

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

JULY 10, 2008

8:04 a.m.

MEMBERS PRESENT

HOUSE RULES

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

SENATE SPECIAL COMMITTEE ON ENERGY

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

MEMBERS ABSENT

HOUSE RULES

All members present

SENATE SPECIAL COMMITTEE ON ENERGY

All members present

OTHER LEGISLATORS PRESENT

Senator Con Bunde; Senator Betty Davis; Senator Johnny Ellis;
Senator Hollis French; Senator Gene Therriault; Senator Gary

Wilken; Senator Lesil McGuire; Representative Bob Buch;
Representative Mike Chenault; Representative Harry Crawford;
Representative Nancy Dahlstrom; Representative Andrea Doll;
Representative Mike Doogan; Representative Bryce Edgmon;
Representative Richard Foster; Representative Les Gara;
Representative Berta Gardner; Representative Carl Gatto;
Representative Max Gruenberg; Representative Mike Hawker;
Representative Lindsey Holmes; Representative Kyle Johansen;
Representative Reggie Joule; Representative Steve Kawasaki;
Representative Wes Keller; Representative Mike Kelly;
Representative Gabrielle LeDoux; Representative Bob Lynn;
Representative Mike Meyer; Representative Mark Newman;
Representative Kurt Olson; Representative Jay Ramras;
Representative Woodie Salmon; Representative Paul Seaton;
Representative Bill Stoltze; Representative Bill Thomas.

COMMITTEE CALENDAR

HOUSE BILL NO. 3001

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

- HEARD AND HELD

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Presentations:

DENALI PROJECT: Bud Fackrell, President

TRANSCANADA WORKFORCE ISSUES: Mel Johnson, Director, Alaska Pipeline Project, Major Projects

TRANSCANADA APPLICATION: Tony Palmer, VP, Alaska Business Development

EXXONMOBIL: Marty Martin Massey, U.S. Joint Interest Manager,
ExxonMobil Corporation

CBI MEDIATION GROUP: Francis McGovern, Board Member CBI &
Professor of Law, Duke University

Joshua Gordon, Senior Associate

PREVIOUS COMMITTEE ACTION

BILL: SB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(S)	READ THE FIRST TIME - REFERRALS
06/03/08	(S)	ENR
06/03/08	(S)	REPORT ON FINDINGS AND DETERMINATION
06/04/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/04/08	(S)	Heard & Held
06/04/08	(S)	MINUTE(ENR)
06/05/08	(S)	ENR AT 9:00 AM TERRY MILLER GYM
06/05/08	(S)	Heard & Held
06/05/08	(S)	MINUTE(ENR)
06/06/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/06/08	(S)	Heard & Held
06/06/08	(S)	MINUTE(ENR)
06/07/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/07/08	(S)	Heard & Held
06/07/08	(S)	MINUTE(ENR)
06/08/08	(S)	ENR AT 1:00 PM TERRY MILLER GYM
06/08/08	(S)	Heard & Held
06/08/08	(S)	MINUTE(ENR)
06/09/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/09/08	(S)	Heard & Held
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06/10/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/10/08	(S)	Heard & Held
06/10/08	(S)	MINUTE(ENR)
06/12/08	(S)	ENR AT 10:00 AM FBX Carlson Center
06/12/08	(S)	Heard & Held
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06/13/08	(S)	ENR AT 10:00 AM FBX Carlson Center
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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
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 06/19/08 (S) ENR AT 9:00 AM ANCHORAGE
 06/19/08 (S) Heard & Held
 06/19/08 (S) MINUTE(ENR)
 06/20/08 (S) ENR AT 9:00 AM ANCHORAGE
 06/20/08 (S) 9am - 5pm - Testimony <Invitation Only>
 06/24/08 (S) ENR AT 1:00 PM MAT-SU
 06/24/08 (S) Heard & Held
 06/24/08 (S) MINUTE(ENR)
 06/26/08 (S) ENR AT 1:00 PM KENAI
 06/26/08 (S) Heard & Held
 06/26/08 (S) MINUTE(ENR)
 07/01/08 (S) BILL CARRIES OVER FROM 3RD SPECIAL SESSION
 07/01/08 (S) ENR AT 9:00 AM BARROW
 07/01/08 (S) Heard & Held
 07/01/08 (S) MINUTE(ENR)
 07/08/08 (S) ENR AT 1:00 PM KETCHIKAN
 07/08/08 (S) 1pm - 4pm - Testimony <Invitation Only>
 07/09/08 (S) ENR AT 1:30 PM TERRY MILLER GYM
 07/09/08 (S) Joint w/(H) Rules
 07/10/08 (S) ENR AT 8:00 AM TERRY MILLER GYM

BILL: HB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

06/03/08 (H) READ THE FIRST TIME - REFERRALS
 06/03/08 (H) RLS
 06/03/08 (H) WRITTEN FINDINGS & DETERMINATION
 06/04/08 (H) RLS AT 9:00 AM CAPITOL 120
 06/04/08 (H) Subcommittee Assigned
 06/04/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
 06/04/08 (H) Heard & Held
 06/04/08 (H) MINUTE(RLS)
 06/05/08 (H) RLS AT 9:00 AM TERRY MILLER GYM
 06/05/08 (H) Heard & Held
 06/05/08 (H) MINUTE(RLS)
 06/06/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
 06/06/08 (H) Heard & Held

06/06/08 (H) MINUTE(RLS)
 06/07/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
 06/07/08 (H) Heard & Held
 06/07/08 (H) MINUTE(RLS)
 06/08/08 (H) RLS AT 1:00 PM TERRY MILLER GYM
 06/08/08 (H) Heard & Held
 06/08/08 (H) MINUTE(RLS)
 06/09/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
 06/09/08 (H) Heard & Held
 06/09/08 (H) MINUTE(RLS)
 06/10/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
 06/10/08 (H) Heard & Held
 06/10/08 (H) MINUTE(RLS)
 06/12/08 (H) RLS AT 10:00 AM FBX CARLSON CENTER
 06/12/08 (H) Heard & Held
 06/12/08 (H) MINUTE(RLS)
 06/13/08 (H) RLS AT 10:00 AM FBX CARLSON CENTER
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 06/14/08 (H) RLS AT 10:00 AM FBX CARLSON CENTER
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 06/14/08 (H) MINUTE(RLS)
 06/16/08 (H) RLS AT 9:00 AM ANCHORAGE
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 06/26/08 (H) RLS AT 1:00 PM KENAI
 06/26/08 (H) Heard & Held
 06/26/08 (H) MINUTE(RLS)
 07/01/08 (H) RLS AT 9:00 AM BARROW
 07/01/08 (H) Heard & Held
 07/01/08 (H) MINUTE(RLS)
 07/02/08 (H) BILL CARRIES OVER TO FOURTH SPECIAL SESSION

07/08/08 (H) RLS AT 1:00 PM KETCHIKAN
07/08/08 (H) Heard & Held
07/08/08 (H) MINUTE(RLS)
07/09/08 (H) RLS AT 1:30 PM TERRY MILLER GYM
07/09/08 (H) Heard & Held
07/09/08 (H) MINUTE(RLS)
07/10/08 (H) RLS AT 8:00 AM TERRY MILLER GYM

WITNESS REGISTER

BUD E. FACKRELL, President
Denali The Alaska Gas Company ("Denali")
POSITION STATEMENT: During the hearing on HB 3001 and SB 3001,
offered a presentation: "Denali, The Alaska Gas Pipeline."

TONY PALMER, Vice President
Alaska Business Development
TransCanada Alaska, LLC
Calgary, Alberta, Canada
POSITION STATEMENT: During the hearing on HB 3001 and SB 3001,
introduced Mel A. Johnson and outlined the presentation he and
Mr. Johnson would give.

MEL A. JOHNSON, Director
Project Management
Alaska Pipeline Project
TransCanada Alaska, LLC
Calgary, Alberta, Canada
POSITION STATEMENT: Gave a PowerPoint presentation during the
hearing on HB 3001 and SB 3001.

MARTIN MASSEY, U.S. Joint Interest Manager
ExxonMobil Corporation ("Exxon")
No address provided
POSITION STATEMENT: Gave a PowerPoint presentation during the
hearing on HB 3001 and SB 3001.

JOSHUA GORDON, Practitioner Consultant
Consensus Building Institute (CBI)
Cambridge, Massachusetts
POSITION STATEMENT: During the hearing on HB 3001 and SB 3001,
described the work of CBI.

FRANCIS McGOVERN, Board Member
Consensus Building Institute (CBI)
Cambridge, Massachusetts

POSITION STATEMENT: Gave a PowerPoint presentation during the hearing on HB 3001 and SB 3001.

ACTION NARRATIVE

CALL TO ORDER

Chair Charlie Huggins called the joint meeting of the House Rules Standing Committee and the Senate Special Committee on Energy to order at [8:04:16 AM](#).

HB 3001-APPROVING AGIA LICENSE
SB 3001-APPROVING AGIA LICENSE

DENALI PROJECT

[8:04:22 AM](#)

BUD E. FACKRELL, President, Denali The Alaska Gas Company ("Denali"), provided a brief history of his background, including that he graduated with a petroleum engineering degree from the University of Wyoming. He further related that he has spent 33 years in the oil and gas industry, during which he has been in Alaska for two years and has been serving as the vice president for BP Alaska. He said that he knows the North Slope very well. Prior to coming to Alaska, Mr. Fackrell noted, he was assigned to Abu Dhabi, which is the capital of the United Emirates, by a large joint venture company. He explained that he managed all of the offshore production at Abu Dhabi, including extensive offshore production of oil & gas, and a liquefied natural gas (LNG) terminal and transportation system. He mentioned that he has run large, complex operations for BP and Amoco around the world.

MR. FACKRELL, in response to Chair Huggins, directed members' attention to a handout titled, "DENALI, THE ALASKA GAS PIPELINE." Referring to slide 2, he explained that Denali is a joint venture between BP and ConocoPhillips Alaska, Inc., each of which has a 50 percent ownership in the venture. Denali is a limited liability company (LLC), and thus it's a separate company. The project headquarters will be in Anchorage. In fact, he noted that he is in the process of negotiating a lease for contract space in the city. Staff for Denali will come from BP and ConocoPhillips Alaska, Inc. The Denali staff will work on behalf of all of the sponsors of Denali.

[8:07:46 AM](#)

SENATOR THERRIAULT inquired as to the ratio of employees that are new for Denali.

MR. FACKRELL stated that currently the project is in a transition period and will be fully staffed for the first phase. When fully staffed, nine vice presidents will report to him, he noted. He then explained that there are six functions [of the project] that will be fulfilled in a 50:50 split between BP and ConocoPhillips. The leadership of those will be rotated. Furthermore, there will be three project general managers and each project will be staffed differently depending upon [the manager]. The staffing will also be supplemented with contractors.

SENATOR THERRIAULT inquired as to the ratio of new employees hired for this project versus staff that has come from the two parent companies.

MR. FACKRELL specified that currently 75 people are working in the field. Those 75 people are essentially contractors who are working on the field summer program. Another 50 people are located in Anchorage, of which 50 percent are from BP and 50 percent are from ConocoPhillips. He specified that initially there are two methods for obtaining employees. The first manner would be through secondment of employees from BP or ConocoPhillips into Denali. The second manner would be to hire contractors.

[8:10:52 AM](#)

MR. FACKRELL explained that the first major milestone for Denali is to have a successful open season. That open season will occur prior to the end of 2010. He said that he expects to spend about \$600 million over the next 36 months to prepare for the open season. Mr. Fackrell emphasized that it's critically important to understand the route, as the pipeline will be designed a foot at a time. In fact, there is a corridor between Delta Junction and the Canadian border for which not much information is available. The 2008 Denali summer program is focused on that corridor and will spend \$40 million dollars on that program. In order to be prepared for a successful open season, Denali needs to have a technically sound and viable cost estimate, which he characterized as one of the most important things to do.

[8:12:25 AM](#)

SENATOR FRENCH read from a letter submitted by a constituent, which claims that Denali does not really exist and claims that it was a public relations scam. Senator French offered that this is Denali's opportunity to inform Alaskans as to how they can find, contact, and apply for positions.

MR. FACKRELL stated that Denali is a real company that was formed just a few months ago. He noted anyone can obtain information about the company from its web site. He noted that Denali is in the process of opening up an office and he has a business card with a telephone number. He stressed that Denali is real, and furthermore \$40 million for a summer work program is real. He related that currently over 20 contractors - Alaskan companies - are working in the field today. He said encourages young people to look at "our" web site, and he said the office being set up is looking forward to hiring Alaskans. The history of BP and ConocoPhillips clearly shows the hiring of Alaskans "up and down our value chain."

[8:15:13 AM](#)

REPRESENTATIVE SAMUELS asked when there would be a physical office for applicants.

