has produced an additional 3 billion barrels of oil on the North Slope, and "oil is still king," he remarked.

On the issue of Point Thomson, he said the state is just as culpable of the lack of development there, and surmised the question of how to proceed with Point Thomson needs to be addressed. Last year the legislature was told that Point Thomson is needed for major gas sales, while in the last few weeks, the legislature has been told it isn't needed. He said he has heard on the news that the producers are not trying to commercialize Alaska's gas, but he thinks that the opposite is true. For example, from 2000-2002, the producers invested over \$125 million, "and now we have Denali today," he added. He then listed some Henry Hub prices [for natural gas]: \$1.49 in 1991; \$3.33 in 2002; \$5.85 in 2004; \$8.79 in 2005; and \$13.07 today, in 2008. Mr. Fay said, "It's about economics and commercialization."

[7:29:50 PM](#)

MR. FAY suggested that the real issue is fiscal certainty, and offered his belief that the producers are committed to staying in Alaska. He opined that when one is entering into ship-and-pay commitments for 25-plus years, one doesn't need a "Trust me, we'll help you out with the taxes later" approach. Instead a fiscal framework is necessary. Alaska's oil and gas taxes were changed at least three times over a four-year period - once by the previous administration, once through PPT, and once through ACES. At today's West Coast price for oil - \$1.3118 a barrel - and with the progressivity provided for via ACES, the marginal tax rate is the highest in North America, possibly the highest in the world. Furthermore, that's a retroactive tax. He asked, "Would you like it if the federal government came in and retroactively looked at your income taxes?"

MR. FAY offered his belief that the immediate effect of that tax rate was the loss of \$400 million dollars in investment by the producers. The producers take all the risks, yet the state wants to reap four times the profitability, he remarked, and indicated that he doesn't support that approach. He then noted that the TAPS, at its peak, produced approximately 2.2 billion barrels a day; now it's around 700,000 barrels a day, with a 6 percent decrease per year. He stated that he would like to see both the administration and the legislature work with the producers because they own the leases and are living up to their lease commitments. He concluded: "You want to spend \$500 million? Hire the best negotiators out there and come to fiscal terms with the producers. I bet it won't cost \$500 million, and maybe we'll get a pipeline."

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LORNE BAILEY offered his understanding that much of the gas and oil used to operate vehicles in the U.S. comes from the Middle East. It doesn't make sense that Alaska should be extracting oil and natural gas and then sending it overseas before having the chance to sell it locally. He stated support for AGIA, with the understanding that the gas be locally produced, with anything left over after that sent via Canada to the Lower 48. He said that although he does not want a decision to be made hastily, he also does not want the process delayed. Mr. Bailey opined that the state should also be looking into alternative energy sources.

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DOMINIC LEE, Owner, Chief Executive Officer (CEO), Little Susitna Construction Company, offered his understanding that Sinopec proposed building a 48-inch pipeline from Prudhoe Bay to Valdez in the existing corridor, as well as a petrochemical plant and LNG plant in Valdez. Once gas is in that pipeline, he suggested, then a certain amount could be provided to all the cities in Alaska that can use natural gas, and that those communities and cities that could not get gas directly from that pipeline could instead be provided with LNG or "propane auto gas" so that everybody can have real cheap energy. Under this scenario, for example, the cost per kilowatt hour for generating electricity and home heating would be lower - perhaps even less than \$100 per month per family. Additionally, the excess pentene, which, he proffered, is equal to gasoline, could be sold to all the gas stations for \$.30 a gallon, so that everybody can buy cheap gas.

MR. LEE surmised that what is not used in Alaska, would then be turned into LNG for sale to Japan, China, Hawaii, South Korea, Taipei, and Taiwan. Under Sinopec's proposal, the product would not be sent to the Lower 48 because of the belief that it will instead end up in Canadian "thin oil" operations, which are already condemned by "the Canadian EPA" because they are the biggest source of pollution in the world and thus will eventually get shut down by the people of Canada. He offered some comparison prices and calculated that selling the product to China over the lifetime of the pipeline - even at today's prices - will result in \$1.1 trillion, and more than double what the state would receive by sending the product through Canada. He reminded members that once the product is gone, it is gone for good, and so the state should try to receive the best price

it can while it can. After surmising that China would also buy LNG from other locations around the world, he said he is against AGIA because of economic reasons; although he thinks that TransCanada is a good company, it doesn't deserve triple damages.

