

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

Kenai, Alaska
June 26, 2008
1:01 p.m.

MEMBERS PRESENT

HOUSE RULES

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

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Bert Stedman, Vice Chair
Senator Lesil McGuire
Senator Gary Stevens
Senator Bill Wielechowski
Senator Fred Dyson
Senator Thomas Wagoner

MEMBERS ABSENT

HOUSE RULES

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

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Charlie Huggins, Chair
Senator Kim Elton
Senator Lyda Green
Senator Lyman Hoffman
Senator Donald Olson
Senator Joe Thomas

OTHER LEGISLATORS PRESENT

Representative Mike Chenault
Representative Sharon Cissna

Representative Harry Crawford
Representative Nancy Dahlstrom
Representative Andrea Doll
Representative Mike Doogan
Representative Mike Hawker
Representative Lindsey Holmes
Representative Reggie Joule
Representative Wes Keller
Representative Mike Kelly (via teleconference)
Representative Gabrielle LeDoux
Representative Kurt Olson
Representative Ralph Samuels

COMMITTEE CALENDAR

HOUSE BILL NO. 3001

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

- HEARD AND HELD

SENATE BILL NO. 3001

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- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(H)	READ THE FIRST TIME - REFERRALS
06/03/08	(H)	RLS
06/03/08	(H)	WRITTEN FINDINGS & DETERMINATION
06/04/08	(H)	RLS AT 9:00 AM CAPITOL 120
06/04/08	(H)	Heard & Held; 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
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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
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06/13/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
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06/14/08	(H)	RLS AT 10:00 AM FBX CARLSON CENTER
06/14/08	(H)	Heard & Held
06/14/08	(H)	MINUTE(RLS)
06/16/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/16/08	(H)	Heard & Held
06/16/08	(H)	MINUTE(RLS)
06/17/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/17/08	(H)	Heard & Held
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06/18/08	(H)	RLS AT 9:00 AM ANCHORAGE
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06/20/08	(H)	RLS AT 9:00 AM ANCHORAGE
06/20/08	(H)	Heard & Held
06/20/08	(H)	MINUTE(RLS)
06/24/08	(H)	RLS AT 1:00 PM MAT-SU
06/24/08	(H)	Heard & Held
06/24/08	(H)	MINUTE(RLS)
06/26/08	(H)	RLS AT 1:00 PM KENAI

BILL: SB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

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

06/19/08	(S)	ENR AT 9:00 AM ANCHORAGE
06/19/08	(S)	Heard & Held
06/19/08	(S)	MINUTE(ENR)
06/20/08	(S)	ENR AT 9:00 AM ANCHORAGE
06/20/08	(S)	9am - 5pm - Testimony <Invitation Only>
06/24/08	(S)	ENR AT 1:00 PM MAT-SU
06/24/08	(S)	1pm - 5pm - Testimony <Invitation Only>
06/26/08	(S)	ENR AT 1:00 PM KENAI

WITNESS REGISTER

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

POSITION STATEMENT: Presented a PowerPoint report on TransCanada's proposed pipeline project and answered questions.

PATRICK GALVIN, Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 3001 and SB 3001.

ALLAN ULEN
Soldotna, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

JOHN WILLIAMS, Mayor
Kenai Peninsula Borough
Soldotna, Alaska

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

DEBBIE BROWN
Kasilof, Alaska

POSITION STATEMENT: Representing herself, testified during the hearing on HB 3001 and SB 3001.

PAT HAWKINS
Soldotna, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

TOM PATMOR
Clam Gulch, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

BILL WARREN
Nikiski, Alaska

POSITION STATEMENT: Representing himself and his granddaughter, testified during the hearing on HB 3001 and SB 3002.

STEVE MAPES
Nikiski, Alaska

POSITION STATEMENT: Representing himself and his sons, testified during the hearing on HB 3001 and SB 3001.

JIM KAUFFMAN
Kenai, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

JIM COOPER
Soldotna, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

BOB PENNEY
Soldotna, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

JIM GILBERT, President
Udelhoven Oilfield System Services, Incorporated
Anchorage, Alaska

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

JAMES E. FISHER
Soldotna, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

JACK BOWEN
Kenai, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

JOHN BOWEN
Kenai, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

GORDON SPAULDING
Kenai, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

LEN MALMQUIST
Soldotna, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

MARK HALL
Kenai, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

FRANCES DANIEL PRIOR
Kenai, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

GREG DYER
Soldotna, Alaska

POSITION STATEMENT: Representing himself, testified during the hearing on HB 3001 and SB 3001.

ACTION NARRATIVE

VICE CHAIR BERT STEDMAN called the joint meeting of the House Rules Standing Committee and the Senate Special Committee on Energy to order at [1:01:10 PM](#).

HB3001-APPROVING AGIA LICENSE
SB3001-APPROVING AGIA LICENSE

[1:03:41 PM](#)

VICE CHAIR STEDMAN reviewed the agenda for the day. Members and presenters present introduced themselves.

[1:09:36 PM](#)

TONY PALMER, Vice President, Alaska Development, TransCanada Alaska Company, LLC, related his background, including that this is his 30th year in infrastructure development around the world.

He noted that most of his infrastructure development has occurred in North America, although he performed a great deal of work in Asia and South America in the 1990s. In fact TransCanada Alaska Company, LLC, (TransCanada) constructed the first three natural gas pipes across the Andes in South America and at the same time had a large construction project occurring in North America. Mr. Palmer explained that TransCanada has pursued and held the rights for the Canadian side of this project since its inception 30 years ago. When AGIA passed, TransCanada decided to pursue the entire project, not just the Canadian portion, as TransCanada believes the Alaska gas line has strong economics. If gas prices were to stay at the \$10 to \$11 range in Canada and the \$12 to \$13 range in the Lower 48 for the next 30 years, the project would remain viable. He noted that most believe that although gas prices may be volatile, over time they increase. Pipeline projects involve state, federal, and international governments, as well as commercial parties. He highlighted that no commercial party could construct the pipeline alone. In fact, no commercial party owns the land between Prudhoe Bay and the Lower 48. Therefore, any interested commercial party would have to cooperate with government. Mr. Palmer then noted that TransCanada, upon reviewing the matter, believes the state and its people want and support this project. He then reviewed the process that led to the Alaska Gasline Inducement Act (AGIA) under the Palin Administration. The AGIA statute identifies the rights and responsibilities of both parties, which led to TransCanada's bid.

[1:16:47 PM](#)

MR. PALMER then informed the members that the Alaska gas line is a strategic fit in that TransCanada has been in the gas pipeline business for 50 years and is primarily based in North America. Furthermore, the proposal is for a gas pipeline, which is TransCanada's core business, and the project is located within TransCanada's geographic footprint. The project also has synergies with TransCanada's existing business. In fact, TransCanada has a large infrastructure which has spare capacity. Filling that spare capacity is valuable to TransCanada's customers because although it won't earn extra revenue, it would lower costs to its customers. The aforementioned is very attractive to TransCanada. At the inception of the Alaska project, TransCanada and its antecedents were going to construct the Canadian portion of this project. In fact, there's specific Canadian legislation to expedite this project. Mr. Palmer related that TransCanada believes it's aligned with the state's objectives as TransCanada is in favor of short term basin

development that results in a pipeline early, while also having long term basin development. He related his understanding that one of the goals of AGIA and Alaskans is to foster competition for this pipeline. There is a second component, which is competition upstream at the wellhead. In fact, to the sovereign, the state and its citizens, the second component can be more important in the long term than who constructs the pipeline and how it's constructed. Upstream competition is important so that in 30 or 50 years, the state has many producing companies that are active in the state and promoting development. The more competition, the more likely that there would be more employment, in-state gas use, and more revenue for the sovereign. Mr. Palmer, turning to TransCanada's application, characterized the AGIA process as unusual. Under AGIA, applicants were required to reveal commercial secrets in advance of selection, which is highly unusual and TransCanada has never done so before.

[1:22:04 PM](#)

MR. PALMER then highlighted TransCanada's U.S. presence. He emphasized that TransCanada is a North American corporation with 12,000 miles of natural gas interstate pipeline in the U.S. Furthermore, TransCanada is one of the largest U.S. natural gas pipeline companies with offices through the nation. He said that TransCanada runs an integrated business similar to that of the highly integrated oil and gas business across North America. He informed the members that Canada has been exporting its surplus natural gas for some 40 years. In fact, Canada exports 9 billion cubic feet a day (Bcf/d), which is double what this project would initially run, across the border every day. TransCanada moves 20 percent of North American gas, although it doesn't own any of that gas. The aforementioned is normal, he said.

[1:24:00 PM](#)

MR. PALMER related that he is present because he believes the Western Canadian model is very similar to Alaska. He informed the members that the Canadian gas business started 50 years ago with a small local market. Canada, like Alaska, was the furthest from major markets. Canada started with a small number of initial customers, but a very prolific basin. Alaska has significant parallels to that, he opined. With regard to whether TransCanada can do a project of this size, and the notion that TransCanada isn't motivated to control its costs, TransCanada's operating costs have been benchmarked against

Canadian and U.S. pipeline companies for the last several years. TransCanada's operating costs are 25-35 percent lower than its competitors. Although there has been no independent benchmarking study on capital costs, TransCanada performed its own analysis based on 1990-2003 projects. The aforementioned comparisons illustrate that TransCanada's costs are 19 percent lower than its competitors and 38 percent lower than its U.S. competitors for large-diameter pipeline construction. He noted that the large-diameter pipe is similar in size to what would be necessary for this project. "I would tell you that I have seen no facts and figures from any of our competitors that have made those statements," he said.

[1:26:28 PM](#)

MR. PALMER then related TransCanada's experience in constructing major projects. Since TransCanada's corporation started 50 years ago, it built a pipeline from Alberta to Eastern Canada, which is a longer distance than from Prudhoe Bay to Alberta. The aforementioned was done at the inception of the corporation, when market capitalization was practically zero. Also, in the 1990s, TransCanada built four times the distance of this proposed project on schedule and within 0.6 percent of budget. No other corporation has that record in the natural gas pipeline business, he assured the members. He reminded the members that other components, such as regulatory, community, First Nations, Native corporations, environmental requirements, commercial requirements, and financial requirements are important. He then highlighted that TransCanada's proposal is to construct a pipeline from Prudhoe Bay to Alberta. In the event that customers wish to nominate liquefied natural gas (LNG) at Valdez during the initial open season, they would have the opportunity to do so. He clarified:

At the same time as we hold an open season, parties will be able to nominate locations for delivery along the route of the pipeline in Alaska, in the Yukon, in British Columbia, in Alberta, or at Valdez. And in the event that sufficient volumes are nominated at Valdez and those customers meet the same conditions as customers in Alberta, or at Tok, or in Whitehorse, or at Fairbanks, we will build a pipeline to Valdez.