MR. FACKRELL replied that currently he has temporary office space on 36th Street in Anchorage. He relayed that he is in the process of signing a lease on 28,000 square feet of office space in Anchorage, which he hopes to conclude very soon to open in September. Denali is also looking at office space that would accommodate 45,000 square feet as the project grows.

REPRESENTATIVE SAMUELS questioned how the contractor job postings and hiring would be addressed.

MR. FACKRELL explained that at this point in the project there isn't a lot of work in the field, and furthermore much of the field work is with contractors who would hire people to work for them. As the project proceeds, the workforce will expand and people will be pulled into the company itself. The first phase of the project is building solid cost estimates, and therefore engineering firms will be employed to do so. The workforce will build over time, he remarked. Mr. Fackrell mentioned that the web site will explain how to obtain jobs and what jobs will be available as well as the potential education youth can focus on to prepare for these jobs.

8:17:52 AM

REPRESENTATIVE GATTO expressed his surprise with regard to the constituent letter received by Senator French. He related his observation that Denali has spent an awful lot of money on full-page advertisements describing a wonderful company that will offer great opportunities for the state. As to speaking with high school students about future [employment with Denali], Representative Gatto pointed out that there are also those individuals who are looking in the newspapers for work. He stated his concern that Alaskans won't be hired by Denali; therefore, he expressed the need for these full-page newspaper advertisements to reach out with the necessary information for potential applicants.

MR. FACKRELL responded that Denali is moving forward with the project and will be spending \$600 million to develop a viable, technically sound cost estimate. He reiterated that Denali will spend \$40 million on the summer program, which he emphasized is real work. Mr. Fackrell said, "I'm not asking you to trust me, I'm asking you to watch me." He further related that Denali has a project plan in place on which he will report to Alaskans via the media. Hiring people in Alaska is very important to Denali, he opined. Both [BP and ConocoPhillips] have been in the state for 50 years during which time they have built infrastructure and trained and developed individuals. He then related a number of organizations in which [BP and ConocoPhillips] is involved in terms of training and developing Alaskans. Mr. Fackrell pointed out there will be less job opportunities are going to be less until the construction phase is reached.

8:22:55 AM

CHAIR HUGGINS requested that Denali provide a roster [of employees who are Alaskan].

8:23:21 AM

REPRESENTATIVE HAWKER related that he, too, has heard that Denali is a fraud, a political ploy intended to mislead the public and legislature. He asked if Denali is such.

MR. FACKRELL stated that [Denali] isn't committing \$600 million over the next three years as an advertising campaign. Rather, Denali is currently staffing the organization. He echoed earlier testimony that there are 75 people in the field. He welcomed folks to visit Tok and observe the real work that is

being performed. He then expressed his desire to have his leadership team staffed in the next couple of weeks. In fact, in a few months Denali will be a full-fledged company. Denali's major goal, he reiterated, is to have a successful open season that would commence at the end of 2010. He further urged the legislature to track the milestones of Denali.

[8:26:11 AM](#)

SENATOR STEADMAN inquired as to the recourse BP and ConocoPhillips would face if Denali was a scam.

MR. FACKRELL highlighted that Denali has pre-filed with the Federal Energy Regulatory Commission (FERC), and has obtained approval. Furthermore, Mr. Fackrell related that he will accompany the chair of FERC to the North Slope in order to have an overview of the operations at the North Slope. He emphasized that BP and ConocoPhillips are serious about the Denali project and has provided the portfolio for the project to reach an open season. He stressed the importance for BP and ConocoPhillips that the project moves forward.

[8:27:49 AM](#)

SENATOR STEDMAN requested more precise information regarding the recourse federal regulators could take were Denali to be found a sham.

MR. FACKRELL stated that he would address that.

CHAIR HUGGINS inquired as to the objective of having the FERC chairman come to the North Slope.

MR. FACKRELL stated that it is common for BP and ConocoPhillips to host various parties on the North Slope. Alaska is an important jurisdiction for FERC, and therefore [BP and ConocoPhillips] are coming to look at Denali as well as other operations in Alaska. He then reminded the committee that [Denali] is a series of several mega-projects, the first of which is a large gas treatment plant (GTP), which will be the largest in the world once it's completed.

[8:30:02 AM](#)

REPRESENTATIVE LYNN asked why Denali didn't apply for a license under the Alaska Gasline Inducement Act (AGIA), which had 20 must-haves.

MR. FACKRELL pointed out that BP and ConocoPhillips are the owners, and thus the entity to which the aforementioned question should be posed. However, he related that he was told that the terms of AGIA didn't provide a viable way to move the project forward and thus the decision was made to move forward with Denali outside of AGIA. In further response to Representative Lynn, Mr. Fackrell specified that his focus is on Denali and moving it forward versus why the owners didn't choose to move forward with AGIA. He offered to address the terms and conditions of Denali during his presentation.

8:32:28 AM

SENATOR WIELECHOWSKI asked if Denali would be willing to file written commitments with associated penalties for failure to proceed.

MR. FACKRELL responded that his presentation and testimony will be on the record. Furthermore, there will be a project plan that will be managed. The first objective, he reiterated, is to have a successful open season.

SENATOR WIELECHOWSKI inquired as to what guarantees the state has that Denali will do as it specifies in its plans.

MR. FACKRELL reiterated that Denali will have a project plan available for everyone to see and he will report on that plan.

SENATOR WIELECHOWSKI pointed out that the big difference between AGIA and Denali is that under AGIA there are written commitments and penalties that don't exist with Denali. He asked again if Denali could provide any guarantees that the commitments Denali makes will occur.

MR. FACKRELL reminded the members that Denali was formed by two major producers in the state. From the start, Denali has committed to having an open season by the end of 2010. He opined that Denali has also demonstrated what it is doing, which includes the earlier mentioned summer work program and the engineering and design work required to reach an open season. He reiterated that he will be announcing an office soon and anticipates that by the end of the year there will be close to 150 [employees] and probably close to 300 [employees] by the end of next year.

8:35:28 AM

SENATOR BUNDE pointed out that TransCanada doesn't yet have gas, while the owner companies of Denali do. However, the owner companies of Denali don't have right of way through Canada, while TransCanada does. Therefore, he requested that Mr. Fackrell address obtaining the right of way through Canada, as it seems to be an essential piece for a successful open season.

MR. FACKRELL commented that a project like this has never been undertaken, and permitting in both Alaska and Canada has challenges. He stressed that BP and ConocoPhillips have large companies operating in Canada, and therefore BP and ConocoPhillips knows Canada. Denali will be using its affiliates and will form an unincorporated joint venture in Canada to work through the permitting process. He noted that actually there will be more pipe in Canada than there will be in Alaska.

CHAIR HUGGINS recalled that it has been said that the MacKenzie Project will have to come first. He further recalled an article in Ketchikan relating that the cost of MacKenzie has risen to \$16.2 billion in 2008. He asked if Denali has taken into account "sister" projects and equated those to the Denali project.

MR. FACKRELL stated that Chair Huggins is hitting on one of the most important aspects of the Alaska gasline project: the cost of the pipeline and the corresponding gasline. He emphasized the need to have a technically sound cost estimate. The shippers will also want to know the same. He highlighted that BP and ConocoPhillips are two of the largest companies in the world and have over 50 million miles of pipeline. Furthermore, Denali will tap into the expertise of the two companies that built the North Slope. Denali, he stressed, needs to understand what this pipeline will cost as that will control the size of the tariff as well as the scope of the project.

[8:41:23 AM](#)

REPRESENTATIVE KERTTULA inquired as to how much was spent on the "over-the-top" route.

MR. FACKRELL said that since he wasn't involved in that effort, he would have to obtain those numbers.

REPRESENTATIVE KERTTULA inquired as to what tax concessions Denali [staff] has discussed.

MR. FACKRELL specified that Denali is a pipeline company, and therefore he said he wouldn't be asking for any tax concessions or tax certainty. However, the customers of the project will likely ask for fiscal terms, which has been the testimony of all the pipeline companies that have testified. Although Denali doesn't need any conditions or terms, he opined that the customers will most likely ask for those.

CHAIR HUGGINS recalled that the aforementioned article alluded to fiscal terms. He remarked, "It was the first time that I had seen in writing that it was one of the measures ... that was given ... some accountability for not contributing to the success of the project because the government of Canada had not contributed those terms." He characterized MacKenzie as a sister project to that of the proposed gasline in that it has similar challenges.

[8:43:44 AM](#)

REPRESENTATIVE DOOGAN recalled that the last time the major oil producers formed a pipeline company in Alaska, it was the Alyeska Pipeline Service Company. The cost overruns from the initial project estimate were said to be 800 percent, although he suggested it was 1,000 percent. Therefore, Representative Doogan voiced concern with regard to cost overruns. He then inquired as to how much experience Denali and the [owner companies] have with building such projects in a regulated environment in North America.

MR. FACKRELL reminded the committee that BP and ConocoPhillips own 50,000 miles of pipeline worldwide. "It is not uncommon for producers to be involved in basin-opening pipelines," he said. He provided examples of the aforementioned in which BP and ConocoPhillips have been involved. Furthermore, [BP and ConocoPhillips] learned a lot from the Trans-Alaska Pipeline System (TAPS). He acknowledged that project management has dramatically changed since TAPS. Still, [BP and ConocoPhillips] are in the business of building projects and have experts in project management. Furthermore, [Denali] will access major contractors who [are experts in project management]. The companies that can build the pipeline most efficiently are [BP and ConocoPhillips], which have operated on the North Slope for 50 years. Additionally, [BP and ConocoPhillips] already have an Alaskan workforce that has been trained and developed. Mr. Fackrell said that although the Alaska project won't be easy, he has great confidence that these two companies can manage this

project. Furthermore, this project will require the construction of a gas plant, which BP and ConocoPhillips have built before on the North Slope. Referring to the high cost of building on the North Slope, he noted that it will take engineering expertise to try to control [those building costs]. Ultimately, it's in the best interest of [Denali] to have the lowest project costs because that will allow the company to provide the lowest tariffs. He pointed out that in the end only two parties - the State of Alaska and the customers - care about the cost of the proposed pipeline, because the tariff will be passed on to both.

[8:48:58 AM](#)

REPRESENTATIVE DOOGAN recognized that [BP and ConocoPhillips] have been involved in pipelines. However, he inquired as to where these two companies have actually built a pipeline.

MR. FACKRELL pointed out that BP built the approximately 1,000-mile pipeline in Azerbaijan that passes through two countries. He then highlighted the liquefied natural gas (LNG) project that the companies built in Trinidad, where technology from Alaska was utilized. Furthermore, the companies built the pipeline in the Gulf of Mexico, which has pipeline in 9,000 feet of water in some places. These two companies have the technology and expertise to build projects. He acknowledged that the Alaska project is a unique project. If the concern is that BP and ConocoPhillips can't build the Alaska gasline, the focus should be redirected, he said.

REPRESENTATIVE DOOGAN pointed out that TransCanada has a proven track record of building large, long-distance pipelines, such as the proposed Alaska gasline. He asked what BP and ConocoPhillips [have built] that is comparable.

MR. FACKRELL responded that the pipelines [BP and ConocoPhillips] have built that are comparable are in the Caspian and the Gulf of Mexico.

REPRESENTATIVE DOOGAN requested that information in writing.

[8:52:38 AM](#)

REPRESENTATIVE JOULE pointed out the state has experienced a 30-year monopoly with the producers owning TAPS. He inquired as to some of the assurances that explorers would receive access in a reasonable way. Additionally, of the 20 must-haves of the

state, Representative Joule inquired as to which Denali would be able to accommodate in the process.

CHAIR HUGGINS offered to provide Mr. Fackrell with those must-haves so that he could be prepared to address Representative Joule's question after the break.

MR. FACKRELL stated that the pipeline would be an open access line that would be open to all parties who want to nominate space on the pipeline. That right of access is under Federal Energy Regulatory Commission (FERC), which will control the regulation of this pipeline. Denali wants to fill the pipeline with gas, he said. Mr. Fackrell reiterated, "This is an open access pipeline. All parties have the opportunity to nominate gas or space into the pipeline." He then related that Denali envisions that after FERC approval is received, Denali will solicit interest in expansion from partners beyond that. Mr. Fackrell opined that this proposed pipeline is going to allow the North Slope to open up for gas exploration. [Denali], he said, wants to be in a position in which those parties can be brought in to fill the pipeline. He predicted a secondary benefit of the gasline will be the discovery of oil, which he said has been the case in locales such as Trinidad.

REPRESENTATIVE JOULE inquired as to the meaning of "open access." He noted that TransCanada has committed to an open season every couple of years.

MR. FACKRELL specified that Denali plans to solicit interest in the expansion of the pipeline every two years.