MR. LEE indicated that another advantage to the Sinopec proposal is that China would not need Alaska's \$500 million, and in fact could simply loan Alaska the money to build the pipeline and do so at 6 percent, compared to the 14.5 percent that TransCanada would charge. On the issue of export licensing, he opined that it would be entirely possible for Alaska to obtain an export license to Taiwan or to South Korea or to Japan, for example, and offered his understanding that such a license would be good for 25 years from the day Alaska starts exporting. In conclusion, Mr. Lee said his heart is here in Alaska - having lived here for 30-some years and having raised his family here - and he wants what's best for the state, such as keeping the state's economy strong. He posited that selling gas to China is not an issue of patriotism because it will help the U.S. finance its trade deficit, particularly given that the U.S. dollar is losing buying power compared to the Chinese currency.

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VESTA ELLIOT, Owner, Organic Hair Design, surmised that a serious energy crisis is approaching, with no foreseeable resolution. She stated, "I believe that this inflation is the oil industry's agenda of praying upon our fears," and predicted that either allowing the oil industry to continue to have complete control or changing lifestyles will prove to be a financial challenge. She offered her understanding that there has been successful development of renewable energy resources in Iceland, and noted that there has been little discussion regarding the environment and how the proposed gas pipeline may potentially affect it. She said that she does not believe there are enough facts available to Alaska's citizens regarding this issue, and that that the oil industry has been relatively inured to the damages it causes to the environment - both globally and locally. Little has been heard about the preventative maintenance that has not be undertaken with respect to the oil pipeline and the clean up currently going on "up on the tundra."

MS. ELLIOTT stated her firm belief that the \$500 million would be better invested in moving towards renewable energy, such as geothermal energy. She indicated agreement with earlier comments that practical solutions and money can be made from

renewable energy sources, and stated her belief that Alaska needs to stay beautiful. She offered her understanding that although it will take \$500 million just for the paperwork, there may only be five years' worth of gas available. With regard to monetizing the tar sands in Canada, she commented on the environmental damage caused by producing even just the small amount of oil available there; for example, scarecrows have been erected to keep the migratory birds from landing in the toxic waste. Ms. Elliott concluded by stating that at this point in time, she is opposed to AGIA. She said she thinks there are environmentally friendly alternatives, and Alaska has the opportunity to join other parts of the world in utilizing these [alternative energy sources].

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ANDREW HALCRO opined that the testimony that's important to listen to is that of the regulators and those who will actually "write the checks and bear the risk for this project." He said that for a year or more he has heard two phrases, "the likelihood of success," and "reasonable players," and opined that the likelihood of successfully getting a gas pipeline rests solely on the shoulders of those "reasonable players," who have testified that without Point Thomson, there won't be any financing for a gasline, and that the state needs to offer fiscal certainty on this project. Furthermore, representatives from BP and Conoco, he noted, have testified that AGIA is so commercially unviable that they're going to proceed with a project of their own [outside of the constraints of AGIA]. He said he thinks TransCanada communicated a clear message last year when its representatives testified that without customers, there will be no credit and thus no pipeline, and opined that although he thinks TransCanada is a fine company, the AGIA process sets it up to fail.

MR. HALCRO spoke of the proposed \$500 million investment by the state, and expressed doubt that without the promise of that funding, TransCanada would still be seeking a license. Noting that he served in the legislature when oil was \$9 a barrel, he relayed that that \$500 million is not what concerns him the most about the proposal; instead, what alarms him the most are the contractual terms of AGIA. By assigning exclusive rights to TransCanada, the state will be precluding both itself and TransCanada from pursuing any future alternatives. He then referred to testimony provided by [a former] FERC employee that the FERC has never granted a certificate to an applicant who showed up without credit and customers, and that AGIA engendered

special federal legislation regarding FERC certificate. Mr. Halcro told legislators that if they think [AGIA] is an insurance policy keeping the producers honest, then they should also think about the terms to which they would be committing the state. He reiterated that those terms are contractual and lock the state into one plan only. In conclusion, he suggested to legislators that they echo his concerns to their constituents.

7:55:09 PM

TOM WALSH, Managing Partner, Petrotechnical Resources Alaska (PRA) - after relaying that PRA is an oil and gas consulting company that employs approximately 70 oil and gas professionals, and that PRA's clients include major oil companies, independent oil companies, the State of Alaska, the federal government, and Native corporations - said PRA supports projects that can stand on their own and produce money for Alaska. He said he doesn't believe that it is in the best interest of the state to provide TransCanada with \$.5 billion for a project he doesn't think has a chance of success, and suggested to members that they vote against granting TransCanada a license.