[1:29:10 PM](#)

MR. PALMER, in response to Vice Chair Stedman, explained that an open season is when a pipeline company approaches potential

customers and solicits business. The process is public and puts forth the terms, conditions, and costs for potential customers who then have an opportunity to request service. The aforementioned is usually overseen by a regulator such as the Federal Energy Regulatory Commission (FERC), and in Canada, the National Energy Board (NEB). [An open season usually results] in binding long term contracts for 25 years or more.

1:30:03 PM

MR. PALMER moved on to TransCanada's experience in long term basin development. TransCanada, he opined, believes it's important for Alaskans to move the 35 [trillion cubic feet] Tcf of proven gas at Prudhoe Bay and Point Thomson and the other proven fields, as well as the potential 235 Tcf. The latter, he opined, is where the growth opportunity lies as well as the opportunities for long term employment and revenue for the state. Mr. Palmer pointed out that Alaska's proven reserves at Prudhoe Bay and Point Thomson, and a few other proven fields, would supply about 1.5 years of U.S. consumption if it could all be produced in one year. However, it can't all be produced in one year. He echoed his earlier comments that there is a huge sum of gas in the North Slope reservoirs. Furthermore, the potential is huge relative to the U.S. available proven reserves and Canadian proven reserves. Mr. Palmer said, "So, you have a prolific basin with a high potential of usage."

1:31:58 PM

REPRESENTATIVE LEDOUX asked if the term "customer" refers to the entity producing the gas or the entity purchasing the gas.

MR. PALMER answered that TransCanada wouldn't know who the customer is prior to the open season. However, he noted that it's often the producers and occasionally the downstream buyer. In fact, historically it was the downstream purchaser; the local distribution companies (LDCs) such as ENSTAR Natural Gas Company (ENSTAR). As the market has shifted and been deregulated since 1985, the majority of pipeline customers on long-distance pipelines in North America have become the producers. However, that's not the norm in other parts of the world. For instance, in Asia the customers are primarily the LDCs or an industrial customer or marketing company. No matter [who the customer is], they all have to meet the same requirements for the pipeline as would a producer.

1:33:45 PM

SENATOR STEVENS inquired as to the rights that TransCanada holds in the Canadian portion of the pipeline. He further inquired as to the advantages those rights would afford TransCanada and the disadvantages to others such as Denali - The Alaska Gas Pipeline ("Denali project").

MR. PALMER, recalling 30 years ago when the Alaska project was first conceived, reminded the members that there were three potential projects within Alaska and two in Canada. There were the following three proposals in Alaska: to go down the highway, the over-the-top, and an LNG project at Valdez. There were hearings in the U.S., and in Canada, there were 214 days of hearings before the National Energy Board (NEB). TransCanada and its antecedents participated in those hearings. The NEB chose the highway route and a subsidiary of TransCanada, Foothills Pipe Lines Ltd. ("Foothills"), holds the Canadian rights. Subsequent to the NEB hearings, the Canadian government decided to sign a treaty between Canada and the U.S. for this project. A specific piece of legislation, the Northern Pipeline Act (NPA), was passed for this project. The NPA specifies the rights and responsibilities of Foothills for this project; in fact, Foothills is the main pipeline sponsor for that project in Canada under the NPA. A single window regulator was established to bring together the entire power of the Canadian government to expedite this project. The NPA remains valid and has no sunset date, which is highly unusual in Canada. In addition to the aforementioned, in 1983 TransCanada obtained a right-of-way through the entire Yukon Territory from the Canadian government. In 1993 the Canadian government, the Yukon government, and the Council of Yukon Indians, on behalf of the entire First Nations, signed the umbrella final agreement. The aforementioned agreement recognizes the Foothills right-of-way through Yukon as a carve-out from any potential land claim. Since 1993 six of the eight First Nations along the right-of-way have resolved their final land claim. In each case, the Foothills right-of-way was carved out and recognized in the final land claim and that would also be the case for the final two when they settle their final land claims. The aforementioned advantages are in addition to the 30 years of work and geotechnical, engineering, and environmental data that no other corporation has, he noted.

[1:39:00 PM](#)

REPRESENTATIVE FAIRCLOUGH recalled testimony in previous hearings that TransCanada pays \$200,000 per year to maintain the right-of-way.

MR. PALMER replied yes. In further response, Mr. Palmer specified that the right-of-way payments commenced in 1983 when TransCanada received the right-of-way.

[1:40:02 PM](#)

REPRESENTATIVE FAIRCLOUGH inquired as to the current financial assets in Foothills to help make this project move forward under the newly organized company.

MR. PALMER clarified that the Canadian entities aren't newly organized, but rather are 30 year old entities. He further clarified that there is a newly organized entity for the Alaskan component of the project. The Foothills entities are the same entities that have been present since 1978.

REPRESENTATIVE FAIRCLOUGH asked if the liabilities, in terms of the costs for the right-of-way payments, would be transferred to the newly formed subsidiary.

MR. PALMER reiterated that there isn't a newly formed subsidiary for the Canadian portion of the project.

[1:41:10 PM](#)

REPRESENTATIVE FAIRCLOUGH inquired as to the costs of the right-of-way acquisition, which she opined are allowable costs that could be brought forward. Representative Fairclough asked:

Alaska is bringing the full faith and credit of the State of Alaska into play in being a partner with you to make a natural gas pipeline work for Alaskans. I want to know what TransCanada, inside of the newly formed TC Alaska Corporation, has at risk. ... And two, what is the actual price tag of your geotechnical and other information and work product and the \$200,000 multiplied by 25 years, I'm assuming with interest, ... and your return is somewhere between eight and twelve percent, that would be brought into all those years. I'd like to know what that liability is as it's going to be applied to the tariff.

[1:42:34 PM](#)

MR. PALMER confirmed that TC Alaska is a newly formed corporation with no assets or liabilities at this point. In the

event it is granted the AGIA license, it would proceed and create assets. On the Canadian side, there are a number of Foothills subsidiaries, including locations with physical assets. He informed the members that the pre-build section of this project was constructed 25 years ago. In event this gas goes to the Alberta Hub and then to market in the Lower 48, Foothills Yukon, and Foothills North BC would be dealt with and the assets they hold are the geotechnical work, the right-of-way payments, and other environmental assets. He assured the members that if TransCanada includes them in any tariff for this project, it would be a huge bargain relative to what any other party would spend to duplicate that, if they could do so. TransCanada, he related, believes that information can't be duplicated.

1:44:26 PM

REPRESENTATIVE FAIRCLOUGH acknowledged that there's value in holding the right-of-way for over 30 years. However, the payments alone, \$200,000 a year for 25 years, amount to over \$5 million. Therefore, she inquired as to the interest and the contingent liability.

1:45:08 PM

MR. PALMER, in response to Representative Fairclough and Vice Chair Stedman, addressed the concerns that TransCanada, or any of its entities, would have a liability of \$8 or \$10 billion if it constructs the Alaska component of the project. He recalled that 30 years ago there were a group of mostly U. S. companies and TransCanada subsidiaries that were pursuing the ownership of the Alaska section only. Normally, with the pipelines existing today, the U.S. portion is owned by U. S. companies, and the Canadian sections are owned by Canadian companies. Thus 30 years ago, there was a consortium of 11 corporations and subsidiaries that was led by Northwest Pipeline. In the 1980s and 1990s, two TransCanada subsidiaries joined the partnership. Also during that time, from 1984 through 1994, all of the other partners withdrew from the partnership. As a result of their withdrawal, the former partners lost all rights as a partner; however, the original partnership agreement, for the Alaska section, granted a specific contractual right to the withdrawn partners. Mr. Palmer explained, "Let me stipulate that for you. In the event that that partnership, and that partnership was called, its acronym is ANNGTC, in the event that that partnership, constructed the project, put it into service, and the payments could be made to those partners for their original

contributions, plus interest, that those payments could be made without undue hardship on the partnership, that, those are the three triggers that would allow those parties to recover their funds, with interest." He continued to explain that those partners and TransCanada contributed \$230 million to \$275 million to advance the Alaskan portion of the project 30 years ago. Applying 14 percent interest, compounded for 30 years, totals about \$8 billion. He remarked:

That number today, last fall, when it came forward as a contingent liability; by the way it's a contingent liability and I gave you the three triggers. There is no liability today, but that liability clearly outweighs the value of the Alaskan assets that this entity created. This entity created, once again, some geotechnical work, a federal right-of-way through the State of Alaska, and some engineering work. Clearly, those assets in no way are equivalent to this contingent liability if you ever had to pay it. There's no possible way that this entity could compete with a new party that would build a project in Alaska for approximately 10 billion dollars, and then have to pay former partners an additional 10. So that partnership made a decision last fall, and that decision was, it was not viable. ... And that partnership has not pursued the project, TransCanada has not used that entity in any way, nor any of the assets, for its application under AGIA. Nor will we use any of those assets going forward for this project if we're selected under the AGIA process. And in fact, we've initiated action to dissolve that partnership.

MR. PALMER assured the members that conditions to meet the contingent liability would never be met.

[1:51:24 PM](#)

REPRESENTATIVE LEDOUX asked whether there has been a legal opinion written regarding the contingent liability.

MR. PALMER responded that there has been no legal opinion filed by TransCanada, but expressed his understanding that the administration has reviewed the issue. In fact, the Legislative Budget and Audit Committee wrote letters to each of the withdrawn partners regarding their rights and the responses are available on the state's website.

[1:52:59 PM](#)

REPRESENTATIVE SAMUELS related that the Legislative Budget and Audit Committee attorneys and attorneys for the administration have said liability can not be rolled into the tariff. However, there is no definitive answer on whether the state, by becoming a partner with TransCanada with royalty gas, or by buying [Foothills], would then be subject to the liability.