[8:56:43 AM](#)

REPRESENTATIVE GARA, regarding open access, observed that FERC clarifies that there will be a presumption of rolled-in rates in the case of voluntary expansion; however, if the state forces the company into a mandatory expansion, that would be done under incremental rates, wherein higher rates could be charged to newcomers. He asked if Denali would commit to certain provisions contained in AGIA that mandate its engaging in a certain schedule of voluntary expansions so that the state could take advantage of the rolled-in rate provision. He said "many of us" believe that rolled-in rates are fairer to newer explorers.

MR. FACKRELL responded that there is a balance between ensuring new customers and bringing customers in later. He said Denali

would be following FERC's regulations, which are the presumption of rolled-in rates, up to the point of the subsidizing every two years. In response to Representative Gara's reiteration of his original question, Mr. Fackrell stated that [Denali] did not file an application under AGIA, thus it will not embrace everything under AGIA. He said the fact that Denali will solicit for expansion every two years "addresses this issue." He reiterated that Denali will follow FERC rules regarding a presumption of rolled-in rates.

REPRESENTATIVE GARA said he hears that response as Mr. Fackrell's having said that Denali will not follow the AGIA requirements on voluntary expansions. Regarding tax policy, he said Denali has made a big deal about the \$500 million subsidy required by AGIA. He asked if Mr. Fackrell's companies - BP and ConocoPhillips Alaska, Inc. - are not going to ask for more than \$500 million in tax breaks "as a condition for your company to be allowed to move full-speed ahead on the gas line."

MR. FACKRELL said he expects the customers want the fiscal terms settled before signing up for \$100 billion of commitments with tariffs. He said, "I'm not asking for any tax fiscal condition with Denali, but I fully expect that the customers of this pipeline - whoever has the pipeline - will ask for fiscal certainty."

REPRESENTATIVE GARA recollected that when he asked TransCanada if it will move ahead regardless of the tax policy or demand tax breaks for producers, it answered that that is not its business. He told Mr. Fackrell that whether or not his company commits to move ahead even without tax breaks in excess of \$500 million is a yes or no question.

MR. FACKRELL read from the TransCanada application as follows:

TransCanada will rely on the State of Alaska to take all feasible actions exclusively within its authority as a sovereign power to ensure favorable economic environment for potential shippers for the project. These actions include engaging the ANS producers to reach agreement on a commercially reasonable and predictable upstream fiscal regime that balance[s] the needs of the state and ANS producers.

MR. FACKRELL said he thinks all the pipeline companies are expressing the same idea.

REPRESENTATIVE GARA corrected Mr. Fackrell, indicating that TransCanada said it would not get involved in the tax debate.

The committee took an at-ease from [9:03:13 AM](#) to [9:10:48 AM](#).

[9:12:48 AM](#)

CHAIR HUGGINS asked Mr. Fackrell to respond to the list of the 20 must-haves.

MR. FACKRELL, regarding the list, spoke of terms of service. He reviewed that Denali would be an open-access pipeline, which means all parties would have the opportunity to nominate space in the pipeline - a process controlled by FERC. He said rates will be distance-sensitive for local use, recognizing the communities in Alaska should not have to bear the rates of "someone farther down the pipeline." He said the company will be looking at its rate structure to consider whether it should even offer some differentiation within Alaska itself. Mr. Fackrell, regarding project design, said the company has applied for efficient expandability, because expansion is necessary in order to include new customers. He spoke again of the expansion solicitation. The extension of the pipeline from Alberta into the Lower 48, he said, would be controlled by the competitiveness of the market; at this juncture, he said, it is unknown whether or not that additional pipe would be built, but that route is an option.

[9:17:12 AM](#)

MR. FACKRELL continued his response to the must-have list. He confirmed there would be an open season every two years, distance-sensitive rates, expandability of the pipeline, and solicitation of customers.

CHAIR HUGGINS asked that Mr. Fackrell review the remainder of the list with his staff and get back to the committee with his answers.

REPRESENTATIVE FAIRCLOUGH, regarding the trend to increase exploration, said some legislators think the best of both worlds would be having the Denali project for the gas it appears to have and TransCanada Alaska as the pipeline builder; however, TransCanada says that under AGIA, it cannot cooperate with Denali in a project. She remarked that Denali will need a partner in Canada and Alaska needs the gas to go into open

season. She asked for information about possible obstacles in that regard.

MR. FACKRELL related that the owners have said they are open to bringing in partners who can add value to their project, and they have already been approached by a number of parties regarding joining Denali. Having spent 15 years running joint venture companies, Mr. Fackrell said he knows "when you come into a joint venture company, you have to leave your mother company, if you will." He said since he does not work for BP any longer but works for his "owners," he has to do what is in the best interest of both of his owners.

REPRESENTATIVE FAIRCLOUGH specified that she wants to know what language in AGIA would prevent TransCanada from engaging in a partnership with Mr. Fackrell's owners.

[9:22:45 AM](#)

REPRESENTATIVE COGHILL said Representative Fairclough's question is important, especially since the legislators must vote on a license that may put Mr. Fackrell's party and [TransCanada] in "restricted conditions." He questioned whether those in charge of the Denali project have had talks with the folks at TransCanada to date regarding a joint venture.

MR. FACKRELL said that question would have to be asked of his owners.

REPRESENTATIVE COGHILL offered his understanding that [a joint venture] could happen, but it would just be more costly once the State of Alaska has joined together in partnership with TransCanada. On another note, he said since Mr. Fackrell works for two producers, it is okay to presume that there is 4 bcf available for commitment to an open season. He asked if there is a study underway that Mr. Fackrell can show the legislature, which supports the anticipation of a 4 bcf line.

MR. FACKRELL said the plan is to construct a system that will deliver 4 bcf of gas to the North American market, which will include a large gas treatment plant located on the slope, a pipeline to Alberta, and potentially a pipe to the Midwest. The focus will be on getting to a successful open season by the end of 2010, having a cost estimate, and providing comfort to potential customers that the cost estimates and tariffs are the lowest possible.

[9:27:28 AM](#)

SENATOR HOFFMAN asked about Denali's construction plans in Canada and whether there had been any dialogue with Canada about that. He also asked about any specific debt:equity ratios for financing.

MR. FACKRELL replied that "we" are not committing to the debt:equity ratio specified in AGIA, but are going out to the financial community to determine what the best possible financing would be. He reiterated that the objective is to have the lowest tariffs possible for customers in order to encourage them to sign contracts. He said, "We want to have the flexibility to finance the pipeline in whatever way to drive that." He added that the biggest element of the tariff would be the cost of the project, which is one of the reasons that "we" are going to be spending \$600 million over the next 36 months - to get a technically sound process before going to open season.

MR. FACKRELL, regarding Senator Hoffman's question about FERC, related that Denali does not have any agreements with the provinces in Canada at this juncture. He said, "Most of my owners have large subsidiaries in Canada who are working with them now, and we're forming an incorporated joint venture in Canada, and I fully expect to tap into that. And we have people in Canada who know the landscape and work with the government, and we will be using those people to help us secure those agreements."

SENATOR HOFFMAN asked Mr. Fackrell if he has had any preliminary conversations with TransCanada toward working with them to use those rights of way.

MR. FACKRELL answered that he has had none at this time, and he said he does not know if BP or ConocoPhillips Alaska, Inc., have had conversations with TransCanada.

[9:30:53 AM](#)

REPRESENTATIVE KERTTULA asked for examples of protection in place for potential oil spills resulting from corrosion.

MR. FACKRELL explained that the gas pipeline differs from past oil pipelines. It will be a high-pressure, 2,500 psi line. He indicated that the processing plant will be removing CO₂, H₂S, and other impurities. There are not the sediments flowing through a gas pipeline that there are with oil. He spoke of

regular maintenance conducted by means of "pigging." There will be no liquids in the pipeline. He offered further details. In response to a follow-up question from Representative Kerttula, he said the diameter of the gas pipeline would be determined by economics, but it would be a large diameter.

[9:33:36 AM](#)

REPRESENTATIVE GARDNER asked that Mr. Fackrell add to the list previously requested by Representative Doogan which pipelines are currently owned and operated by the same people who are producing and shipping the gas. Furthermore, she said she would like him to provide the cost estimates done, and she would like to know how closely the final costs aligned with those estimates. Representative Gardner said she also wants to know the distinction between tax certainty and fiscal terms.

[9:35:09 AM](#)

SENATOR FRENCH referred to Senator Hoffman's previous question regarding the desired debt:equity ratio. He said that ratio is important to the state, because "the higher the debt ratio, the lower the tariff." He expressed his wish that Mr. Fackrell would provide more information in order to compare Denali's debt:equity plan with that of TransCanada.

MR. FACKRELL responded that the goal is to have low tariffs. The debt:equity ratio has not yet been determined, he said.

SENATOR FRENCH asked when that number will be determined.

MR. FACKRELL said in order to have a successful open season, a tariff and the financing must be determined, and he said "we" are committed to having a successful open season by the year 2010.

CHAIR HUGGINS suggested that as Mr. Fackrell talks about the timeline, it might be appropriate to discuss when a decision would be made regarding the debt:equity ratio.

MR. FACKRELL noted that there is a timeline included with the materials he provided to the committee.

[9:38:25 AM](#)

SENATOR THERRIAULT said one of the problems with the Alaska Stranded Gas Development Act (SGDA) was that there was no

commitment for the entities created that there was any direct tie-back to the capital of the parent companies. He asked what assurance Denali could give that there will be that connection between the companies involved in this LLC and the balance sheets of ConocoPhillips Alaska, Inc., and BP.

MR. FACKRELL stated that one of the objectives of Denali's plan is to spend the necessary funds to get to a successful open season by 2010. He projected he would be spending about \$600 million over the next 36 months. This summer, he related, he is spending \$40 million on a field program. He indicated that there is a willingness to staff the operation fully.

SENATOR THERRIAULT referred to two memorandums, one dated December 18, 2006, and one dated May 22, 2006, both of which he said raised concerns about the business structure that was being proposed at that time. Referring to Denali's LLC status, he read as follows:

A second important lacking term is an imposition of an affirmative duty on the managing members to develop and promote the gas pipeline to act in the best interest of the gas pipeline company. A standard obligation under most state, corporate, and limited liability companies' statutes. To the contrary, utilizing the Delaware LLC statute, which permits parties great feeding in negotiating LLC agreement terms, the LLC agreement essentially waives these standards of fiduciary duties and permits the members to the pipeline company to act in their own interest, even if contrary to pipeline company interest.

SENATOR THERRIAULT spoke to a higher standard of the managing partner that that partner does not take action that is contrary to the intent of the business entity. He said Denali is organized under [the] Delaware [statute], such that it can negotiate that type of protection into the agreement, but it does not have to do so. He stated, "The default is a much lower standard." He explained as follows:

If we have "xyz" company that is managing you - managing Denali - and ... if an expansion happens and it delivers gas into the Lower 48, which lowers the price of gas, which is not in the best interest of that managing member's parent company, then that member can take steps to block that expansion from happening.

SENATOR THERRIAULT asked Mr. Fackrell if his LLC agreement is in writing and available for the legislature to view. He said a lot of his concerns could be answered by seeing that document.

MR. FACKRELL offered to find out if the document is public record.

SENATOR THERRIAULT reiterated his concern about open access and how it relates to the LLC structure. He said even under FERC, if an expansion is forced, there is no presumption of rolled-in rates. He questioned, "So, is it truly an open access pipeline if the cost of getting into the game for the new shipper is so high that they're priced out of the market?" He added that that is one of the concerns that could be answered in the LLC structure. He said, "The one thing that the companies continue to challenge under the FERC [regulation] package that was put out was the initial design of the pipeline. And we got such a muddled court decision on that, that the FERC language that we got, I think, ... [has] basically been rendered inoperable."

[9:45:43 AM](#)

REPRESENTATIVE CRAWFORD referred to the idea that Denali "plans" to solicit customers, when other points made about rates and projects, for example, use the word "will." He wondered why the word "plans" was used rather than "will." He also referred to the idea of the flexibility to use existing or new infrastructure out of Alberta. He said he read an add that 5 million tons of steel would be used for the Denali project, while TransCanada has said it would use 2.25-2.5 million tons of steel. He said that seems to guarantee higher tariff rates for the Denali project. His third concern was regarding project labor agreements. He shared his previous experience working under project labor agreements, which he said resulted in his earning 72 percent of the wage he could have been earning. He questioned whether one of the reasons Denali did not commit under the AGIA process was because "you" did not want to live under AGIA's project labor agreement that would have a company negotiate a project labor agreement with Alaska's labor unions.

[9:49:30 AM](#)

MR. FACKRELL, regarding the estimated amount of steel needed, explained that 5-6 million tons would be needed if the company extends the pipeline to Chicago.

REPRESENTATIVE CRAWFORD clarified that if the existing pipeline in Canada is not used, tariffs are guaranteed to double.