MR. WALSH relayed his hope that future open seasons will result in the producers nominating their gas for shipment. He asked members to consider the negative impact that granting TransCanada a license could have on the other, what he termed "far more sensible," gas pipeline project, and warned that endorsing and financially backing the TransCanada project would in effect align the state against the Denali project. Such an alignment would be a big mistake, he remarked; although it could be healthy to have two projects competing for the opportunity to move North Slope gas to market, the state shouldn't be backing what he considers to be the weaker of the two projects.

MR. WALSH characterized the treble-damages clause as dangerous, and said he is convinced that it will have an unintended, catastrophic impact on getting a gas pipeline built, because it precludes the state from helping any other project go forward. At a minimum, the state needs to be able to support all projects equally in order to increase the probability of success. And if the Denali project is able to stand on its own, then supporting TransCanada's pipeline is a waste of money and time, particularly if no shippers nominate their gas during the open season. Mr. Walsh offered his belief that despite what Mr. Palmer claims, TransCanada also has \$9 billion worth of liability to its former partners, and characterized

TransCanada's proposed project as "a horse with at least two bad legs."

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DAVID GOTTSTEIN, Co-chair, Backbone II, said the state is facing critical, short-term decisions that will have profound intermediate and long-term impacts, the most important decision of which is how to proceed in developing the state's North Slope gas. He opined that AGIA has done a good job in jumpstarting a process that has the potential of creating huge opportunities for Alaska now and long into the future, and that the state can prioritize its goals in obtaining the maximum benefit for Alaska. The first goal, he suggested, is for the gas pipeline to not be producer-owned, because as such it would generate a monopoly position on the part of the major producers in controlling the state's future gas development and production; a non-producer-owned pipeline would be in alignment with the state's desire for vibrant exploration, production, and marketing. The second goal is for an economic pipeline to get built; if that goal is not met, then the state will have failed.

MR. GOTTSTEIN said the third goal is for the state to use its vast gas resources to help solve the state's energy crisis, for example, by getting the state's gas to Alaskans as soon as possible in economic quantities that result in real savings for the majority of Alaska. The fourth and final goal is to use the route that would supply the maximum benefit to the state treasury. However, he warned, the state must not sacrifice the local benefit in order to achieve its maximum export model because that would be a bad tradeoff. He relayed that he has been told by the governor's representatives that it would be possible to get Alaska's gas to Alaskans in as little as five years if the state first completes that portion of a pipeline necessary to just do that. He emphasized that if done right, it could generate many tens of billions of dollars of state revenue.

MR. GOTTSTEIN said the state should drive the process, including the necessary investment, to pre-build an excess-capacity and expandable line to the Interior, opening the markets to an open season that could include local distribution, Canadian routing, and an LNG option. That would produce the best of all worlds in that it would solve in-state needs and grant the state the option and the opportunity to maximize market conditions. He said the state should work with TransCanada, and possibly the ANGDA and the Alaska Gasline Port Authority (AGPA), on a

combination of ownership, financing, marketing, governance, design, construction, management, maintenance, and profit-sharing responsibilities that achieve that result while still leaving all other options open. By keeping the first-phase application and project to an in-state routing that could start with an over-capacity line to the Interior, with at least one spur line to feed all population centers, then the FERC and all Canadian obstacles could be avoided, and the job could get done much more quickly, bringing the first phase of the project to completion in as little as five years - as opposed to ten or twelve years - with a very high certainty of success for more ambitious export options. If AGIA has to be adjusted to accomplish these goals, so be it, though it might take one or two more steps to get there.

MR. GOTTSTEIN said that with the state likely to receive tens of billions of dollars in revenue in the next few years, beyond what was forecasted even a few months ago, it would be a shame if the state didn't set aside at least a \$1 billion a year away in these good times in order to ensure long-term energy cost-savings and certainty-of-supply benefits for almost all Alaskans. He strongly urged the legislature to pursue a strategy that forces the development of a monopoly-breaking, independent pipeline that first serves Alaskans and then the rest of the market as it fully develops. Furthermore, if the state fully pursues a strategy of harnessing other in-state, long-term, energy solutions - such as a revitalized Susitna project, coal gasification, wind, solar, and other [energy-producing mechanisms] - along with using the lowest-cost, long-term, reliable transmission and delivery methods, then for less than the extra revenue forecasted for this year alone, the state could perhaps solve its energy problems for 100 years. He concluded, "That is the choice that is in front of us, and I urge the administration and the legislature to work together in achieving these goals."

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REPRESENTATIVE GARA expressed concern regarding Backbone II's aligning itself with Sinopec, because he is almost certain that Sinopec is one of the companies that many groups around the world have identified as doing work in Sudan and being complicit with the genocide taking place there.