[1:54:28 PM](#)

MR. PALMER reiterated that Legislative Budget and Audit has indicated that the liability can not be included in the rates, and that TransCanada specifically indicated that it would not seek to include any liability from those partners. He said, "If any liability from this project ever comes home to TransCanada, we would not seek to include it in the toll for the customers. That also gives you some view as to our confidence that this is not a major issue."

[1:55:05 PM](#)

REPRESENTATIVE LEDOUX asked whether TransCanada could bear an \$8 billion judgment and still build a pipeline.

MR. PALMER replied yes, and added that TransCanada would not undertake this project if that were a "significant risk."

[1:56:07 PM](#)

REPRESENTATIVE LEDOUX noted Mr. Palmer's reference to legal opinions that are not made public. She asked whether TransCanada has "in the due diligence work, an opinion of council as to liability."

MR. PALMER agreed that during the purchase of one corporation by another there would be significant due diligence; however, this entity is not pursuing the project, has nothing to do with the AGIA application, and is not building the project.

[1:57:27 PM](#)

REPRESENTATIVE JOHNSON asked for clarification on the group that decided not to participate.

MR. PALMER clarified that the TransCanada subsidiaries that are the remaining partners decided that the obligation of the contingent liability outweighed the assets of the partnership. Therefore, the partnership decided it could not pursue the AGIA application. In further response, he explained that the TransCanada subsidiaries made the decision independently of TransCanada Corporation; in fact, the withdrawn partners have no right to vote. He concluded that TransCanada's subsidiaries, that are the only remaining partners, made the decision based on the partnership's assets and potential liabilities.

1:59:40 PM

MR. PALMER pointed out TransCanada's objectives as illustrated on slide two of the presentation. The project is TransCanada's largest investment opportunity in its core business line and geographic footprint; it utilizes spare capacity on the existing North American pipelines; and it provides the LNG market as an alternative investment opportunity. In addition, TransCanada is in favor of encouraging long-run basin development; of serving in-state and other markets; of increasing the market and supply diversity; of expansion and the creation of a "virtuous circle" of more exploration, drilling, and expansion. Furthermore, TransCanada supports equitable treatment for all customers: initial, future, big, and small. Mr. Palmer provided slide three that illustrated TransCanada's pipeline system throughout Canada and the Lower 48 that connects to markets from California to Boston and New York. He explained that utilizing the existing system through the Alberta Hub, as opposed to building a new pipeline to Chicago, would result in the benefit of higher netback to Alaskans. Secondly, there would be more market diversity available through the Alberta Hub rather than "locked in" to the Chicago market by a pipeline to Chicago. Mr. Palmer stressed that the price of gas changes and access to markets from the West Coast to the East Coast would allow Alaskan gas to seek the highest market. Thirdly, the pipeline system in the Alberta Hub is highly liquid and allows shippers to trade gas on a daily basis, similar to the stock market. Finally, the risk of capital cost overrun is reduced because there would be less construction of pipe.

MR. PALMER, in response to Vice Chair Stedman and Representative Kelly, assured the members that the right-of-way permits are exclusive to TransCanada and are not available to any other parties.

REPRESENTATIVE SAMUELS asked, "If it's such a great deal ... for us to use the [Alberta Hub], and that is what the economists have said right now, ... why do you force us to do it?"

MR. PALMER answered that downstream of the Alberta Hub, the state is not restricted from building more pipeline. The project proposal choose the location that is advantageous to Alaska, shippers, and TransCanada. However, after reaching the Alberta Hub, pipeline can be built to any destination.

REPRESENTATIVE SAMUELS said, "But we still have to fill your empty pipes in the hub itself."

MR. PALMER reiterated that the proposal moves gas from Prudhoe Bay to the Alberta Hub which gives access to the hub for the best netbacks, highest liquidity, best market diversity, and lowest capital cost risk.

2:07:12

MR. PALMER continued his presentation by pointing out TransCanada's construction record on large scale projects. TransCanada's original pipeline build was 2,300 miles across difficult terrain in Ontario. Also, in the 1990s, TransCanada built a project in the Andes and 7,000 miles of pipe across North America. Currently under construction, in partnership with Conoco-Phillips, is the Keystone project, which is 2,150 miles of oil line scheduled for completion in 2009.

2:09:17

MR. PALMER highlighted TransCanada's experience with development in areas similar to Alaska, such as Alberta. The Alberta system began with 200 miles of pipe and three customers and now has 15,000 miles of pipe, 1,100 receipt and delivery points, and 300 customers. Furthermore, this expansion happened under the structure of rolled-in tolls that average the cost of the old facilities with the new facilities. Slide five illustrated the system away from Alberta into Eastern Canada. The original pipe was a 2,300 mile system that today includes six parallel pipes. The parallel pipes, called "looping" were added as the economics required.

2:12:49

MR. PALMER presented slides seven and eight that illustrated AGIA "Must Haves." Before further discussion of slide nine,

titled "TransCanada's Competitive Response to AGIA," he spoke of the competition that occurred prior to the submission of TransCanada's application. He then pointed out some of the competitive provisions of TransCanada's [application] such as: an initial system design with inexpensive expandability; the preference not to own the gas treatment plant at the North Slope, but would do so if no one else does; and an equity opportunity for shippers committing gas, above a threshold level, in the initial open season.

2:16:55

MR. PALMER stated that an additional competitive provision is AGIA's requirement of a minimum debt level. A project of this nature is financed with debt and equity; the equity of U.S. pipelines is usually 30 percent to 60 percent and higher. Debt components run from 40 percent debt to 70 percent debt. However, AGIA requires the applicant to have a minimum of 70 percent debt; this increases the risk on the pipeline owner and reduces its potential return. Thus, TransCanada would not earn money off of the debt against the project, but only from the equity. TransCanada's provision is for 75 percent debt, which equals a toll reduction of \$0.09 per mmBtu, or about \$150 million total reduction per year. An additional unusual provision offered by TransCanada is that in the event of capital cost overruns, it would take a reduction on its rate of return. He then pointed out that the project would be of significant value for Western Canadian producers; in fact, in the event Alaska gas enters the system at the Alberta and British Columbia border, TransCanada would reduce tolls for all of its customers by an estimated \$10 billion in the first 15 years of service. However, TransCanada has proposed to Canadian regulators that approximately \$3 billion of that reduction should flow back to Alaskan customers.

2:21:38

MR. PALMER corrected his previous response to Representative Fairclough regarding the payment for the Yukon right-of-way. The correct amount is \$30,000 per year for a total of \$750,000.

VICE CHAIR STEDMAN requested that Mr. Palmer further address this subject at a later hearing.

2:22:55

MR. PALMER presented a map of the project on slide 10.

2:23:45

REPRESENTATIVE LEDOUX referred to testimony from the Alaska Gasline Port Authority (AGPA) regarding export permits. She asked how to be sure that 30 year old permits are viable today.

MR. PALMER answered that TransCanada has constructed 25 percent of the project under this legislation; in fact, the last use of the legislation was in 1998. Moreover, he described the single window regulatory agency and the Alaska pipeline act and treaty as "a living piece of legislation in Canada."

2:25:36

SENATOR DYSON recalled his meeting with Canadian government officials who maintained that the permits are valid and would withstand court challenges; however, there may be a need for updated environmental data.

MR. PALMER noted his agreement. He assured the members that, as during the construction of the pre-build sections, current environmental terms and conditions of the day would be met during the future construction of the remainder of the project.

2:27:20

MR. PALMER, presented slide 11 titled "Project Description," and re-stated the proposal as follows: to develop a large capacity pipeline based on 4.5 bcf per day with possible expansion by about 30 percent with compression; to use the existing pipeline system from the Alberta Hub to the Lower 48; by 2018, to move the entire Alaska volume of gas to market. In response to speculation that Alaska's gas would end up in the Alberta tar sands, he assured the members that there would be sufficient Canadian surplus gas for the next 10 years and beyond.

2:30:13

MR. PALMER presented slide 13, titled "Project Economics." He reminded the audience that TransCanada's application was based on assumptions provided by the administration to all applicants. About \$26 billion is estimated for the project, of which \$600 million would be spent for the open season and regulatory certification. This cost would result in a toll of just under \$3.

2:31:33

MR. PALMER addressed the issue of FERC certification and noted that in order to construct a pipeline that crosses U. S. state or national borders permission must be obtained from the Federal Energy Regulatory Commission (FERC). This approval requires years of extensive preparation and processing. Mr. Palmer presented slide 13, titled "Financial Parameters," and explained that TransCanada can finance this project with a debt ratio of 75 percent because of the U.S. government loan guarantee, not to exceed \$18 billion plus inflation, for up to 80 percent of capital costs of the project. This unusual loan guarantee would assist the project; however, future expansions would have to be financed on a traditional 60 percent debt and 40 percent equity basis. He further explained that pipeline companies make money based on a return on the equity invested in the project and not on the volume of gas flowing through the pipeline.

2:35:20

REPRESENTATIVE FAIRCLOUGH asked whether separate treasury notes would be issued for expansions or if the entire project would be re-financed on a 60 percent to 40 percent ratio at the time of expansion.

MR. PALMER clarified that the entire project would be funded on a blended basis; the original capital would be at a 75 percent to 25 percent ratio and the expansion capital would be at a 60 percent to 40 percent ratio. He predicted that at an expansion to 7 bcf per day, the ratio would remain below 70 percent to 30 percent.

2:36:15

REPRESENTATIVE SAMUELS asked whether Mr. Palmer expects FERC to allow a 10 year treasury note at 13 percent to 14 percent for TransCanada's return on equity.

MR. PALMER expressed his belief that considering the risk and magnitude of this project, TransCanada has made a fair and generous offer. He compared this proposal to other projects.

REPRESENTATIVE SAMUELS asked, "Do you have any other return on equity in any of your pipelines that have something similar to this?"

MR. PALMER said, "I'm not aware that we do, in the United States, but, that actually has been the norm in Canada since 1994, where the National Energy Board has created a structure that is driven off interest rates. They reset the number each year, based on a forecast of interest rates and a premium above it, and we have lived with it since 1994 in Canada."

REPRESENTATIVE SAMUELS remarked, "And you think it's reasonable for the fourteen percent, because it's such a high risk project."

MR. PALMER said, "TransCanada thinks that this proposal, the debt equity structure we've proposed, and the return, is a reasonable return."