MR. FACKRELL said that is not the case because "we are not talking about binding people to the pipeline all the way to Chicago." Only the market will drive that, he added. He noted that both ConocoPhillips Alaska, Inc., and BP have existing labor agreements on the slope, and fully anticipate having labor agreements with "the representative work force that exists in the state today." He reiterated that Denali is committed to having an open season by 2010 and spending \$600 million to make that happen. He related that there would be five off-take points in Alaska, although it has not yet been determined where those points will be, because "we" want to work with the other parties inside the state that are considering projects. Regarding "plans" versus "will," Mr. Fackrell said it would not be a stretch to use the word "will" on that item.

[9:53:27 AM](#)

SENATOR STEDMAN requested an explanation of a true open access pipeline versus an open access pipeline.

MR. FACKRELL responded as follows:

Our pipeline will be open to all customers to bid for a space in the pipeline. We will look under FERC rules, we will look at expanding the pipeline and ... soliciting customers every 10 years. ... We want to have the pipeline full of gas. We want to have people come into the pipeline. And that's the process we're going to be using. I can't differentiate the "true" from the other; I'll just talk about what we're going to do. And our pipeline is open to all customers who want to bid on the pipeline.

MR. FACKRELL, in response to Senator Stedman, concurred regarding FERC's control in the matter. He added that the Denali project would comply with the rules of FERC.

SENATOR STEDMAN asked Mr. Fackrell, "Are you aware that FERC has guidelines for open access pipeline, and also different guidelines for a true open access ... [pipeline], or are we just in the realm of spin and verbiage differentiating those two?"

MR. FACKRELL said BP and Conoco Phillips Alaska, Inc., will work closely with FERC in understanding FERC's rules and regulations.

SENATOR STEDMAN requested Mr. Fackrell to report back to the chair if he finds out there is a differentiation by FERC between "true open access" and "open access."

MR. FACKRELL said he would.

9:56:35 AM

MR. FACKRELL, in response to Representative Doll, clarified that it has not yet been determined how long the contract for customers of the Denali project could be, but it may be up to 25 years. He said conversations with customers prior to commencing the open season would determine the length. He admitted that 25 years is a long period of time; however, he related the importance of customers who are committing \$100 million having confidence that the cost estimate is sound.

9:58:11 AM

SENATOR ELTON noted that the commitment by TransCanada is shown within the contract. He said he would like those involved with the Denali project to illustrate their commitment in a measurable way. He suggested they may do so by addressing the items within the AGIA contract. Next, Senator Elton requested the following:

You were going to respond to a couple of questions that arose on the pipelines that your companies have built and operated. And I wonder if, as you do that, if you can answer a few more questions. First, ... are you still an owner of those pipelines? Second, if you're still an owner of those pipelines, perhaps you can tell us how many other shippers that aren't owners of the pipeline are participating or transporting gas on those pipelines. And then, third, ... if you could ... give us a comparison of the wage those independents pay on your pipelines, compared to the rates that the owners pay on those pipelines.

MR. FACKRELL replied that he could provide the terms of the Denali Project but may not be able to comment on the difference in rates.

The committee took an at-ease from 10:02 a.m. to 10:20 a.m.

SENATOR BUNDE questioned if the approval of TransCanada will harm the Denali project or be counterproductive in getting any gasline for Alaska.

MR. FACKRELL shared that Denali is going forward no matter what the state decides. He voiced concerns regarding the TransCanada contract. First, he emphasized the need for a level playing field, and he indicated that it is not fair that approval of TransCanada's permit will impact the Denali project and slow it down. Second, he said while he is "sitting in an open season ready to go," customers are going to need to know what the fiscal terms are for their contracts.

[10:24:09 AM](#)

REPRESENTATIVE SEATON asked if the aforementioned \$600 million will be spent exclusively on the Alaska section of the pipeline or, if not, what portion would be spent on the Canadian section of pipeline.

MR. FACKRELL replied the \$600 million is an estimated total, but there is no definitive breakdown for the pipeline in Canada. The Denali project would start in Alaska, because the gas and data in Alaska are known factors. However, he said a larger portion of the pipe will be in Canada, so a good percentage of the money will be spent in Canada. He said, "One of the reasons that I'm really pushing my owners to work with me to get my executive team named [is] because I want those people in place to take ownership of those kinds of questions." He estimated that he would have a better idea of where the money will be spent in the next couple of months.

REPRESENTATIVE SEATON questioned how the \$600 million estimate was derived when it is yet unknown how much will be spent for the longest portion of the pipeline.

MR. FACKRELL explained that ConocoPhillips Alaska, Inc., and BP understand what needs to be built, have experience with field work in Alaska, are making some assumptions regarding the field work that will be done in Canada, and are familiar with engineering companies, contracts, and price schedules; therefore, he said he feels comfortable with the \$600 million estimate.

REPRESENTATIVE SEATON recollected that Mr. Fackrell had said [his owners] would have an unincorporated, joint venture in Canada and a 50:50 partnership here, while perhaps seeking other

partners in Alaska. He asked how that combination of unincorporated and corporate ventures would work, and why the structure between Alaska and Canada is different.

MR. FACKRELL related that attention to laws in both countries would be taken into account.

REPRESENTATIVE SEATON, regarding open access, recalled that Mr. Fackrell had said that the use of the word "will" would be applicable in relation to soliciting customers. Under AGIA and the TransCanada proposal, there is a commitment [by TransCanada] that it will expand "as long as there's a reasonable economic and reasonable engineering increment, which has been defined as a single compressor." He asked whether there would be a commitment within the Denali project that there will be voluntary expansion as long as the solicitation yields at least "that amount of gas" requiring only one additional compressor or "could Denali go through the process and require a FERC mandatory expansion at that point?"

MR. FACKRELL answered that the plan is to solicit customers "over to you," and work out the process for expansion. Obviously, he said, adding compression is the simplest and cheapest extraction method possible.

REPRESENTATIVE SEATON said the question is not what the easiest way to do it would be. He clarified that he wants to know whether - if gas is solicited at an open season that is in "a reasonable engineering increment" - Denali is going to commit to move forward with voluntary expansion and not require a mandatory expansion through FERC.

MR. FACKRELL reiterated that Denali would commit to solicit expansion every two years, and through those solicitations make a determination as to whether it is viable to expand the pipeline or not. If those requirements are there to expand the pipeline, then Denali would do so.

[10:30:44 AM](#)

REPRESENTATIVE SEATON clarified that AGIA does not require the addition of non-economic or non-engineering increments. He said AGIA requires a pipeline company to agree in advance that if there is solicitation and gas nominated that is in a reasonable economic and engineering increment, it will put that gas "in." He reiterated that he wants to know if Denali will guarantee expansion.

MR. FACKRELL reiterated Denali's plan.

REPRESENTATIVE SEATON asked if the decision regarding voluntary or mandatory expansion is made by the pipeline company or by the owners of the pipeline.

MR. FACKRELL said Denali would make an evaluation as customers come in, and then it would make a recommendation to its owners.

REPRESENTATIVE SEATON asked Mr. Fackrell what the time frame of the open season would be.

10:34:04 AM

MR. FACKRELL referred to slide 14 of the Denali PowerPoint to illustrate his answer. He said an open season is a formal process regulated by FERC in the U.S. and by NEB in Canada, whereby pipeline companies seek customers to make long-term transportation commitments to the project. The contracts obligate the customers to pay costs whether or not they ship the gas, and they give banks the necessary confidence to lend money to the project, he said. He said the chart on the slide shows the start of the open season to be scheduled for 2010. He reiterated that prior to that time, there will be discussions to "try to frame up that process." Next would be an application for approval of the open season bid package, followed by a 60-day period for public [comment]. Then FERC would approve the package and there would be 90 days to conduct the open season itself. Mr. Fackrell noted that the end of the chart shows there are one to two months at the end of the process for signing the precedent agreements, posting the results of the open season, and filing the copies of the agreements with FERC, at which point financing is secured.

10:36:08 AM

CHAIR HUGGINS asked for an estimate of what it would take to get to a FERC certificate.

MR. FACKRELL referred to slide 13, entitled, "Success Case Project Timeline." The timeline shows that there is a three-year period in which to conduct open season, and [after two years of permit approvals] the process of project sanctions begins. He said Denali would be spending \$2-\$3 million to get to that point. He offered further details.

10:38:09 AM

SENATOR WIELECHOWSKI referred to a letter from himself and Senator French, and asked Mr. Fackrell to offer yes or no answers to some of the question in the letter. First, he asked if Denali is willing to commit to soliciting firm commitments to ship gas in the pipeline within two to three years.

MR. FACKRELL answered yes.

SENATOR WIELECHOWSKI asked if Denali is willing to commit to a firm date by which it will apply to FERC for a certificate authorizing the pipeline.

MR. FACKRELL replied that he will work with the schedules he just reviewed in the PowerPoint slides. He added that Denali is going to manage the project and abide by a schedule that will be available for the legislature to approve.

SENATOR WIELECHOWSKI asked if Denali is willing to commit to capital cost overrun measures that will protect the state and shippers from an unreasonably high tariff.

MR. FACKRELL stressed his commitment to avoiding cost overruns on the project. He said the most important part of his proposal is to get a sound cost estimate, and he stressed the need to "do proper front-end loading on projects." He said after working in Alaska for two years, he is concerned about the cost of working in the Arctic and ensuring that "we understand what we're doing."

10:40:24 AM

SENATOR WIELECHOWSKI related that the US Attorney General has testified before U.S. Congress to recommend against a producer-owned pipeline, saying that it is not in the best interest of the United States. He asked Mr. Fackrell how he intends to "get around that."

MR. FACKRELL said he was not aware of that; however, he said he has seen no restrictions on producer-owned pipelines in all his experience dealing with pipelines. He said he would provide a list of producers who have dealt with pipelines in the past.

CHAIR HUGGINS asked Senator Wielechowski to provide the source related to the comments he reported were made by the attorney

general. He asked legislators to consider that producers can buy into the AGIA process and own the pipeline.

[10:41:54 AM](#)

REPRESENTATIVE GATTO questioned Mr. Fackrell's experience with the Denali project. He commented on the phrase, "Don't trust us, just watch us," and said he hopes Mr. Fackrell didn't mean those first three words "in any way that was said." He further questioned Mr. Fackrell's lack of knowledge about the project.

REPRESENTATIVE GATTO said he wants to know how Denali would treat voluntary and involuntary expansions. Next, he asked if Mr. Fackrell's company is averse to shipping into the local hub, "or is Chicago the destination for you." He recalled that Mr. Fackrell has repeatedly stated that he wants the lowest tariff possible. He continued:

But we've just had some decisions handed down by the courts that show that your companies have overcharged us in the TAPS line and are about to refund \$600 million to the state, and will be required to maintain a lower tariff forward. That doesn't speak well for the statement that you made that our goal is the lowest tariff possible, because your companies were doing some cost shifting that the courts decided was improper.

REPRESENTATIVE GATTO asked Mr. Fackrell if he had read the "20 must-haves" [related to AGIA].

MR. FACKRELL answered in the affirmative.

[10:46:37 AM](#)

REPRESENTATIVE GATTO began to list the 20 must-haves and speculate Denali's position on each.

CHAIR HUGGINS interjected that Mr. Fackrell had been given the list previously and had been asked to respond to each must-have.

REPRESENTATIVE GATTO emphasized that in that response he would like to find out with which of the must-haves Denali would not want to comply, and why.

MR. FACKRELL, regarding the issue of trust, told Representative Gatto that he would not have said, "Don't trust us," but would

have said, "You don't have to trust us, we're going to show you." He explained:

That was because I don't believe you should trust us. Trust is very important to me. [It's] very important that we have credibility, but there seems to be some speculation out there that we can't be trusted. So, I'm not asking you to do that. ... I'm asking you to just watch us.

REPRESENTATIVE GATTO persisted in asking for a yes or no answer regarding whether or not Mr. Fackrell had not actually said, "Don't trust us," and he concluded that Mr. Fackrell is "getting around the question."

10:48:50 AM

CHAIR HUGGINS noted that Mr. Fackrell had issued an invitation to view the field work done by Denali.

10:49:12 AM

REPRESENTATIVE LYNN asked Mr. Fackrell to describe why he might recommend a "no" vote from the legislature regarding TransCanada's proposal. He observed that ConocoPhillips Alaska, Inc., and BP have put out extensive advertising, possibly to get the public to lobby the legislature to vote against TransCanada - advertising, which, as far as he knows, is not matched by TransCanada. He asked what aspects of the Denali project he should consider in making the critical decision of whether or not to accept TransCanada's proposal.

MR. FACKRELL replied, "My owners have chosen not to build under AGIA, because they don't believe it's the best way to move the project forward." He said personally he believes that the producers need to be involved in the pipeline. Without that involvement, he warned, the state could face the risk of not having a pipeline in the future. He said [ConocoPhillips Alaska, Inc., and BP] are the parties that understand how to build and operate a pipeline and are going to be focused on having the lowest tariff possible.