MR. GOTTSTEIN clarified that he was not talking about getting commitments in the first phase to sell gas to China, because although China may offer long-term opportunity, it doesn't offer

any immediate opportunity. Furthermore, although China is an important trading partner, it is not an ally with the U.S. in the war against terror, and so he does not believe that Congress will allow Alaska to sell its hydrocarbons to China, unless doing so might preclude China from seeking hydrocarbons from Iran, for example. He then offered that the way to bring low-cost energy to Alaskans is to provide an infrastructure that allows for the highest volumes of gas necessary in order to meet market demand. He said, "If we think small in the beginning, we'll never solve the problem"; for example, a 1.2 Bcf/day line to just bring gas to Alaskans would not lower the state's long-term cost, and it would not be any less expensive than importing gas, because it is only when larger volumes of gas are obtained that it is possible to generate economies of scale large enough to reduce the tariff and thereby lower energy costs.

MR. GOTTSTEIN said that if Alaska intends to have a full export project from the beginning, then it has to solve several problems before providing any energy to Alaska. On the other hand, if the state underwrites the option of meeting all market opportunities by pre-building, taking ownership, taking return of extra capacity to the Interior, and then has an open season, then that open season, in part, could include delivering gas to Alaskans in a shorter period of time. He indicated that in this way - particularly given the demand in Asia, Hawaii and other West Coast markets, and the interior of the United States and Canada - the state could then provide for the expansion to meet both a Canadian route that becomes a full project, and an LNG project if such becomes vibrant enough. It would then simply be a question of when the different pieces of such projects get done. He added:

So what I'm suggesting is the low-risk way of making sure we get lower-cost energy to Alaskans in a foreseeable time frame - perhaps as little as five years - while not giving up any other options. So go have an open season. If there's only enough gas through the TransCanada's bidding mechanism to make a Canadian route economic, then so be it. On the other hand, if there's enough demand that can generate enough volumes of gas to make both projects viable, that's okay, too. And whichever can be completed first, that's to the maximum benefit of Alaskans.

MR. GOTTSTEIN said he does not believe that Alaskans will support any project that does not solve its in-state energy crisis in the foreseeable future, or that having only a

TransCanada route or just an LNG project in the short run will address that issue. He concluded, "I think we can solve it otherwise and be a huge profiteer of our natural resources, giving as little as possible away in profits that are necessary to the private sector to do our bidding for us."

8:10:06 PM

ERNIE STUTZER posited that with all the good ideas people have, he thinks there will be a way for the state to accomplish its goals. After noting that he is a logger who, along with his family, realized he had a valuable resource [in the timber located on his property], likened that resource to the natural gas wealth that Alaska is sitting on and wishes to see exported. He remarked that although AGIA is supposed to get Alaska a pipeline so that its natural gas can be marketed out of state, building a pipeline will create a lot of jobs for only a few people, and there won't be any jobs available after the pipeline is built.

MR. STUTZER asked legislators to instead consider providing Alaskans with [long-term] jobs that will enable them to become part of the middle class, which he characterized as the most vital part of a democracy, and said that the way to do that is by keeping the resource in Alaska. He said that although there are a lot of reasons why the legislature should not support AGIA, he realizes that there are two sides to the issue. He opined that corporations and government are "chipping away at the free market," and that the free market, in itself, creates "the seeds for the destruction of democracy" because it creates wealth, which in turn is used to manipulate government into making decisions that will not foster a robust middle class. In conclusion, he emphasized the importance of building a large, petrochemical infrastructure within the state.

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KELLY WALTERS expressed concern with the process taking place, and said he believes that perhaps an alternative answer exists. He said he is not in favor of the state giving away \$500 million, mentioned Governor Palin's \$1.2 billion energy subsidy, and noted that the recent high price of oil is the result of actions taken by speculators. He recommended that Alaska operate as if oil were still \$9 a barrel like it was when former Representative Andrew Halcro served, because it very well could be again if the speculators "start short-selling it in the next year or two." He characterized \$500 million as a lot of money

to be throwing around. In conclusion, he said he is very much in favor of an all-Alaska line, and would like to see an alternative in which TransCanada builds an all-Alaska gas line to serve the interest of Alaskans. Such a pipeline would allow the gas to get to market in less time and would help out the state quite a bit.

[HB 3001 and SB 3001 were held over.]

#### **ADJOURNMENT**

There being no further business, the joint meeting of the House Rules Standing Committee Subcommittee on AGIA and the Senate Special Committee on Energy was adjourned at 8:21 p.m.