2:38:21

REPRESENTATIVE FAIRCLOUGH remarked:

Should I decide to press the green button, that is not saying that I support FERC charging a rate of return of fourteen percent. We've heard before that TransCanada has ... many projects in North America and the rate of return is not to the extent that we're seeing here. And so, I had wanted to bring up at some particular point in time a discussion that just because someone would choose to vote "yes" or "no" on this particular licensing application, does not mean that we don't want FERC to do their job and protect Alaskans and shippers and ultimately the consumer who receives the product.

2:39:10

MR. PALMER said that it is important for people to understand that the debt and equity ratio is interlinked with the return. A pipeline company earns on the total dollars invested times the rate, he explained. Thus, TransCanada's proposal of 14 percent times 25 percent equals a relatively low number. In comparison, the \$5 billion Rockies Express project has been approved by FERC for a 13 percent return on equity on 55 percent equity; multiplying 13 times 55 gives a number of almost 7, whereas multiplying [the Alaska pipeline percentage of] 14 times 25 equals 3 1/2. He concluded that FERC has a lot of leeway.

2:40:25

VICE CHAIR STEDMAN asked whether AGIA requires the state and TransCanada to support the 14 percent proposed to FERC.

MR. PALMER replied no, TransCanada would submit its request to FERC with or without the state's support.

2:30:55

MR. PALMER returned to his presentation and indicated that TransCanada's risk could be up to 200 basis point in the event of capital cost overruns. This would be a two percent reduction; therefore, a capital cost overrun in the amount of forty percent would result in earnings of twelve percent for five years instead of fourteen percent. Referring back to slide 13, he emphasized that the fuel component is 7.9 percent, including the gas treatment plant, which consumes the bulk of the fuel, and the pipeline proposed would have a fuel ratio of just under 2.2 percent from Prudhoe Bay to the Alberta Hub. He opined that that is a highly efficient fuel ratio that fits with concerns related to climate change issues, emissions, and cost efficiencies.

2:42:17

The committees took an at-ease from 2:42 p.m. to 2:55 p.m.

[2:55:30 PM](#)

VICE CHAIR STEDMAN called the meeting back to order at 2:55 p.m.

MR. PALMER called the members' attention to slide 14, titled, "Project Schedule." He recalled that TransCanada's original expectation was that the license would be granted in April. Therefore, there is a loss of four calendar months and ten months of construction time. The revised schedule completes the initial open season in July 2010; the first FERC filing in 2012; the certificate issued in 2014; and construction completed in 2018. Slide 15, titled "Partnership Opportunity," indicated that TransCanada would offer equity opportunity to shippers in the initial open season that subscribe for a threshold volume. Slide 16, titled "Upstream Fiscal Terms," indicated that TransCanada's AGIA obligations are not conditional on a review of Alaska's upstream fiscal terms with the natural gas producers.

[2:58:19 PM](#)

VICE CHAIR STEDMAN asked for clarification of TransCanada's position on this issue.

MR. PALMER explained that the level of taxes assessed by the state would affect the profitability of the producers, if they are also shippers. TransCanada is not directly impacted, and would not be involved in discussions between the producers and the state.

[2:59:23 PM](#)

MR. PALMER turned to the issue of the extraction of natural gas liquids (NGLs) that was illustrated on slide 17 titled, "Other Project Components." He stated that NGLs include propane, ethane, and butane, and that North Slope gas is very rich in these liquids. On a volumetric basis, propane, ethane, and butane are more valuable than methane, which is the natural gas alone. The normal procedure is to remove liquids before the natural gas reaches its final destination and where these liquids are removed would be decided by the pipeline customers; TransCanada can accommodate the removal of liquids within Alaska or downstream on the Alberta system. He added that once the liquids are removed, most gas streams retain 1,000 Btu per mcf; however, Prudhoe Bay gas has the potential to retain 1,067 or 1,118 Btu per mcf. "Six to eleven percent of the actual volume could be liquids like ethane and propane and butane; the majority of that would be ethane, of course," he said.

[3:01:23 PM](#)

SENATOR WAGONER asked whether the liquids can be stripped after the gas gets to the hub, since the "molecules are mixed with the other gas, so how would they specifically measure what liquids are in that gas as they're put through the hub?"

MR. PALMER explained that if the liquids are not removed in Alaska, there are third party-owned complexes that straddle the pipeline system and that can remove the liquids downstream of the Alberta Hub. Currently, the ownership of the liquids goes to the party that owns the gas as it leaves the province of Alberta; however, TransCanada has proposed to the Canadian regulators that as the gas is received into the system, Alaska would receive credit for the value of the liquids, wherever they are stripped.

[3:03:47 PM](#)

MR. PALMER, addressing the subject of the "LNG Alternative," reiterated that in the event there is sufficient gas committed to go both to Canada and to Valdez, TransCanada would build a Y-line with a section of pipeline going east to Canada and a section going south to Valdez. In the event that gas is only committed to Alberta, the gas would be moved there. In the event that gas is committed only to Valdez, the pipeline would be built to Valdez.

[3:04:44 PM](#)

MR. PALMER said that he has already discussed the regulatory structure illustrated on slide 18, including the Alaska Natural Gas Pipeline Act of 2004, the Canadian Northern Pipeline Act, and the Canada/U. S. Treaty. On slide 19 titled, "AGIA 'Must-haves' Promote Basin Development," he pointed out that rolled-in tolls would "average in" the cost of expansion with the base cost, similar to the way property taxes increase with the addition of improvements such as street lights. AGIA requires rolled-in rates up to 115 percent of the initial rates. In addition, AGIA requires the pipeline company to hold an open season every two years and thereby, solicit new customers and expand the pipeline in engineering increments. The pipeline company is also required to provide in-state delivery with distance-sensitive tolls that are based on the average of the distance to move the gas within the state. Further, AGIA specifies a minimum of five delivery points on the pipeline system. Other "must-haves" include a low equity ratio requirement for pipeline sponsors and state fiscal incentives, if any, targeted to AIGA pipeline shippers.

[3:07:26 PM](#)

REPRESENTATIVE HOLMES asked, "Who would bid, on behalf of Alaskan consumers, how it works when a consumer group actually bids in an open season, what happens in the event that there might be more bids than there's actual gas capacity available?"

[3:08:23 PM](#)

MR. PALMER responded that in-state users can bid in the initial open season if a market develops in an area such as Fairbanks or Delta Junction. The residential customers would decide how to group themselves; for example, under a marketing company or a local distribution company. Also, large industrial in-state customers can become a direct customer of the pipeline or can buy the gas from a shipper at one of the off-take points. The

purchase of gas at the inlet at Prudhoe Bay or at off-take points is open to in-state users at the initial open season or later. He said, "It's also true that you would expect that Alaskan's in-state demand would grow over time. So, having initial open season, as well as opportunities in the future, would be valuable to the in-state customers as they accumulate growth ... it would be expected that there will be incremental volumes coming forward." Mr. Palmer further explained that in the event that the initial project were actually completed for 4.5 bcf per day to Alberta, TransCanada has sufficient flexibility to provide "another 100,000 million a day to Fairbanks, strictly by the way we would operate the pipeline ... because it's a relatively short distance and we could, in effect, squeeze more gas through the pipe for that short distance." In the event that there were more demand at the initial open season than expected, more compression would be put on the pipe.

[3:12:03 PM](#)

MR. PALMER returned to his PowerPoint slide 20 titled, "Long-run Basin Development - Pipeline Expansions" and addressed the following points: Value to Producers/Governments; Does Alaska have enough gas; Drilling impacts; and Impact of rolled-in tolls. The first point was illustrated by slide 21 titled, "Value of Potential Expansions (\$Billions)." He noted that the projections are based on the administration's estimate of an annual average netback of \$6.89/mmBtu, and a gas price of slightly under \$10 in future dollars. Mr. Palmer reminded the members that the producers and governments would share the netback, based on the producer's costs and the taxes paid to the governments. Using these projections, a base project of 4.5 bcf per day running for 25 years would produce net revenue of \$350 billion shared by the producers and governments. He further provided projections based on various levels of expansion of the pipeline. Regarding the second point about whether Alaska's basin holds enough gas for future expansion, he offered a comparison to Western Canada, illustrated on slide 22 titled, "Basin Development - Western Canada Example," that displayed the growth of the Alberta basin from 1955 to 2006.

[3:18:17 PM](#)

MR. PALMER addressed the third point; the subject of rolled-in tolls. He recalled testimony from FERC representatives stating that any pipeline system would be an open access system. He agreed, but pointed out "the question is degrees of open access

and what would happen with the tolls." In 2004, with the passage of the U. S. pipeline act, powers were granted to the FERC allowing it to require expansion of the pipeline, but not allowing "existing shippers to subsidize expansion shippers". AGIA also requires the pipeline company to expand; however, this would be voluntary expansions and would include the automatic, or rebuttable, assumption of rolled-in tolls. He emphasized that "in the event that a non-AGIA pipeline is advanced, you should ask them whether or not they will voluntarily expand for third parties, or if they are going to go under the FERC mandatory requirement." Slide 23 illustrated the incremental costs of mandatory expansions with a variety of assumed volumes.

[3:23:12 PM](#)

MR. PALMER presented slide 24 that further illustrated the increased costs to expansion customers. He opined that mandatory expansions and the resulting incremental tolls to expansion customers would impede the potential exploration of the basin.

[3:25:30 PM](#)

MR. PALMER, in summary, reviewed the following: AGIA was established as Alaska's transparent and competitive process to advance a gas pipeline project as opposed to participating in commercial negotiations for a contract; AGIA was structured to encourage the construction of the base project, long-run basin development, open access for initial and future shippers, and in-state, Lower 48, and LNG markets; TransCanada has the credentials and capacity to build, own, operate, and expand the project; and TransCanada's objectives are aligned with those of the state and AGIA to provide early in-service, long-run basin development, open access, including rolled-in tolls, and equitable treatment for all customers.

[3:26:37 PM](#)

SENATOR WAGONER asked whether financial arrangements have been made for the right-of-way through the two First Nation's lands that have not yet settled their aboriginal claims.

MR. PALMER answered that TransCanada holds a valid right-of-way through the entire Yukon, which includes the territory of all eight First Nations. He observed that he could not say what political action may be taken by any group or individual.

[3:28:33 PM](#)

REPRESENTATIVE OLSON asked whether the preceding answer included land in British Columbia.