REPRESENTATIVE LYNN remarked that he does not think it is the purpose of the legislature to keep the producers from putting gas into the pipeline

10:52:27 AM

REPRESENTATIVE ROSES addressed the commitment to spend money to get to an open season. He questioned why it would take \$600 million for Denali, but only \$84 million for TransCanada.

MR. FACKRELL explained, "This is the biggest project that's ever been privately financed in North America." He said "we" believe that it is necessary to spend around \$600 million to prepare a technically sound, viable cost estimate, to prepare a tariff to be able to submit through the open season.

10:54:05 AM

MR. FACKRELL, in response to a question from Senator Thomas regarding his prior experience, stated that his role has been managing large and complex businesses worldwide. He related that almost every business on which he has worked has included pipeline projects to some extent. He said although he has not managed a pipeline company, he has managed the construction of off-shore and on-shore facilities, the pipelines connecting those, and pipelines to market - "much broader than that."

SENATOR THOMAS asked if, in dealing with the development of the various fields, Mr. Fackrell has found that the pipeline drives the completion of the delineation of the resources.

MR. FACKRELL responded that the pipeline needs to be a leverage point. He said a critical mass is necessary to justify the pipeline - "to break open a basin." Once that critical mass is there, exploration may go beyond that. He offered further details. He said it is anticipated, as has happened with oil, that once the pipeline is there as leverage, companies are going to start exploring for gas.

10:57:10 AM

SENATOR THOMAS asked what difficulties might surround the right of way into Canada.

MR. FACKRELL said it would present a big challenge. Physically getting the pipeline will be the easiest part, he said. The tough part will be getting the permits and rights of way, and following the FERC and NEB processes.

SENATOR THOMAS referred to information [found on slide 13 of the aforementioned PowerPoint] and said he assumes the

"Review/Approval" shown under "Phase 3" has to do with permit approvals given by FERC and NEB.

MR. FACKRELL said when all the pieces are in place and final sanction is received, then the company moves forward.

SENATOR THOMAS mentioned six off-take points. He asked if potentially there are any points that were initially considered that would subsequently not be considered.

MR. FACKRELL explained that the project team has been talking about five potential take-off points, including Fairbanks. He mentioned the Yukon and Delta Junction. In response to a follow-up question from Senator Thomas, Mr. Fackrell said the number of take-off points needs to be decided before a detailed design is made.

11:00:10 AM

REPRESENTATIVE SAMUELS noted that the Denali project would spend \$600 million to get to an open season, while TransCanada is going to "go all the way to the certificate" for \$611 [million]. He questioned the discrepancy between those dollar amounts and what is proposed to be covered by them. He asked how much Denali would spend to get a certificate.

MR. FACKRELL reemphasized his belief that it would take \$600 million to have a successful open season. He said, "From that point forward, we're going to have to ramp up our spending to be ready to execute the project on this time scale." He added, "We're not talking about hundreds of millions now, we're talking about perhaps \$2-\$3 billion to get us out to ... FERC approval of the project and ready to start construction."

11:02:55 AM

SENATOR FRENCH noted that Denali has vowed to press ahead even if Alaska awards the contract to TransCanada. He said ConocoPhillips Alaska, Inc., and BP have been clear all along that a promise of tax certainty is their biggest must-have before going forward with a pipeline. If Alaska chooses TransCanada, it will be giving that promise to those companies that step up to their first binding open season and will be committed to that choice, unable to change it without paying treble damages. He said, "So, when you tell me you're going to proceed with your project, it tells me that somewhere in your business plan, you ... or your parent company owners envision

the state paying treble damages to TransCanada so that you can become the holder of that tax promise.

MR. FACKRELL said he thinks that question should be addressed to the owners. He stated his view that fiscal terms need to be reached before getting to open season or there will be no customers signing up for the pipeline.

SENATOR FRENCH used an example to clarify his point as follows:

If we say yes to TransCanada, it would be as if you were both proposing to build a home in Anchorage, and one home came with a promise that there'd be no property tax increases on that house for 10 years, and the other one ... didn't have that promise. And 9 homeowners out of 10 would pick ... the house that's never going to have its property taxes increase. That's very, very valuable. And your open season won't be able to offer that to your shippers; that will ... only apply to the gas shipped in the TransCanada pipeline. And so, that, to me, is what I see as a big logical chasm.

MR. FACKRELL shared his view that the customers would be asking for the same thing no matter the project, and that thing will be fiscal terms. He added, "Everyone's been saying that."

11:06:16 AM

REPRESENTATIVE GARDNER noted another project and the dollar amount spent on it. She pointed out the difficulty of trying to understand the numbers.

REPRESENTATIVE GUTTENBERG said he thinks that if the open access issue starts downstream from the gas treatment plant and the upstream side of the gas treatment plant has its own regime, tariffs, and access issues, then the state needs to be apprised of that.

MR. FACKRELL responded that if Representative Guttenberg is asking whether Denali is going to build and operate the gas treatment plant on the slope, the answer is yes. He said that is "a crucial piece of this whole scheme." He offered further details.

REPRESENTATIVE GUTTENBERG asked about the take-off points. He thought there may be a need for gas to come in at the foothills,

also. He said, "Not only are the ... take-off points ... outputs, but also in-puts."

MR. FACKRELL thought that conversation should happen in order to adjust some of the off-take points. He reiterated that the pipeline would be an open access pipeline.

[11:11:26 AM](#)

REPRESENTATIVE GUTTENBERG asked if the parent companies are interested in the gas liquids - in "taking that product all the way down to the end."

MR. FACKRELL explained that all of the hydro carbon liquids would be in the gas. He explained the procedure to remove them and the potential for reinjection. He gave examples where that might be possible. He concluded, "If they're not taken anywhere along the process, they would be sold by the previous customers."

REPRESENTATIVE GUTTENBERG asked if that was the assumption going forth to the open season.

MR. FACKRELL answered yes.

[11:14:00 AM](#)

REPRESENTATIVE HAWKER pointed out that the first benchmark point Tony Palmer has made in numerous presentations is that TransCanada is a monopoly and has exclusive rights in the Yukon. He requested that Mr. Fackrell comment on that as a premise, and "how you anticipate ... getting across the border."

MR. FACKRELL said that both BP and ConocoPhillips Alaska, Inc., have subsidiary companies in Canada that work with regulations there. He said, "We do not believe they we are shut out from (indisc.) or from access to the acreage down that corridor. We believe we will have rights to ... access right of ways - get permits."

REPRESENTATIVE HAWKER asked if Denali anticipates working with TransCanada at the border.

MR. FACKRELL said the owners would entertain that possibility.

REPRESENTATIVE HAWKER asked Mr. Fackrell if he thinks Alaska's granting exclusive rights to TransCanada would make it more

difficult for Denali to conduct discussions toward looking for value-added partners in Canada.

MR. FACKRELL expressed concern regarding the aforementioned issue of having a level playing field within Alaska. He indicated that a TransCanada permit could slow the Denali project down.

REPRESENTATIVE HAWKER countered that he was referring to Denali's ability to conduct productive business negotiations with TransCanada.

MR. FACKRELL deferred that question to the owners.

[11:18:45 AM](#)

MR. FACKRELL turned to his PowerPoint presentation, noting that previous questions have resulted in many of the slides having already been reviewed. He directed attention to slide 3, which shows the pipeline route. He said there would be a gas treatment plant in Prudhoe Bay, and a pipeline into Alberta. The map on slide 3 shows several other lines into the [Lower 48], and Mr. Fackrell said whether or not those lines are built depends on the customers and the flexibility it may provide to those customers outside of the existing system in Canada. He noted that slide 3 shows the intent is to move 4 bcf/d down the pipeline "to both markets."

MR. FACKRELL turned to Slide 4, which addresses gas treatment plants. He noted that the central compression plant was built in 1977, the central gas facility was built in 1986 to extract natural gas liquids (NGLs), and the proposed new gas treatment plant is larger than both of those and will be the largest plant on the planet when built.

[11:20:55 AM](#)

MR. FACKRELL noted slide 5 depicts TAPS on the right, with the proposed Denali pipeline on the left. He said other than being side by side, there is no similarity in the amount each pipe can carry or the regulatory body that has jurisdiction over them; FERC and NEB would have more restrictions and controls on the gas pipeline than on the oil line. He said the oil line will be buried, except in areas where there are river crossings or where the earth is seismically active. Slide 5 also gives information about the steel used, he said.

MR. FACKRELL spoke of the near-term Alaskan programs shown on Slide 6, which are: job training programs, in-state gas feasibility, and infrastructure upgrade studies. He said [BP and ConocoPhillips Alaska, Inc.,] are made up of Alaskans, and the Denali project will be committed to hiring Alaskans.

[11:23:04 AM](#)

MR. FACKRELL returned to slide 8, which relates to possible [off-take] points, including the Yukon, Fairbanks, and Delta Junction, and he reiterated that during discussion leading to open season, there will be discussion about where those points should be.

MR. FACKRELL turned to Slide 9, which shows infrastructure upgrade studies. Those studies include roads, bridges, and ports. He noted that the Haul Road is 30 years old. He said this work needs to begin soon and has to be in place by the time construction of the pipeline has begun. The pipe is twice as heavy as the pipe used for TAPS and will take a beating on the road system, he said. The numbers being considered regarding infrastructure are in the millions to billions, he noted.

MR. FACKRELL briefly covered the Denali terms of service on Slide 10, including: rates will be distance-sensitive, the project design will provide for efficient expandability, Denali will solicit customers for interest in expansion every two years, and flexibility to use existing or new infrastructure out of Alberta to the Lower 48 will be based on the needs of the customers.

[11:24:45 AM](#)

MR. FACKRELL discussed the 2008 summer work program and additional work as depicted on Slide 11. He said there are 75 people in the field working on the summer program. He emphasized the importance of knowing where the pipe will be. There are contaminated sites along the route, as well as military bases, for example. He said there are hydrologists, archeologists, and ecologists working in the field.

[11:25:36 AM](#)

MR. FACKRELL listed who's working with Denali right now, as shown on Slide 12. He once more highlighted the success case project timeline shown on slide 13, noting that within a year

infrastructure projects need to start in order to be complete by the time FERC approval is secured.

[11:26:45 AM](#)

MR. FACKRELL moved on to slide 14 and reiterated his previous testimony regarding open season. He talked about the technical and financial strength of BP and ConocoPhillips Alaska, Inc., as shown on slide 15. Each company has over 50 years of experience and knows how to operate the slope and work in an Arctic environment. Both companies have more than \$300 billion in [combined] market capitalization. He expressed delight that those two companies are backing the Denali project.

[11:27:50 AM](#)

MR. FACKRELL shared the timeline of Denali's progress, as shown on slide 16. The Denali company has a full project under way. The prefiling process with FERC has been submitted. He offered further details about the steps that are being taken.

[11:28:46 AM](#)

MR. FACKRELL concluded by commenting that Denali is committed to this project and is focused on having a successful open season and instilling confidence in customers. He asked the legislative body to watch the Denali Project as it progresses.

[11:30:39 AM](#)

REPRESENTATIVE DOOGAN questioned the confidence of the estimates of gas available by 2019.

MR. FACKRELL responded that estimates are made on the best data available. Consideration is made by weighing how big the pipeline will be versus the gas going in to it. He said more will be learned prior to the open season. He remarked that 4 bcf/d is what ends up in the market, but "it's going to be about 4.5 bcf, actually, at the inlet to the plant."

REPRESENTATIVE DOOGAN asked if the owner companies would have to be consulted before expansion occurs.

MR. FACKRELL explained that Denali would make recommendations to the owners to approve.

REPRESENTATIVE DOOGAN recollected that there has never been a voluntary expansion of a pipeline wholly owned by producers; therefore, he questioned why expectations would change with the gas pipeline.

MR. FACKRELL said he cannot answer that question.

[11:33:42 AM](#)

SENATOR STEDMAN observed that the state would be spending large sums to improve infrastructure. He referred to slide 9, which shows the Port of Haines. He said both Denali and TransCanada will be making decisions, but until they get to "the point of no return," the state does not really know if it will get a gas line or not. He asked Mr. Fackrell to explain how the timeline would work so that the state would not be caught spending millions or billions of dollars in infrastructure improvements in preparation for the construction of the gasline, with Denali or TransCanada deciding not to proceed.

MR. FACKRELL pointed to the timeline and stressed that if the open season succeeds, confidence increases to make investments. He pointed out that the state would need to make some infrastructure upgrades anyway to perpetuate the operation of the oil pipeline. Some infrastructure investments must occur prior to any project. The process needs to be interactive.

SENATOR STEDMAN asked where the actual point of no return is found on the timeline.

MR. FACKRELL responded that after open season, comes permit approval, at which point the company will have to start increasing its spending rapidly. With that increase in spending comes increased commitment.

[11:38:31 AM](#)

REPRESENTATIVE GARDNER directed attention to slide 3, and asked if there are estimates on how much spare capacity will be in the blue lines on the map [those routes shown going into the Lower 48]. She stated her assumption that those figures would have to be known in order for a decision to be made to build a line to Chicago, for example. Next, Representative Gardner, regarding the distinction between fiscal terms and tax certainty, said she would like to see a definitive list of all the possible elements of the phrase, "fiscal terms."

MR. FACKRELL, to Representative Gardner's first question, said that capacity exists in the system today. He deferred Representative Gardner's second question, regarding fiscal terms, to the producers who would be testifying the next day.

[11:40:09 AM](#)

REPRESENTATIVE GARA acknowledged that TransCanada Alaska Company, LLC, and the producers would not be at the table if they questioned the economics. He recalled statements that the producers would be better because they may not sell to an independent pipeline company, and he questioned why that would be the case.

MR. FACKRELL responded that the producers spend a lot of money to ensure a technically competent cost estimate, which will instill confidence in customers.

REPRESENTATIVE GARA questioned whether the producers' cost estimate would be any better than TransCanada's. He expressed concern that the producers would favor the Denali project by offering to sell gas, but not to TransCanada. He asked Mr. Fackrell if he meant "to say anything like that."

MR. FACKRELL deferred to the producers once more.

[11:42:53 AM](#)

REPRESENTATIVE RAMRAS asked if Mr. Fackrell thinks it likely that BP and ConocoPhillips Alaska, Inc., would "nominate gas into the Denali open season."

MR. FACKRELL responded that if there is confidence and the fiscal terms are available, then there is a reasonable chance the companies will nominate gas.

[11:43:55 AM](#)

REPRESENTATIVE SEATON referred to the term, "distance-sensitive," on slide 10, and questioned if that means everything in Alaska would be at a lower rate than going to Alberta and back and an Alberta tariff would not be paid, or if the rate is "per mile from the North Slope to each take-off point."

MR. FACKRELL explained that "anything in Alaska is going to be lower than rates outside of Alaska for sure." He said what is

yet to be determined is whether there will be more than one zone within Alaska.

REPRESENTATIVE SEATON said he is trying to figure out "why the pipeline would turn down a half a billion dollar investment that wouldn't go into the tariffs if your total intent on that is to keep the tariffs as low as possible."

MR. FACKRELL noted that the companies that build the pipeline need the financial strength to do so. Also, another determination is what the requirements are of getting that funding. He said a company can take \$500 million, but it doesn't do so for free.

REPRESENTATIVE SEATON asked Mr. Fackrell to confirm that from a pipeline company's view, having that money up front would lower tariffs on the project, so considerations for not taking the money would have to do with the owners of the pipeline.

MR. FACKRELL said the decision has to do with whether [taking the money] would allow for a successful project or whether there would be restrictions that would prevent that success.

[11:47:55 AM](#)

SENATOR THERRIAULT noted that the time estimates allow two years each for application preparation and approval from FERC and NEB. He asked, "Isn't that a little optimistic for NEB approval? It seems that Mackenzie is now up to, I think, seven years."

MR. FACKRELL said he would not argue that the schedule (on slide 13) could be an optimistic one; however, he said FERC and NEB would control the pace of approvals.

[11:49:16 AM](#)

SENATOR WIELECHOWSKI questioned how much autonomy Denali has from BP and ConocoPhillips Alaska, Inc.

MR. FACKRELL emphasized that FERC will be looking closely at the proposals. He acknowledged that BP and ConocoPhillips Alaska, Inc., are the owners, but noted that the relationship with the customers would be related by FERC. "So, we will and we are bringing those processes to deal with that, so that we ensure that we maintain those differences between the shipper and a pipeline."

SENATOR WIELECHOWSKI expressed concern regarding that relationship and whether BP and ConocoPhillips Alaska, Inc., would nominate gas to their own project. He recalled that Mr. Fackrell had said that would not necessarily happen. He remarked, "And so, when you say that, we're right back to the Stranded Gas Act; we're right back to: 'Well, maybe you nominate, maybe you don't - it depends on what kind of ... concessions you get.'" He said he feels that is a bit of a shell game.

MR. FACKRELL said he understands why it may appear to be a shell game, but he does not want it to be one. He reiterated that the players involved expect that in order to get customers, those customers will want to know the fiscal terms. He suggested Representative Wielechowski ask the producers about the terms.

[11:53:23 AM](#)

CHAIR HUGGINS clarified that the legislature has the power to set fiscal terms through a public process regardless of which project is moved forward.

[11:54:29 AM](#)

REPRESENTATIVE FAIRCLOUGH observed that Alaskans are concerned about an in-state line and availability of gas. She asked whether it is the pipeline company or producers that selected the route to go into the U.S. market by way of Canada, and she questioned why the Denali project is not considering the proposal to drop the oil down into Valdez and remove it by tanker.

MR. FACKRELL explained that the producers evaluated all the options for moving gas to market, including an LNG option, they chose the route via Canada. He offered his understanding that the administration validated that choice during its review of the applications under AGIA.

REPRESENTATIVE FAIRCLOUGH said Mr. Fackrell's response highlights her point that criteria from TransAlaska and the administration support TransCanada's proposal as being economical, and it appears that it would not be economic to move into the Valdez market as a first step.

The Joint Senate Special Committee on Energy and House Rules Standing Committee was recessed at 11:56 a.m.

CHAIR HUGGINS called the meeting back to order at 1:08 p.m.

TRANSCANADA WORKFORCE ISSUES

[1:08:49 PM](#)

TONY PALMER, Vice President, Alaska Business Development, TransCanada Alaska, LLC, introduced Mel A. Johnson and outlined the presentation he and Mr. Johnson would give.

[1:09:27 PM](#)

MEL A. JOHNSON, Director, Project Management, Alaska Pipeline Project, TransCanada Alaska, LLC, gave a brief history of his resume and work history. He noted that he has worked for TransCanada for 27 years, and has been in a senior leadership role for 15 years.

MR. JOHNSON commenced his PowerPoint presentation. He said he would discuss the commitments that TransCanada has made in relation to AGIA, and would offer a review of the project phases, which would provide the context for addressing the workforce requirements TransCanada envisions for the project as it moves forward. He said he would also talk about strategy as it relates to the Alaska workforce, risks and opportunities in workforce planning, and workforce preparation and training. He specified that during his presentation today he will be focusing on Alaska, and the numbers he cites would be in reference to "the Alaska section" - the gas treatment plant and Alaska pipeline and facilities up to the Canadian border.

[1:15:34 PM](#)

MR. JOHNSON addressed slide 3 of the PowerPoint, entitled, "AGIA Commitments." He listed those commitments: to hire qualified residents, to contract with businesses located in the state, to use hiring facilities in the state run by the Department of Labor & Workforce Development, and to negotiate a project labor agreement prior to construction. He said he has been intrigued by some of the Internet systems already in place, such as the Alaska Legislative Computer System (ALECSYS) Infobases and the Alaska Career Information System (AKCIS).

[1:17:07 PM](#)

MR. JOHNSON turned to slide 4, entitled, "APP Project Phases." He noted that the development phase is divided into: the

proposal phase - an almost two-year phase that spans the issuance of licenses up to the end of the open season; and the four-year definition phase. The intent of the proposal phase is to define the market - the scope, cost, and schedule of the project. In play in this phase is the front end engineering design (FEED). The main effort is on developing cost estimates, he said.

1:18:37 PM

REPRESENTATIVE GUTTENBERG referred to FERC and NEB approval time spans and the Denali presentation. He asked Mr. Johnson what he sees as the difference in expectations (between TransCanada and Denali).

MR. PALMER noted that the four years includes the preparation of the materials for the application, and he offered his understanding that Denali "also had a two-or-more-year time frame." He clarified that when Mr. Johnson refers to project definition, he is talking about the time required to complete the engineering work post open season, to make the application, and subsequently to receive approvals. He said he thinks TransCanada's timing is similar [to Denali's]. He suggested that using the Northern Pipeline Act process in Canada will be more expeditious than the NEB process. He offered an example to illustrate his point.

REPRESENTATIVE GUTTENBERG asked if TransCanada has a "jump on this process."

MR. PALMER answered yes. He said TransCanada already holds a certificate of public convenience. No other party has such an asset or a single window regulatory agency for the project in Canada.

1:20:51 PM

MR. JOHNSON returned to slide 4, noting that "the real bulk and completion of the front-end engineering and design" takes place in the definition phase. The technical, environmental, and regulatory effort made during this phase is tremendous. The execution phase, he said, is just under four years, and includes preparation time for preconstruction and the construction itself. The last phase, he noted, is the operations phase.

MR. JOHNSON moved on to slide 5, which is entitled, "Alaska Section Workforce Requirements (Averages - Full Time

Equivalents)." Slide 5 shows how many people will be needed in the workforce during each phase as follows: proposal, 100-150; definition, 275-400; execution, 7,000-9,000; and operations, 50-80. In regard to the proposal phase, he said TransCanada's internal team would be 20 people managing the work; the rest of the people would be hired through contracts and subcontracts. The majority of those resources would be hired in Alaska, he said, while those hired internally will be those people in TransCanada who have previously developed these projects: experienced engineers, project managers, commercial people, environmental folks, and the people who will implement the open season. Within the definition phase, the internal team will total about 100, with the rest of the workers hired in Alaska.

[1:25:30 PM](#)

MR. JOHNSON, in response to questions from Representative Johnson, noted that the numbers listed on slide 5 for the first three phases - proposal, definition, and execution - are inclusive of what TransCanada would need for the gas treatment plant (GTP). If another entity takes responsibility for building and operating the GTP, the numbers would be "a subset of these." Mr. Johnson related that he excluded the GTP from the numbers set for operations, which he explained is a function of "speaking here to what we're really confident in, with regards to the numbers." He said he is not aware of any restrictions in Canada to hire [a certain percentage of Canadians].

MR. PALMER added that there is no specific percentage, but the Canadian government would try to maximize the number of Canadians hired on the Canadian side of the project, just as Alaskans would look to have Alaskans hired on the state's side of the project.

[1:27:55 PM](#)

SENATOR MCGUIRE expressed appreciation for the presentation, but said she will be looking for more specific information prior to voting on the issue. She said she wants to know what "key internal roles" are being envisioned.

MR. JOHNSON said he would try to be more specific, while also giving an idea of the process and when more clarity could be expected.

CHAIR HUGGINS said he would like a comparison of how Alaskans would be involved during the proposal phase for TransCanada as compared to Denali.

1:30:20 PM

MR. JOHNSON replied, "What's in the plan does become a real significant enabler for how we're going to be able to move ahead." Part of TransCanada's role, once it obtains the license, is to clearly define the roles it will require to move ahead during each phase, what the organization looks like, and the overall approach for filling the roles. TransCanada will describe the types of skills, education, background, and experience required as each phase is approached. He said it is important to inform Alaskans about the opportunities that will be available. He said he sees the previously mentioned on-line sources as being a means by which to communicate the opportunities available. He said a multifaceted approach is typically used for a project like this to make people aware of the opportunities. Mr. Johnson stated that TransCanada's objective is to fill the roles that become open with good, qualified, experienced people, and the company is committed to focusing its search in Alaska for a lot of the work. He gave an example of an internet site set up for the Keystone project, and he offered further details.

1:34:26 PM

MR. JOHNSON, in response to Chair Huggins, reiterated that of the 100-150 people needed for the proposal phase, 15-20 would be the core Canadian team, and TransCanada's preference would be to hire the balance from Alaska's work resource. Regarding the 20 core people, he noted that there are a couple roles for which there are openings. He said TransCanada will look internally to fill some of those roles, but currently will look in Alaska. One role that would be hired from within Alaska, he said, is the role that will provide governance and leadership related to community and land issues as the project is developed. He said it would also be necessary to hire expertise in terms of the people who would be working under the direction of that leader. That, he noted, would be subcontracted work. He stated that it makes good business sense to hire locally. One of the real advantages of doing so is that there are people in Alaska who have experience in mining.

1:38:46 PM

MR. JOHNSON, in response to a question from Representative Samuels, stated that when TransCanada obtains the license, it would aggressively move ahead on establishing a location for the project office, and he thinks the most logical place to set that office up initially is in Anchorage.

REPRESENTATIVE NEUMAN asked how TransCanada would ensure that small construction companies would have access directly to the company's hiring office.