MR. PALMER clarified that his answer applied to Yukon; however, British Columbia is traditional pipelining territory, similar to Alberta, and a process is in place to obtain regulatory approvals for rights-of-way. In fact, the Northern Pipeline Act includes treaties with the provinces to expedite the "normal" process.

REPRESENTATIVE OLSON recalled that three years ago, First Nation representatives from British Columbia indicated their requirements of employment, royalties, and ownership in the pipeline prior to their participation in right-of-way negotiations.

MR. PALMER assured the members that the TransCanada pipeline route does not pass through reserves land in British Columbia; furthermore, there is a long-standing treaty for that land. He expressed his understanding of parties who wish to get value from this project.

[3:30:26 PM](#)

SENATOR WIELECHOWSKI mentioned press reports from Canadian and U. S. newspapers speculating that the Canadian government may use the Canadian portion of the pipeline as leverage against the U. S. to further tar sands development. He asked for assurance from Mr. Palmer that this is not the case.

MR. PALMER observed that he can control neither the press nor the politicians in Canada or the U. S. However, he assured the members that Canada and the U. S. have a treaty to expedite this project; in fact, TransCanada is the main Canadian sponsor in the treaty.

The committee took an at-ease from to [3:32:19 PM](#) to [3:38:57 PM](#).

[3:39:03 PM](#)

VICE CHAIR STEDMAN called the meeting back to order. He introduced the next presenter, Commissioner Galvin.

[3:39:59 PM](#)

PATRICK GALVIN, Commissioner, Department of Revenue, reviewed the purpose and the development of the AGIA legislation for the benefit of the public. He concluded that AGIA allows the state to move ahead with a pipeline that would meet Alaska's need in the long term and expressed his confidence that the project is proved viable with the present economic and market conditions. AGIA, by design, was intended get competition going relative to who would move the project ahead with sense of urgency.

[3:45:04 PM](#)

COMMISSIONER GALVIN explained that AGIA, with the inducement of an initial "burst of money" from the state, mobilized the private sector to move the project forward and the competition began. In order to qualify for upfront money for design, market testing, and the Federal Energy Regulatory Commission (FERC) certification, proposed projects were required to have a financial structure of low tariff, low cost, high netback value, and future expansion. Commissioner Galvin stated that the competition garnered five bids and the TransCanada application met the requirements of AGIA. After thorough analysis, that included looking at the project not only to determine that TransCanada's proposal was best for Alaskans, but the broader scheme of the state's other options, it was concluded by the state and outside experts that issuing TransCanada the license sufficiently maximizes the benefits of the project to Alaskans.

[3:50:33 PM](#)

COMMISSIONER GALVIN further explained that the TransCanada application was compared to the Denali project and to LNG project options. Referring to PowerPoint slide three titled, "Maximizing Benefits to Alaskans," he noted that the state looked at four goals: get a pipeline; create jobs and long term careers for Alaskans; create opportunity for affordable energy for Alaskans; and maximize state revenue and create opportunity for future growth of the state economy. The first goal is comprised of two sets of analyses; the feasibility of the project plan and the capability of the builder, and the underlying economics of the project.

[3:52:27 PM](#)

COMMISSIONER GALVIN turned to the subject of jobs and long term careers and opined that any large pipeline project would create jobs during the construction phase; however, long term jobs would be created only if the pipeline company pledges future

expansion of the pipeline, thereby encouraging the exploration and development of new gas resources. A pipeline with "true open access provisions," such as soliciting new customers, committing to expansion, and the use of rolled-in rates, is going to be key to maximizing long term job opportunities. Regarding the issue of in-state gas, he advised that there needs to be physical access to the pipeline, a reasonable price for the gas; and the availability for expansion opportunities along the pipeline.

[3:57:45 PM](#)

VICE CHAIR STEDMAN asked Commissioner Galvin to review the FERC orders for the benefit of the public.

COMMISSIONER GALVIN observed that FERC is the regulatory agency that governs the business practices of the pipeline. In fact, Congress passed a law indicating that the Alaska gas pipeline is unique and its construction is in the national interest. In order to connect the supply of Alaska's gas to the Lower 48, there are provisions providing for pipeline expansion and rolled-in rates. For example, under the FERC rule, if the pipeline company voluntarily expands by compression or looping, there is a presumption of rolled-in rates unless rolled-in rates would create a subsidy for the new shippers. The result would be that rates for new shippers would be much higher than rates for the initial shippers, and exploration for new sources of gas would be discouraged. The second issue is that if a pipeline company is motivated to resist expansion because a competitor wants to ship gas on that line, FERC can force a mandatory expansion. In that case, rates can be raised on an incremental basis, again with the result of higher rates for new shippers. He opined that an explorer looking to invest in wells on the North Slope must predict the risk of finding gas and the risk of high shipping tolls. This additional risk of high shipping tolls may well prevent exploration from taking place, at a tremendous cost to Alaska.

[4:05:04 PM](#)

VICE CHAIR STEDMAN asked if FERC considers the special handling of the Arctic basin a "basin opening exercise."

COMMISSIONER GALVIN responded that the initial Alaska gas pipeline is the basin opening line.

VICE CHAIR STEDMAN disagreed. He stated that his recollection of the FERC testimony is that the reason the Alaskan Arctic is being treated differently [by FERC] is because of the potential monopoly of a producer-owned line. These actions are put in place to mitigate opening the basin to more exploration and development.

COMMISSIONER GALVIN clarified that the line, once it's in, is no longer basin opening, but it is a potential monopoly. The FERC provisions would ensure that it would have an opportunity to look at the issues of monopoly control. However, FERC is a passive player and would not tell a pipeline company it has to expand unless there is a dispute. He advised that the possibility that an explorer decides not to drill a well in order to avoid a dispute and the subsequent ruling by FERC, can be reduced by Alaska's confidence in open access to the pipeline.

[4:08:47 PM](#)

VICE CHAIR STEDMAN asked, "Who has ultimate decision capability here, AGIA or FERC?"

COMMISSIONER GALVIN answered FERC.

VICE CHAIR STEDMAN stressed that, no matter what is done under AGIA, FERC is the ultimate decision maker, and it would take into account the viewpoints of the producers, the state, the explorers, the environmental groups, and other organizations in the state.

COMMISSIONER GALVIN agreed and added that the markets in the Lower 48 are also a part of FERC's obligations. He stressed the importance of agreement between the state and the applicant for certification [TransCanada].

[4:10:51 PM](#)

VICE CHAIR STEDMAN observed that when the gas crosses to Canada, Alaska would no longer have regulatory control.

COMMISSIONER GALVIN disagreed. He related that on the Canadian side the regulatory body, like FERC, must consider the interests of all the involved parties.

[4:12:14 PM](#)

COMMISSIONER GALVIN returned to his final point: maximizing state revenue. He said that this is achieved by having the highest wellhead or netback value; in fact, this value is used to calculate the state's royalty and tax revenue. Additionally, through AGIA, there are efforts to keep the tariff low, which would increase the netback. Furthermore, financing the pipeline with equity has a higher return than financing with debt; thus, the higher percentage paid with debt, the lower the tariff would be.

4:15:00 PM

REPRESENTATIVE FAIRCLOUGH asked whether all of the economic models presented to the legislators and the public were based on a tariff that concluded at the Alberta Hub.

COMMISSIONER GALVIN said yes.

REPRESENTATIVE FAIRCLOUGH further asked whether the additional tariff assessed by Canada on the gas going from the hub to the U. S. market would be included in the economic model presented to FERC.

COMMISSIONER GALVIN confirmed that the price in the U. S. market would take into account the tariff through Alberta. In fact the prices would be based on a benchmark, most likely the benchmark would be [the Canadian natural gas exchange] AECO.

REPRESENTATIVE FAIRCLOUGH clarified that the economics are all based on the export of gas through the Alberta Hub. She then asked whether the gas crossing the border into Canada is an export from a U. S. market to a Canadian market, as far as the trade deficit goes.

COMMISSIONER GALVIN expressed his understanding that the gas going into Alberta would be imported to the U. S. markets.

REPRESENTATIVE FAIRCLOUGH remarked:

That's an assumption that's actually going down in figures because Alberta, or the Canadian market, is increasing and so, we've talked about seven bcf ... or nine bcf being reduced down, too. So, more where I'm going is that we're ... I'm not sure that we're getting the trade balance that we want here as it goes into an Alberta Hub finish line. ... When we're at FERC, and we're saying we're going to take our gas

into a U. S. market, and that's not clear. ... As we go into that Canadian market, we have just exported all of Alaska's gas.

COMMISSIONER GALVIN advised that in the market today Canada is a net exporter to the U. S. Therefore, in today's market, if Alaska added gas to the Canadian supply, most of it would likely continue on to the U. S. Looking forward ten years, he opined that Canadian consumption is likely to grow, but its production would decline; thus there would be less gas exported to the U. S. However, all expectations are that Canada would continue to be a net exporter in 2018; the ultimate destination for Alaska's gas would be the U. S. Commissioner Galvin stated that the U. S. Department of Energy ("US DOE"), not FERC, is involved in the consumption of U. S. energy and the interaction with foreign governments regarding energy. In fact, the state has been informed that the US DOE sees the North American market as a single market and the influx of Alaska's gas is a net positive to the U. S. because it is getting gas from Canada. There is no concern about Alaska's gas going into Canada because it would ultimately increase the supply available to the U. S. In addition, export licenses may not be a factor because the North American Free Trade Agreement allows free exchange between the U.S. and Canada. He acknowledged that there are issues associated with market price, with making sure that Alaska has a good relationship on the downstream end of the pipeline, and that there is a good system in place at the downstream end to get the gas from the Alberta system into the Lower 48. Commissioner Galvin said, "But frankly, the market forces are there, to drive that, regardless of what we do, and it's going to take care of itself."

[4:22:44 PM](#)

REPRESENTATIVE SAMUELS informed the audience that the regulatory agencies of Canada have declined to testify at these hearings. He asked the Commissioner whether 15 to 20 years from now, he would choose to sell the gas in Alberta if the choice was between selling gas for \$3 in Alberta or for \$3, less the tariff, in Chicago.

COMMISSIONER GALVIN responded that the decision would be tied to the netback value and maximizing revenue. In further response, he said that after the gas leaves the state, it is most likely that the state would not be the entity selling the gas.

[4:23:46 PM](#)

REPRESENTATIVE DOLL observed that Alaska gas would become Canadian gas sold to the U. S. market.