[1:41:52 PM](#)

MR. JOHNSON said that would depend on how the work is bundled and how the company moves forward. He said project labor agreements will be focused on "the construction effort" and will be negotiated ahead of time. He said it is the prime contractors that will be responsible for going out and getting the subcontracts. He stated that the commitments to which TransCanada will bind the prime contractors, include: commitments under AGIA and TransCanada's own internal safety commitments and qualifications. He talked about striking a balance between ensuring there are opportunities for the smaller companies while simultaneously trying to ensure there are not "too many layers in all the administrative costs." He continued:

There are a lot of factors that go into that. ... One of the major factors in determining ... whether to bundle it all under single large contracts or smaller contracts is really a function of where the market is at. And if you're in a real heated market and everybody's busy and working, then you really are forced, if you will, to go and try to bundle the contracts to be larger, just to attract the work force. Now, that may not have very ... many specifics to it, but those factors that you talked about are all factors that we take into account when we are putting the look together.

[1:44:42 PM](#)

REPRESENTATIVE NEUMAN said there is no lack of qualified labor in Alaska. He explained that he wants to make sure the highest qualified Alaskans get hired for the jobs. He asked Mr. Johnson to describe those internal commitments.

MR. JOHNSON said that TransCanada's intention is to meet commitments made under AGIA. He said although it would be illegal to give percentages, the intent is to maximize the use of businesses and labor in Alaska. He said it makes good business sense to hire locally.

1:46:48 PM

REPRESENTATIVE FAIRCLOUGH asked how many of the 100-150 [workers hired for] TransCanada's [proposal phase] would be living "in the community in which you choose to lease space."

MR. JOHNSON answered that the number hopefully would be as many as possible. Canadians on the internal team of the initial phase will likely not move to Alaska, he said.

REPRESENTATIVE FAIRCLOUGH said she would like to know the size of the lease space TransCanada will be using. Also, she asked what the difference is between a qualified applicant in Alaska versus a qualified applicant "for employment with TransCanada."

MR. JOHNSON said he would get back to Representative Fairclough regarding the issue of lease space. [Due to technical difficulties Mr. Johnson's subsequent comments were indiscernible.]

The committee took an at-ease from 1:51 p.m. to 1:55 p.m. [During this time audio testing occurred.]

MR. JOHNSON returned to his PowerPoint presentation, directing attention to the information on slide 11, entitled, "Workforce Risks and Opportunities." He said he thought there were parallels between Commissioner Bishop's plan and his own information.

MR. JOHNSON listed the benefits, which show on slide 11, as follows:

- High profile, anticipated project
- Good potential for multi-year, year round construction effort
- Strategies have been largely developed
- Time available to act on strategic initiatives
- TransCanada support and involvement with AGIA Training Strategic Plan

MR. JOHNSON said anticipation is a good thing. Furthermore, he said having work that is ongoing is a positive aspect of the project. Regarding strategies, he said there has been an effort to take lessons learned from TAPS and other projects, and "feed those forward into some real good solid strategic endeavors." He said although it is frustrating that it takes 10 years to develop a project and get it built and operating, from a management perspective, that gives the time necessary to anticipate a lot of the challenges and risks and come up with a means to overcome them. Post licensing, Mr. Johnson said, there is a definite role for TransCanada and other industry players to be involved and participate and use the framework of the plan developed in Alaska "to be able to move that forward."

MR. JOHNSON listed the risks, which show on slide 11 as follows:

- 'Heated' labor market factors
- Demographic profile of workforce
- Potential for significant in-migration

MR. JOHNSON said currently it is difficult to attract labor to projects because of competition in the Lower 48, across Canada, and internationally. Demographically, the work force is aging, and it is more difficult to make certain young adults going to school now understand what kind of career decisions to make. He said because of its size, the [oil pipeline] project has more of these types of challenges; however, TransCanada knows how to mitigate some of that risk.

[2:02:19 PM](#)

SENATOR THOMAS asked how many "spreads" are anticipated over the length of the line and how many contractors would "occupy those." Also, he asked if TransCanada has specific contractors that have been "generally good for you."

MR. JOHNSON responded that TransCanada has seen large spreads in Alaska over two construction seasons. Regarding contractors, he said it is too early to say who would be working with the project. He said one issue that will be faced in the future is how much risk will be shifted to the contractors - a decision based on whether the contract is for "engineering procurement construction" or "engineering procurement and construction management." He stated his belief that there will be multiple, large engineering, procurement, construction, maintenance (EPCM) contractors working with TransCanada, "and it'll be the majors on a project like this."

2:05:26 PM

MR. JOHNSON, in response to Representative Cissna regarding the socio-economic impacts of the project, said there is a process toward understanding what those are. He explained that there are some impacts that are similar to any project in the world, while others are unique to a community, area, or certain demographics. He said TransCanada tends to be policy-driven when it comes to socio-economics; the company has clear policies regarding corporate responsibility to the environment and to the Native. However, he said TransCanada tries to "work cooperatively with the community"

REPRESENTATIVE CISSNA asked for an indication of what has been done in the past.

MR. JOHNSON said he could offer examples of what has been done in the past, but he specified those examples would not be "proscriptive as to how we're going to deal with particular issues here."

SENATOR MCGUIRE pointed out that regarding the proposal and definition phases, slides 7 and 8 show that Alaska-based subcontracts will be used as supplemental contracts. She said she thinks that is the concern that Alaska will be a "supplement."

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CHAIR HUGGINS told Mr. Johnson he would like information regarding TransCanada's experience with reciprocity and professional licensing across national borders, including any instances in which TransCanada resolved conflicts.

MR. JOHNSON said the issue was raised in regard to the professional recognition for engineering done by Canadians in Alaska and Alaskans in Canada. The Association of Professional Engineers, Geologists, Geophysicists of Alberta (APEGGA) was asked what the requirements would be in a situation in which a Professional engineer in Alaska wanted to work in Canada. The response is in writing and Mr. Johnson offered to make that available. He said the response essentially listed a number of requirements. The only additional requirement above and beyond the education and experience requirement is the completion of a professional practice examination, which tests the engineer on ethics and professionalism. That exam, he indicated, would

provide recognition of the opportunity for an Alaskan engineer to work in Canada.

CHAIR HUGGINS said he thinks Alaska is ultimately seeking reciprocity in order to even the playing field.

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MR. PALMER reviewed some of the issues that came up during his [presentations] over the last month or so. The first issue is regarding in-state gas and where TransCanada stands in relation to the ENSTAR Natural Gas Company and Alaska Natural Gas Development Authority proposal. Based on TransCanada's understanding of that proposed project, he said, if [the line] is less than 500 million [bcf/d], both in design capacity and flow, in advance of the large pipeline going into service, that would not be in breach of AGIA.

MR. PALMER said a second question was regarding the existing rate base value in Alaska, the Yukon, and British Columbia. He said the current rate base of June 2008 is \$2 million. He indicated that the costs between 2003-2008 for Foothills Yukon plus Foothills North BC combined are \$20.1 million. Approval will need to be obtained from NEB on the Canada side and from FERC on the Alaska side. Mr. Palmer stated:

Because TransCanada has only included costs from 2003 subsequently - and very modest costs for the actual assets that we're putting forward here - we're doing so on the basis that in the event that other partners come to join us, they would do just the same. So, if they seek to include costs earlier than 2003 or higher on a pro rata basis, you would see that TransCanada would not feel that its shareholders should be unjustly discriminated against in that circumstance. But we're doing so to be very competitive, and if you look at the assets that we're proffering in Canada for \$20.1 million, I would suggest to you that's a very good deal.

MR. PALMER said another issue that has been raised is regarding rolled-in tolls. He highlighted a key distinction that TransCanada, pursuant to the AGIA "must-haves," is committing to voluntarily expand the pipeline in engineering increments every two years based on the customer response. He said it is true that FERC makes that decision, but it is also true that there are "two forks in the road." He explained, "If the company

offers to voluntarily expand, there's a rebuttable presumption of rolled-in tolls. And I've described to you what the cost differential could be - about 5.9 bcf/d for rolled-in versus incremental. So, that's what happens with an AGIA pipeline." Mr. Johnson said in the case of a non-AGIA pipeline, if the company does not voluntarily expand and goes "down the mandatory fork in the road," and in the event that there is a subsidy, where tolls go up, then there will be incremental tolls. He offered his understanding that Mr. Fackrell had said that in the case of the Denali project, there would be a rebuttable presumption of rolled-in tolls up to the point of a subsidy.

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REPRESENTATIVE SAMUELS asked for clarification that starting at 4.5 bcf/d, using compression only, the engine increment is 250, which is a "quarter of a 'b'."

MR. PALMER affirmed that is correct.

REPRESENTATIVE SAMUELS questioned what would happen if a lesser amount was offered during the open season - whether that would mean having to wait until the 250 amount was reached.

MR. PALMER said one alternative is to wait. However, he said the customer would also have the option of making a capital contribution to aid construction to cover the difference. They could advance the money until the additional customers show up.

REPRESENTATIVE SAMUELS said he assumes someone might choose the second option if the wait was expected to be long.

MR. PALMER said once the expansion was in place and the additional \$100 million a day showed up, the customer [who had advanced the money] would get the credit "at the point when the new customers came on to make up the 250." He added that that is standard practice.

REPRESENTATIVE SAMUELS asked Mr. Palmer to clarify by using an example in which Representative Samuels is the customer who comes in with "100" and Senator Huggins comes in later with "150," and Representative Samuels has chosen to "have the additional capital." He surmised who would be "the big winner."

MR. PALMER responded as follows:

Actually, Representative Samuels ..., at the point he comes in, ... you would receive a refund of a portion of your capital contribution.

MR. PALMER, in response to Representative Samuels, confirmed that that is normal practice in his business.

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MR. PALMER returned to responding to questions that had been asked previously. He affirmed that TransCanada's initial open season would provide for a simultaneous opportunity for customers at Valdez, just like customers in Alberta or along the main route of the pipeline. TransCanada will hold an initial open season that would allow customers to simultaneously nominate along the mainline route to Alberta or Valdez. A party could also nominate a delivery point at Delta Junction rather than Valdez, and then that third party could construct a pipeline away from Delta Junction. He said just like any other point on the pipeline route, in the event that a customer wishes to take delivery and their ultimate "burner tip" is downstream of that, that customer would make its own arrangements away from TransCanada's pipeline either to construct its own pipeline or it would make arrangements with a third party.

SENATOR ELTON stated his understanding that TransCanada would accommodate an LNG project if a shipper were willing to commit enough gas. He referred to a one-page handout [included in the committee packet], entitled, "TransCanada's Alaska Pipeline Project." He noted that the third bullet point read that the project would include "an LNG option (if insufficient gas is committed through Canada)." He interpreted that as another threshold or qualifier to the willingness to "do an LNG pipe or an LNG spur." He asked if that is correct.

MR. PALMER observed that the handout was likely created six or more weeks ago and is inaccurate. He clarified that insufficient gas committed through Canada is not a condition for TransCanada's providing LNG service. TransCanada would hold an open season in 2010 if they are granted a license. He maintained that TransCanada would construct a line if sufficient volumes are committed to Valdez to make an LNG project, with all the same terms and conditions as a customer along the route of the Alberta pipeline would have.

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SENATOR ELTON asked if the LNG option extended out into the future or was only an option for the initial open season.

MR. PALMER observed that TransCanada is committed to offering the service during the initial open season and deferred his remarks on whether the option would be available during subsequent open seasons.

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MR. PALMER returned to his list of questions. He explained that TransCanada would do sufficient work - environmental, engineering, and field work - to advance an LNG project before the initial open season, as it would for a pipeline to the Alberta hub. To another past question he asserted that TransCanada would construct a pipeline to Valdez on its own time without a pipeline through Canada if there are sufficient volumes for an LNG project, but not for a pipeline through Canada. Customers would still have to meet the standard conditions just as they would have to if the gas were going to Alberta or the Lower 48. He offered an example.

MR. PALMER, referring to Senator Elton's question regarding LNG plans for the future, observed that he does not know what TransCanada is going to do in four years time. He pointed out that the first open season is in two years and the second open season is in four years. He said, "It will depend on what the circumstances are, as to what I get in the initial open season, what volumes I get - if any - to either location." That will be determined as TransCanada moves forward.

MR. PALMER addressed the question of whether the line to Delta Junction and Valdez to accommodate an LNG project would be done first if there are sufficient gas commitments for both a pipeline through Canadian and an LNG terminal. For this scenario, TransCanada would have to know that the Valdez line could be completed in advance of the Canadian project and there were sufficient volumes such as 4.5 bcf/d committed to Alberta and 2 bcf/d committed to Valdez. He said he does not imagine that this scenario would occur, but observed that generally TransCanada would proceed with caveats. He explained that if a 48-inch pipeline was constructed from Prudhoe Bay to Delta Junction, to ultimately move 6.5 bcf/d, TransCanada would have to know with certainty that the Canadian volumes were going to come shortly thereafter, or the LNG project would have to pay for the entire 48-inch line until the additional customers show up. He said that is standard procedure.

MR. PALMER referred again to Senator Elton's question and clarified that TransCanada would be willing, if requested, to construct a line from Delta Junction to Valdez during all open seasons following the initial open season if there were sufficient gas commitments for an LNG project and all the standard shipping conditions had been met.