COMMISSIONER GALVIN remarked:

Once it's produced, it becomes owned by the lessee. They own it, other than our royalty ... they take possession of it, they transport it down the line. It crosses the border, they still have possession of the gas, it doesn't change hands, they just are selling it on a system that's regulated by a different government. It gets down to the Alberta system and they sell it to somebody else. The Canadian government never owns any of it. It's owned by private companies ... most likely it's going to [be] sold by five or six other companies before it ultimately gets consumed and burned by somebody.

REPRESENTATIVE DOLL indicated that it is not an import export issue.

COMMISSIONER GALVIN clarified that it is an import export issue because private companies are moving goods across borders. He said, "Is Alaska gas ultimately adding to a net import balance with Canadians or export balance? And that's going to be decided by the market on a daily basis and would probably change daily, in terms of how much of that gas ultimately crossed the border, and you probably won't even necessarily know. What I think I can say is that if it gets on an LNG tanker and goes to Japan we know that that's a hundred percent export. ... If it goes to Canada ... we just don't know, we won't track it."

[4:26:26 PM](#)

REPRESENTATIVE LEDOUX asked how this project would get gas to Alaska, now.

COMMISSIONER GALVIN opined that getting gas now is a separate issue that should be pursued. He noted that the license to TransCanada for the big project does not preclude the state from working to advance a separate line that would bring gas to Alaskans, as long as the capacity of that line falls below the 500 mcf a day limit provided in AGIA.

[4:29:24 PM](#)

REPRESENTATIVE FAIRCLOUGH referred to Mr. Palmer's discussion of TransCanada's proposal to the Canadian regulatory body. She asked, "Is it the state that would receive the benefit from the off-take of the liquids, the increased value, is that what he was referring to and that's what we are lobbying for?"

COMMISSIONER GALVIN said yes. He added that through the royalty, the state owns one-eighth of the liquids being produced. However, under the current Canadian system the state would lose its credit for those liquids when the gas enters the Canadian pipeline system.

REPRESENTATIVE FAIRCLOUGH then asked if under the current system the Canadian government earns a royalty payment on the liquids or whether the shippers or the pipeline company benefit.

COMMISSIONER GALVIN answered that the shipper takes it on the outflow from the system; it is an inequity of the [Canadian] system.

[4:33:03 PM](#)

REPRESENTATIVE JOHNSON noted that an in-state pipeline designed for 0.4 bcf per day could easily be overbuilt to exceed 0.5 bcf per day. He asked whether AGIA would prevent the state from financially assisting a pipeline project that is designed for more than 0.5 bcf.

COMMISSIONER GALVIN interpreted the law to mean that the capacity of the project through the commencement of operations of the big line is the arbitrator. In order to receive state financing, the [smaller diameter] project can be designed to flow 400 mcf per day initially, with the potential of adding compressors after the commencement of commercial operations of the licensed project.

[4:35:37 PM](#)

REPRESENTATIVE JOHNSON further asked whether a subdivision of the state, such as a municipality, would be allowed to financially assist [the smaller diameter project].

COMMISSIONER GALVIN opined that a subdivision of the state is not bound by the terms of the AGIA license. In further response, he said that the state would have to provide a tax or royalty treatment that is designed to advance the pipeline project. This interpretation of the law has been recognized by

"the judiciary committee," the Department of Law (DOL), and TransCanada.

REPRESENTATIVE JOHNSON disagreed.

COMMISSIONER GALVIN said, "We feel confident that the interpretation has been fairly clear."

[4:38:30 PM](#)

REPRESENTATIVE COGHILL expressed his interest in the projects competing for the larger pipeline. He remarked:

Though we have a [Department of Natural Resources] coordinator especially designed under AGIA, the resources are still going to be available ... should the competing project require resources of whatever department. And I want you to re-state that. ... In the AGIA, we also give, under section 300, inducements both for royalty and for tax. ... Should the Denali project ... come to the state asking for some tax consideration, does that stop us, under this plan, from coming up with a congruent system, a tax scheme, would we be forbidden, under this law, to even talk to them about it?

COMMISSIONER GALVIN answered that the project assurance is intended to provide to the licensee [assurance] that the state would not provide preferential tax or royalty treatment to competing projects. It would be a violation to provide the same tax treatment to the licensee and to a competing project; the state would be liable for treble damages to the licensee. However, he opined that a discussion of a tax scheme among legislators would not qualify TransCanada for treble damages. Further, AGIA allows the state to provide the permitting, right-of-way, and authorization personnel that are needed to complete the work generated by the competing projects through the usual reimbursable services agreement (RSA) process.

[4:43:57 PM](#)

REPRESENTATIVE LEDOUX expressed her belief that there is a certain amount of ambiguity. She asked whether a contract could be structured so there is none.

COMMISSIONER GALVIN clarified that the real issue is the interpretation of the AGIA statute by the DOL and by

TransCanada. He pointed out that there is concurrence between the state and the licensee on the statutes of AGIA. In further response to Representative LeDoux, he said that the hearing process is "getting on the record the position of both the state and TransCanada to ensure that if there's ever a question down the line where somebody thinks that there's an ambiguity, we have the record ... "

REPRESENTATIVE LEDOUX encouraged the specification of all matters in a contract.

COMMISSIONER GALVIN maintained his belief that 60 people in a room would all have different interpretations of an agreement. He discussed how contracts are written.

[4:49:13 PM](#)

REPRESENTATIVE SAMUELS asked, "If the state chose to offer the same tax, both in length and amount ... to all pipelines ... is that a violation?"

COMMISSIONER GALVIN reiterated that the language of the statute refers to the purpose of the tax treatment, such that the tax treatment must facilitate the construction of a competing project in order to be a violation.

REPRESENTATIVE SAMUELS remarked:

We have control over permits and taxes, one hundred percent, that's up to us. ... [TransCanada's] attorneys, five years from now, are going to look out for their shareholder's best interest. ... Two pipeline projects, that both go forward, and they both have gas bid to them, contingent on X, Y, and Z, and if you change X, Y, and Z, you know which one's going to get the gas, the ones that own it, then we're going to end up getting sued by our partner. ... If I offer tax terms, to any pipeline, LNG, producer owned, TransCanada owned, a consortium of all three or any ... if I say I'm going to lock in taxes for seventeen and a half years and at this rate ... whatever it is ... the minute you do that it's not going to be TransCanada that gets the gas, TransCanada is going to sue us for treble damages.

COMMISSIONER GALVIN agreed that in the example described by Representative Samuels, the state would be liable for treble damages. He continued to say:

But we did not put this in place, you did not pass this in order to put this offer out on the table and bring somebody in, and then get cute about trying to walk up to this line, where there's treble damages, and say, "we're just short of the line, we didn't quite cross it." The point is, we are not going to try to advance a competing project. We're going to operate in good faith. We brought them into this process and we're going to stick by them, or we're going to pay them treble damages. And if the idea that legislators have [is] that we're going to pass this thing ... and then we're going to pass a law that's sort of going to make Denali go forward, but we're not going to say it publically, and we're going to be able to somehow avoid treble damages; don't go there. Just recognize that we are ... accepting this relationship on the basis that if we want to get out of it we will pay the price: treble damages.

[4:53:36 PM](#)

REPRESENTATIVE LEDOUX envisioned a future legislature that decides to lower taxes, thereby encouraging producers to begin a competing project. She opined that this scenario would lead to [treble] damages assessed against the state.

COMMISSIONER GALVIN assured the members that the language of the statute is very clear; if the state is going to offer favorable tax terms in order to advance a competing project, it would be liable for treble damages. Favorable tax terms include passing a tax regime that favors the Denali project, he opined. He suggested that there would be many options open to the state during the development of the licensed and the competing projects; in fact, treble damages are the price the state would pay if it withdraws from its agreement with the licensee.

[4:57:59 PM](#)

VICE CHAIR STEDMAN noted that there has been some discussion in the Senate that the Senate Resources Standing Committee would be reviewing the gas tax in January 2209. He continued, "The [oil and gas] industry would like to have more time to do some analysis on costs and so on and so forth, dealing with

construction of this line before they're too excited about coming forward. ... This mechanism for review is definitely underway, its just a matter ... of when the time is right. ... Also, getting the administration a longer time to take a look at Alaska's Clear and Equitable Share (ACES) and see how that is working."

COMMISSIONER GALVIN agreed. He acknowledged that AGIA would need to be considered when changing the [tax] system. "We'll probably have TransCanada talking about their perception of whether or not this is problematic or not. We'll have the opportunity to direct a tax benefit one way or another," he said. He reminded the members that if the license is granted, the state must accept that it is engaged in a contractual relationship that must be part of the conversation in a future discussion about changes to the oil and gas tax system.

[5:00:30 PM](#)

VICE CHAIR STEDMAN reminded members of the public to sign up for testimony from 6:00 p.m. to 8:00 p.m., and that there would be a time limit of three minutes per person. He announced that the meeting was recessed until 6:00 p.m.

[5:59:30 PM](#)

VICE CHAIR STEDMAN called the meeting back to order at 5:59 p.m. Members and presenters present introduced themselves.

[6:02:02 PM](#)

VICE CHAIR STEDMAN explained the purpose and importance of the joint hearings on AGIA and announced the schedule for the remaining hearings. He informed the audience that public testimony would be limited to three minutes per participant and invited speakers to queue up.

[6:05:29 PM](#)

ALLAN ULEN remarked:

It looks to me like we are trying to build a mountain out of what should really be just a molehill. We already have a pipeline corridor that goes from Prudhoe Bay all the way to Valdez, and the first thing we should be doing is running a line down there, and I know there's plenty of room along that pipeline

corridor if you don't put it right close to the existing pad. ... I've been in the oil business for 40 years and 31 of those have been here in Alaska. I shipped Alaska oil by tanker truck ... and subsequently shipped that first oil out of Kenai pipeline Nikiski dock to Richmond, California ... in 1960. Now the first thing that you do, you put that pipeline down to tidewater, and at the same time you are doing that, you build a LNG plant right there, or you can bring it over here to ... the existing LNG plant right there which would be expandable, and you also get Agrium going again. ... Then you can go ahead and take your time and get your FERC approvals and all this kind of stuff that you need to go through Canada, down to the Alberta Hub and on through to Chicago.

6:08:58 PM

JOHN WILLIAMS, Mayor, Kenai Peninsula Borough, remarked
[original punctuation provided]:

Mr. Chairman and all of the members of the legislative committee that's here today, welcome to the beautiful Kenai Peninsula. I want to thank you for bringing your special session deliberations to the residents of Alaska, and particularly to those of the Kenai Peninsula. From Homer to Hope, from Seward to Tyonek, From Nikiski to Kenai to Soldotna, and all points in between. You all have a difficult choice, one of historical importance for the State of Alaska and all of its residents. As in other places on your journey here, you have heard from local communities and what their needs are. We are no different. You all know that Southcentral Alaska is currently faced with declining natural gas reserves from the Cook Inlet basin. Without any new discoveries, we are currently staring at an eight to nine year supply of natural gas for over 60 percent of Alaska's population. I am here to tell you that we have to get gas to Southcentral and we want the jobs that come with getting that gas here. A line to Cook Inlet satisfies the constitutional obligation of maximizing the benefit of the people of Alaska. Why is Cook Inlet the ideal destination for a spur line? As I have said, over 60 percent of Alaska's population will be running out of gas in the not to distant future. This includes the

Mat-Su Valley, the entire Municipality of Anchorage, our local military bases, and the entire Kenai Peninsula. In addition to the needs of the Southcentral population, our local industrial facilities and our economy is heavily dependent on natural gas. As you are well aware, Agrium is sitting a few miles out the road and is nearing a complete mothball state. Since 2003, we have lost 264 high-paying jobs. The average salary for Agrium's employees was in excess of \$80,000 per year. An additional 317 indirect jobs are estimated to have been lost over the same time period. Agrium's facility alone could handle over 50 bcf a year and restore the seven to ten percent export market they once enjoyed. The LNG plant next door to Agrium was issued a two year LNG export license this month. Normally, this would be a five year license. The LNG plant averages around 70 bcf a year. Who knows if they'll get another license in 2011? Finally, why do we want to ship our NGLs to market in Alberta? I want the State of Alaska to make a commitment and get behind the marketing of NGL processing right here. This will launch a petrochemical industry at home, in Alaska. I read in TransCanada's plan that their project is premised on NGL processing taking place in Alberta. It goes on to state that two of the three plants in Alberta are ready to expand to handle Alaska's [NGLs]. I want Alaskans to process our NGLs. The Cook Inlet stands ready to fight for those jobs instead of shipping them down a pipeline to Alberta. The Cook Inlet has existing industrial structures that are expandable, a quality trained workforce, training programs for additional workers, developable land, and a broad waterway to get products to the marketplace. Nobody can make a better argument for maximizing the benefits to Alaska's citizens that Cook Inlet can. An up or down vote for granting TransCanada an AGIA license is a difficult choice because it is not just about an AGIA license. As we all know, the Denali pipeline has already started preliminary field work and pre-filed with FERC for their gas line project. This is a horse race, and at some point a winner will emerge. I will leave the handicapping and betting up to you, as you and the administration have invested the time, energy, and money to acquire the best information available. I and the entire Kenai Peninsula Borough stand ready to assist you in any way

I can. I will leave you with this, NGL processing and petrochemicals are huge business not only in the number of jobs but dollars to our state. Don't ship any of those jobs or dollars down a pipeline to Alberta. We'll gladly take all the jobs and money right here in Cook Inlet. Thank you very much for your time.

6:14:07 PM

DEBBIE BROWN remarked:

I am here today to lock arms with people across this state ... who would ask you to have the political strength and will to vote "no" on the TransCanada application. There are aspects of the AGIA that I support one hundred percent. There is some language in the AGIA statutes that I have serious concern over. I feel that it's important for the State of Alaska to be able to have free and open communications about other pipeline projects that would bring about and assist the needs of Alaskans to have affordable sources of energy. It's critical. I beg you, not to be the first legislature to throw this state into dramatically in the direction of becoming an impoverished state. ... I recognize the amount of data, information, legal considerations, that you all are involved in, getting opinions, listening to Commissioner Galvin ... answering questions. ... About the language, it's very intimidating to a lot of people. But I stand here today to speak to you to try to help encourage you to say no to the TransCanada application and move ahead and begin to move into uncharted territory as this Alaska legislature, to bring about for Alaskans energy that we control. We need more than 0.5 bcf per day very soon. ... We've put in our 30, 35 years and we've brought the state in a lot of ways, where we are today, based on the family members that were here before us. ... Let's use our constitution and become strong. ... We have all the intellectual capabilities that any Arabian small nation has. ... Have TransCanada build it for us. But let's have control, if we go with TransCanada we are going to be faced with delays, complicated language, litigation issues. ... What I believe and I supported the governor ... but what we've ended up with in the AGIA process, in my opinion, is not what Governor

Palin expected to happen. ... We didn't expect to just have one proposal. ... We come up with a different plan that would move ahead with producing energy needs for our state, we need them sooner than what we could ever hope to dream of getting with this proposal.

[6:19:32 PM](#)

PAT HAWKINS remarked:

I've been a resident of Alaska since 1966. My sign basically says it all, "In-state gas now, Alaska is first." You know, in reality, I believe in the AGIA process. The AGIA process basically has proved to be successful, in that we're talking about a gas line. I've been up here since 1966, I support the AGIA process, I support the AGIA gas line. It made the oil companies, had an opportunity to bid on the AGIA process, plus other people, they didn't submit their bid. So, my basic concern is well that's their problem. ... So we have TransCanada, very reputable company, they built pipelines. The big thing I'm looking at here is the approval of the AGIA license for TransCanada but the most important thing, besides that, is we need to take care of our in-state needs now. Right here on the Kenai Peninsula, throughout the State of Alaska. It is completely ridiculous that we have resources up in Prudhoe Bay that can not go into Fairbanks. And our elected leaders and our governors have sat by and done nothing. We need to do something now, this is critical. ... We need to bring jobs to the peninsula, we need to bring jobs to Fairbanks. We need to build the pipeline and we need to build it now. ... We have excess money, we can build that line tomorrow and supply the energy needs for all of Alaska. Propane plants, re-opening Agrium, having jobs here on the Kenai Peninsula ... working at Wal-Mart, Sears, K-Mart, is not jobs, we need good paying jobs, in Alaska and here on the Kenai Peninsula. ... I'd like to thank all of you legislators for coming down here to the Kenai Peninsula and taking time ... and I want to thank you for your service to the State of Alaska.

[6:22:44 PM](#)

TOM PATMOR remarked:

Remember the Manhattan Project back in '68 where one of the oil companies got an old oil tanker and they put an ice breaking bow on it? And they took it across the top of the Northwest Passage with a couple of ice breakers, well they were thinking about getting oil out of Prudhoe via the Northwest Passage back in those days, and there was a lot of ice up there in those days. ... But anyway, there was a story in the paper this past winter that said that EXXON is gonna build a small LNG plant up there and they're gonna ship gas by tanker trucks to Fairbanks from there. What's to keep EXXON from building a big plant and just loading it on tankers right up there and shipping it either way across the top of the continent? I mean that would be a lot cheaper than building a \$40 some billion pipeline. As Mr. Palmer said ... TransCanada doesn't have nothing to do with the LNG plants, just the pipeline. So, if EXXON wants to go ahead and build a bigger LNG plant up there and load it on to tankers and take it either way, they could be shipping gas out within three years from now, whereas TransCanada and Denali Project both say it's gonna take them at least three years to even start at construction. ... But you can't trust EXXON, as you know. ... With all the shipping hazards in Prince William Sound right now, what would it do if they had LNG tankers going in and out of there too? ... I asked Mr. Palmer this afternoon ... if they had studied the concept of building a pipeline, a spur line from Whitehorse over to Skagway, you've already got the railroad and the road, so it would be easy to transport the materials and everything along there. He said they hadn't and he asked me if that's a deep water port there. ... But I think that's quite a bit shorter than going from Glennallen to Valdez.

MR. PATMOR related a personal story about the Exxon Valdez oil spill.

[6:27:02 PM](#)

BILL WARREN remarked:

I want to thank all of you for being here on the road show, and I'm glad you put it together, because we are at a historic point here on what we're going to do.

As far as AGIA, I'm for and for the process for good reasons. ... I want to see the pipeline built by a pipeline company because of a monopoly situation, control, competition, access, many reasons that I want the pipeline to be built by the pipeline company and not the producers.

MR. WARREN stated that he worked on the Trans-Alaska Pipeline System and wished that more of the work, such as the NGL industry, was going to be in Alaska. He observed that this area was a rust belt now, and was going downhill. "I hope all of you go out north and see it's beautiful in the summer, but the mom and pop business that are out of business ... we need to be revitalized, now," he said. Mr. Warren warned that it was apparent that the area was headed for poverty this winter. He opined that natural gas is clean, in fact, other states are using compressed natural gas extensively for personal transport at a ratio of 4:1. He concluded:

I know that you've got to move forward on this megaproject, and there's many obstacles, and we've just got to persevere and go forward and in the interim, we need in-state gas now, we need a bullet line started yesterday. The state needs to reach in their back pocket and pay for it. ... And it's for my granddaughter.

[6:31:43 PM](#)

STEVE MAPES informed the members that he was thinking of his three boys and future grandkids. He envisioned the pipeline as a big hose running to Canada with just a small amount coming to Alaska. He remarked:

I think it would be better if the big pipe was kinda of stopped in Alaska. I think it would be more jobs, there would be more industry. ... The product would last longer if we didn't all flush it out in some big pipe down over to Canada and let them pump it in the ground so they can push gas out.

MR. MAPES agreed with the previous speaker that there are no mom and pop stores left in Kenai, and residents must travel 30 miles for necessities. He concluded that the State of Alaska would be better off if the product from the slope was used for the betterment of Alaskans, not for the betterment of Chicago or Canada.

6:36:09 PM

JIM KAUFFMAN informed the members that he heard the testimony and supports the process of AGIA and a "yes" vote. He remarked:

Having a pipeline company, and listening to their presentation, I think they're capable, and I think the State of Alaska has benefits working with TransCanada. I think, as far as Denali and the producers, all of these parties know FERC pretty well ... and I think FERC will take care of that pretty well. ... [TransCanada] has the option of a Valdez terminal, LNG, and I trust that our state corporation, ANGDA, would be at the table, with them, encouraging that project. ... My problem with the big line is that it primarily services the state and the state's budget ... we have forgotten the constitution requirement to supply the people. ... The in-state ... bullet line needs to be down here soon, very soon. ... It's hard to believe that a state with this kind of resource, in terms of energy, has any kind of energy problem.

6:39:44 PM

JIM COOPER stated that he "is all for AGIA, too." However, AGIA is a little premature. He opined that there are two ways to maximize the value of Alaska's gas; the governor's way which is to ship it out and sell it, or to use the gas in Alaska to create jobs and industry. The jobs and industry would not come with the Canada line for many years. Mr. Cooper said that he supports the ANGDA process and its organization, but they are being ignored and are underfunded. He advised that the quickest plan is a gas line from Prudhoe to a natural gas plant at Valdez, with spur lines to points in Alaska. Otherwise, "We'd be dead in the water for years to come, still fighting over that deal," he said.

6:41:42 PM

BOB PENNEY reminded the members of the situation in 1976, when there were three proposals: a route over the top of Alaska; a route along the all-Alaska Highway; and a route to an LNG plant at Point Kravina (ph). Mr. Penney recalled the two years he spent working for the unsuccessful LNG project. Subsequently, Foothills Pipe Lines Ltd. obtained federal, state, and Canadian rights of way all the way down the highway. He estimated the

value of the those rights of way to be \$3 billion. Mr. Penney remarked:

The thing that flawed the LNG line, flaws it today. There's no place to put the nozzle. There's no place to unload the gas, on the West Coast of the United States; not California, not Washington, not Oregon. One spot in Canada. People come to you and talk about LNG, they've got to be able to deliver the gas, and I don't think you going to find they have a place to deliver it.

MR. PENNEY compared AGIA the "the state of matrimony," with the state looking for the "right spouse, and would kick in a half of a billion bucks to try and make this work." He opined that the other party would do its best but the "prenuptial deal is, you have to pay treble damages if you don't like this wedding." There is also a proposal from [Denali-The Alaska Gas Pipeline], and since they have the gas, he suggested that they get together with the pipeline builder. Mr. Penney said:

[Neither] the State of Alaska nor the federal government is going to force Exxon, BP, and Conoco-Phillips to build a gas line, until it's economically viable. You can pass all the laws you want to. Until it works, it isn't going to happen, so I suggest to you rather than passing AGIA now, taking that golden band and eloping with it. Why don't you consider going into a two or three year, long term engagement, and then see if you can't get both of these parties put together?

[6:45:35 PM](#)

JIM GILBERT, President, Udelhoven Oilfield System Services, Incorporated, remarked [original punctuation provided]:

Thank you for the opportunity to testify on the AGIA bill. My name is Jim Gilbert, and I'm President and testifying on behalf of my company, Udenhoven Oilfield System Services.

Our 500-plus employees provide technical expertise to the oil and gas industry in Alaska, the Gulf of Mexico, Tbilisi, Georgia, and Bohai Bay, China. We work all over the state of Alaska, building schools,

improving airports and making this a better place to live.

First and foremost, we want a gas project ... sooner rather than later, and with the greatest long term benefits for the State of Alaska, Alaskan workers, Alaskan businesses and all Alaskans. North Slope gas commercialization holds the key to Alaska's future.

We understand the importance and urgency of transforming our gas potential into a gas project. The opportunity to market our gas won't last indefinitely, and there's a very real risk of losing it altogether if we don't act quickly.

Both the state and shippers need to be involved in and have oversight of a project execution plan that provides the greatest netbacks at the wellhead.

A third-party pipeline builder with no production interests will have no incentive to reduce costs and no ability to "guarantee" the tariff in advance. The market should be allowed to work with no interference from the state.

You don't have to go too far into the past to recall the Delta Barley project, the Mat-Su Dairy Project or the Anchorage Seafood Processing Plant Project. All failed, all had state money and state interference.

Do not give away five hundred million of Alaska's dollars with the chance of incurring treble damages. Denali is the project that will give us a pipeline.

[6:48:03 PM](#)

JAMES E. FISHER spoke of the difficulty of forcing oil and gas companies to release information. He asked:

How much effort and consideration has been focused on potential contract provisions to prevent [TransCanada] from claiming any information that can't be released because it is proprietary in nature? Using of course, the "proprietary" as a screen to stop any information. I realize we've had lots of representations about "open" discussion, and information available. But how

much has actually been incorporated into the provisions that would insist upon that?"

6:49:44 PM

VICE CHAIR STEDMAN asked Mr. Fisher to submit his question to the committees in writing.

6:50:13 PM

JACK BOWEN informed the members that he came to Alaska in 1966 and has worked on oil rigs throughout the state. He noted that the amount of oil and gas in the world is limited. He remarked:

If you've got gas and you pull it out and ship it off, and you sell it, pretty soon it's going to run out. Like I said, I tested that well up there and I know how much pressure there is. It will go downhill, and it will run out. So, we better conserve, for ourselves, and let everybody else kindly take care of [themselves]. I am all for keeping the oil in Alaska, and I echo Mr. Williams, our mayor.

6:52:41 PM

JOHN BOWEN stated that he came to Alaska in 1966 and has worked on the North Slope since 1975. He remarked:

Basically, ... when you produce a field you have three products, obviously we're after the oil, after that we get gas, and after that comes produced water. What my facility does is, we take the gas and we re-inject it back into the top of the formation at about 4,000 psi. We're currently doing about seven to eight billion cubic feet a day. ... [That] allows the wells to flow naturally, it's enhanced recovery we call it, or artificial lift. ... You start pulling that gas off of there, the pressure in that zone is going to go down. ... Any oil that's left in that reservoir is just going to be there.

MR. JOHN BOWEN stressed that Alaskans come first. He suggested that instead of giving away \$500 million, the state should build a railroad between Fairbanks to Prudhoe Bay. A railroad is more economical than trucks and could supply natural gas for converted vehicles throughout the Anchorage, Fairbanks, Glennallen, Mat-Su, and Kenai Peninsula areas.

6:55:54 PM

GORDON SPAULDING informed the members that he supported the testimony of the mayor of Kenai, Mr. John Williams.

6:56:48 PM

LEN MALMQUIST stated his belief that Alaska's resources belong to Alaskans. He referred to the Constitution of the State of Alaska, Article 1, section 23, and read:

This Constitution does not prohibit the State from granting preferences, on the basis of Alaska residence, to residents of the State over non-residents to the extent permitted by the Constitution of the United States.

MR. MALMQUIST pointed out that Article 8, section 2, requires the state legislature to maximize resources to the greatest extent possible. He opined that the state must insure that Alaskan's needs for energy are met first, before any resources leave the state. In addition, natural gas must be available to Alaskans at a cost less than elsewhere. At this time, customers are charged according to the hub price, and not what it actually costs to produce. Secondly he expressed his desire for Alaskans to get a fair deal, in as short a period of time as possible, no matter who builds the pipeline. He remarked:

I generally do not trust big oil's word unless there is a significant penalty provision built into the final approval process. I personally think that the best interest of Alaskans would be met if all three players would be forced into merging together. ... Lacking that, we should find out who can guarantee getting the line built first, and our gas flowing.

VICE CHAIR STEDMAN acknowledged the presence of Patrick Galvin, Commissioner of Revenue and Tom Irwin, Commissioner of Natural Resources.

6:59:49 PM

MARK HALL stated that he came to Alaska in 1952 and worked on the North Slope and in other industries. He opined that the town is going out of business. He asked, "If state's in charge of transportation, why can't we build this line our self, why do

we have to add a corporate in here? ... These corporates are more powerful than the state is." Mr. Hall said that as a power lineman, he worked all over the state; in fact, all of the utilities went together to build transmission lines. That same idea would work for a pipeline that is owned by the state with input and output measured by a meter. He related a personal story of his experience with Exxon.

7:04:42 PM

FRANCES DANIEL PRIOR stated that he would like to retire on the peninsula. He remarked:

The way things are going now, I don't know where our money's going to come from. I'm in my seventies and when my wife and I go to work it costs over \$100 a week for two of us just to have fuel to go back and forth to work; that's \$400 a month coming out of our paycheck. If you're dead-set on building this Alaska pipeline ... what is wrong with going to the border of Canada, put a valve on that, charge whatever you think the State of Alaska needs and let Canada, Chicago, and whoever else, work out their own deal? ... If we're going to stay in Alaska as citizens of the Kenai Peninsula and Valdez, areas like that, Fairbanks, we possibly, would love to see you work hard on getting us a pipeline to our peninsula.

7:06:29 PM

GREG DYER stated that he has worked in the oil and gas industry for 35 years. He related his experience in building a 46 inch oil pipeline and a 42 inch gas pipeline near the Caspian Sea. He remarked:

The plan ultimately has to be a combination of a joint venture with TransCanada and the majors, to make it work. And it makes the most sense ... in the long term, for Alaska's future and your kids and grandkids, for the economic future of Alaska, to take that gas to Canada and sell it. ... That's where the market is, in the Lower 48. ... Once you get this thing up, and pressured up, and you start that pay meter on our end, ... this state is going to get paid for every cubic meter, wherever it goes. ... I don't think the state outta be in the business of subsidies. ... I'm opposed to a bullet pipeline, because nobody I've heard can

tell me how much is a bullet pipeline. ... If it's three million, if it's three billion, or three and a half billion, it's likely going to be seven billion. ... Of course, [the pipeline] will have tie-ins ... that will supply, I think, all the gas this state needs ... we can start supplying this state before that pipeline is finished. ... There's where the state's effort outta be, in a pipeline, gas, distribution network.

[7:10:15 PM](#)

VICE CHAIR STEDMAN said that it was nice for the legislators to come to the peninsula and Homer. He recalled discussions with Representatives Chenault and Olson, and Senator Wagoner, about the need for gas from the Cook Inlet, or from the Arctic, to be brought to the Kenai Peninsula. It is evident that 12 or 15 years is too long for the peninsula to wait for gas. Vice Chair Stedman stated that the legislature would continue to work on this issue. He opined that the governor's energy bill would be discussed in July and that the conversation would broaden to include the issues of getting gas to the different regions of the state and a long term energy plan for the entire state. He thanked the members of the public for their informative and respectful testimony.

[HB 3001 and SB 3001 were held over.]

ADJOURNMENT

There being no further business before the committees, the Joint meeting of the House Rules Standing Committee and the Senate Special Committee on Energy was adjourned at [7:14:15 PM](#).