MR. PALMER said he cannot answer the question of whether TransCanada would proceed in the FERC permitting process for both projects during the initial open season if there were insufficient gas commitments for either the pipeline through Canada or an LNG project. He observed that the decision would depend on the information that is received during the open season. He offered examples of different scenarios, saying TransCanada would have to consider the circumstances at the time.

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MR. PALMER, in response to another question that had been submitted, affirmed that a shipper would be allowed to nominate gas for off-take at Delta Junction to Valdez during all open seasons following the initial open season. That holds true for any location along the line. He could not answer whether this would occur even if there is not sufficient gas through Canada.

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MR. PALMER said he thinks Mr. Johnson addressed members' questions regarding workforce development and engineering reciprocity during his testimony. Regarding what the state gets for its \$500 million investment, he agreed with Mr. Fackrell that "no party gets the \$500 million for nothing." He said the state will obtain certain value for the incentives and inducements it provides. He stated, "When parties speak to a level playing field, you will note that TransCanada is taking in significant obligations to the State of Alaska as the result of the license, if you choose to grant it to us." He stated his belief that Alaska would retain a reliable and capable partner committed to advancing the interests of the state. TransCanada has agreed to hold an open season every two years and to voluntarily expand in engineering increments, which Mr. Palmer called a very significant commitment. He added that TransCanada would provide for expansion of the project and pointed to the necessary drilling and employment that would come from expansion. TransCanada would promote long-term development and

is committed to going beyond a failed open season to proceed toward a FERC certificate. He reiterated TransCanada's commitment to building a pipeline to Valdez for an LNG project if the market commits to the project. Finally, he said, TransCanada is committed to delivering gas to Alaskans.

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MR. PALMER said another question he has been asked over the last few months relates to TransCanada's capital cost performance. He said TransCanada's internal review of its projects between 1990-2003 that use 42- to 48-inch pipe show that the company's capital costs are 19 percent lower than those of its competitors in Canada and 38 percent lower than those of companies in the U.S. He emphasized that TransCanada's records, reputation, and expansions show that the company is motivated to control costs. He said all the numbers he has provided have been unchallenged "by any party with any facts" over the past five years.

MR. PALMER noted there have been comments that granting a license to TransCanada under AGIA will preclude partnerships with producers. To that, he suggested that the legislature examine TransCanada's application in which it openly offers a partnership with producers or any other party that commits gas to its project in the initial open season. In the event TransCanada is granted a license, in addition to the field, engineering, and other work necessary, it will continue on its present path for many years, seeking an alignment with customers and partnerships, if desired. Mr. Palmer said TransCanada could not go outside the boundaries of AGIA to strike a deal without the state's concurrence. If TransCanada is the State of Alaska's partner, it will be restricted by the bounds of the license, just as the state will be, because that is the nature of any partnership. TransCanada is seeking a partnership with the current lease holders and will continue to do so if granted the license.

MR. PALMER suggested that the proposal by TransCanada does match the goals of the State of Alaska. AGIA was written to address the entire development. He pointed out that TransCanada has met the 20 must-have credentials of the state. TransCanada placed in front of the State a comprehensive application. The administration undertook a six-month review of that application, and that review remains unchallenged. He said TransCanada proposes to attract customers if granted a license. Independent pipelines seek customers on a commercial basis, and TransCanada has been successful in doing that over the past fifty years.

Mr. Palmer said TransCanada thinks it is too early at this stage to enter mediation. He said he has never gone into mediation during attempts to attract customers. At this stage of development, TransCanada will be able to seek a deal. If the legislature decides to grant the license, it will capture the must-haves. He said TransCanada does not create obstacles to a deal; it facilitates a deal.

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SENATOR BUNDE opined that the notion of "an all-Alaska pipeline, LNG, et cetera," is wishful thinking, because the credible information he has received shows there is not likely to be an export license granted or renewed by the federal government; however, he noted that Mr. Palmer has said on several occasions that TransCanada would be interested in building an LNG line to Valdez. He questioned where the market for such a project is.

MR. PALMER responded that TransCanada believes that the LNG project is inferior to the project through Canada on the way to the Lower 48. However, it is the business of TransCanada to build pipelines to where customers want to deliver gas. If customers can find a market and make the project work, TransCanada will build the pipe.

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REPRESENTATIVE SAMUELS noted that Mr. Palmer has said consistently that TransCanada cannot make a deal with Denali or "the producers." He asked if Mr. Palmer is referring to TransCanada, the mother ship, or to its subsidiary, TransCanada Alaska. He asked, in other words, if TransCanada could form another subsidiary that could then make a deal. He observed, "Because the license is issued to Foothills and TC Alaska, not to the parent corporation."

MR. PALMER offered his understanding that that restriction "applies to TransCanada, generally."

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SENATOR MCGUIRE asked how many deals have been structured through mediation.

MR. PALMER answered zero.

SENATOR MCGUIRE asked what the traditional method is by which TransCanada puts together pipeline deals. She said, "The idea of a mediation isn't a threat; it's really just about putting together a deal that makes sense." She expressed concern that two years from now TransCanada will have an open season, people will not commit their gas to a line, there will be a competing line, and TransCanada will then be locked in years of litigation, thus "we miss this golden opportunity that we have."

MR. PALMER said although he would like to see a circumstance where all parties align to support the project, that usually evolves over time and it is not unusual to see competing projects. He said when alignment does happen, it can be early or late in the process and is done between commercial parties, after the governments involved have established a structure under which the project will proceed. He said over the course of his 22-year career in the pipeline business, he has only seen two pipelines built from the same supply to the same market, and they were both financial failures. He relayed that in every circumstance in which he has been involved, there has been a resolution in some form or another; either one party wins and the other loses, or they come together in some fashion over the course of the open season process or subsequent to that.

SENATOR MCGUIRE noted favor of competition; however, she remarked that AGIA prevents competition. The government subsidizes only one winner. She asked if Mr. Parker had seen a proposal as the one presented.

MR. PALMER responded that he has never seen a structure precisely like this, but he said he has seen structures where governments establish the rules that the pipeline companies must follow or "go outside of those and compete in a different fashion." He said he does not believe there is a structure established by the State of Alaska under AGIA that precludes a deal to be established. He added, "If I had thought so, we would not have applied."

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CHAIR HUGGINS asked Mr. Palmer if TransCanada has ever been involved in a process that requires the company to get FERC certification without having adequate financing or "commitment to gas."

MR. PALMER said he has not; however, he said when this project came forward 30 years ago, that is "exactly how it went to

FERC." In response to a follow-up question, he said that original project succeeded in obtaining a FERC certificate. He surmised that the reasons that project did not get completed had everything to do with the market supply and demand; it did not have to do with not having a commitment to gas.

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SENATOR THERRIAULT asked what would happen to the data if TransCanada withdrew their proposal.

MR. PALMER responded that in the event that TransCanada withdrew, the State would receive the information for the Alaska portion of the project. There are certain provisions under which the state would purchase [the data] from TransCanada and certain provisions under which TransCanada would provide it at no cost to the state.

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SENATOR WIELECHOWSKI commented that much of the decision [regarding TransCanada's application] is based on credibility and trust, and he said he has great respect for the way TransCanada's representatives have conducted themselves during the entire presentations. Specifically, he expressed appreciation for the forthright manner in which Mr. Palmer answers questions.

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REPRESENTATIVE RAMRAS asked what TransCanada would do if Denali had a successful open season and TransCanada failed two consecutive open seasons.

MR. PALMER explained that provided its application was accepted, TransCanada would hold its open season in 2010. He offered his understanding that Denali would hold its open season in early 2011. TransCanada's next scheduled open season would be held in 2012. TransCanada would meet its obligation under AGIA and seek FERC certification every two years to hold an open season regardless of whether or not it is successful in attracting customers. In response to a follow-up question, he said if after such events the state wished to pull out, then TransCanada would have to "examine its circumstances at the time" and decide whether it also wished to withdraw or would seek to continue. He emphasized that the decision would be "dependent upon the

circumstances exactly at that time, not just on what had happened in the open seasons."

REPRESENTATIVE RAMRAS asked if that is when TransCanada would decide whether to ask the state for treble damages.

MR. PALMER responded that if the state sought to withdraw and TransCanada agreed, then clearly there would be no treble damages. Conversely, if the state sought to withdraw and TransCanada did not, then "we would have to look at the circumstances as established under AGIA." He indicated that neither the state nor TransCanada is in the business of wasting money.

The Joint Senate Special Committee on Energy and House Rules Standing Committee was recessed at 3:00 p.m.

CHAIR HUGGINS called the meeting back to order at 3:17 p.m.

EXXONMOBIL

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MARTIN MASSEY, U.S. Joint Interest Manager, ExxonMobil Corporation ("Exxon"), said he has worked in this position since 2001 and is responsible for Exxon's development of Alaska's gas resources. Mr. Massey observed that the legislature is focused on doing what is in the best interest of Alaska, and Exxon has taken an active interest in the state's deliberations. He acknowledged that the state questions whether or not Exxon is "really on board to make a project happen."

MR. MASSEY began his PowerPoint presentation. As shown on slide 1, he stated his intention to demonstrate Exxon's commitment to the development of Alaska's gas resources and readiness to work with the state, TransCanada, BP, or ConocoPhillips Alaska, Inc., to put in place that which is necessary to the success of the project. He acknowledged the legislature's frustration that more progress has not already been made, but asked its members to recognize that this project is extremely important to the state.

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MR. MASSEY said he would cover what needs to be put in place to ensure a successful project, and he said he would do that by addressing the following four questions: What is the right initial capacity for the pipeline?; How much gas is needed?; What is the value to the state and the producers?; and What is needed to ensure royal class project execution? Mr. Massey introduced the following members of his team: Jim Brown of Exxon's World Wide West Marketing Company; Mark Nelson of Exxon's Commercial Group; Norman Porter of Exxon's Treasurers' Organization; and Jim Morris, Exxon's Commercial Attorney. He said these people will make themselves available to address topics with the legislature over the next couple days.

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MR. MASSEY referenced slide 2, which illustrates how Exxon is motivated to develop Alaska gas. He said Exxon has been in Alaska for over 50 years and has been a key player in Alaska's oil industry development. The corporation holds the largest working interest at Prudhoe Bay and is the largest lease holder of discovered North Slope gas. He said Exxon is in the business of developing oil and gas resources and has proven throughout the world that it can do it well. He emphasized the importance of the development of Alaska's gas resources to Exxon by drawing attention to the bar chart on slide 2, which shows that an Alaska gas pipeline project would allow Exxon to add over 1.5 billion oil equivalent barrels, which is more than Exxon's production total has averaged per year over the last five years. Furthermore, the project has the potential to double Exxon's current U.S. gas production - the key measure of any oil company's performance. Because of the size of Exxon, only the largest projects impact its performance in any significant way, he said. The Alaska gas pipeline project would have a clear, positive impact on the corporation's worldwide results.

MR. MASSEY said Exxon has been working hard to develop the gas ever since Prudhoe Bay was discovered and has to date invested

more than \$180 million looking for a way to bring Alaska gas to market, including the early pipeline studies and the LNG and gas to liquid study. The corporation's activity has increased significantly in the past decade, which is a result of the change in oil prices. Since the development of the Alaska gas inducement Act, Exxon has provided testimony and has engaged in the public comment process on the [TransCanada] application. Exxon is aligned with the administration's determination that a gas pipeline to [the Lower 48] will result in the best value to the State of Alaska and the producers. He noted that earlier this year, Exxon committed to putting Point Thomson on production; the [plan of development (POD)] proposed provided valuable information "to remove any doubt ... about how best to produce the hydrocarbon resources at Point Thomson," including the major gas resource in the [Point] Thompson sand. He relayed that Exxon is pursuing a large-scale gas pipeline project and it continues to pursue smaller sales where there is a market. He offered an example where Prudhoe Bay gas was sold to Fairbanks Natural Gas, which, it is said, hopefully addressed some of the energy needs of those in Interior Alaska. He offered his understanding that that is the first sale of North Slope gas "off of the North Slope." He said Exxon is working to determine the best way to move forward an Alaska gas pipeline project, and it firmly believes that a successful project requires the support of all three major producers and the State of Alaska.

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MR. MASSEY highlighted slide 3, entitled, "4.5 BCFD Balances Tariff, Revenue and Resources." He said a pipeline of approximately 4.5 bcf/d will provide the best chance of achieving a viable project - a determination that came from a detailed technical analysis of pipeline hydraulic and cost. He offered his belief that the state's data is consistent with this analysis. He said the chart on slide 3 is based on data provided to the public by the administration and consultants. It shows that when the pipeline throughput is 4.5 bcf/d - shown as a green bar on the slide - the tariff is \$4.73. When the capacity is reduced to 3.5 bcf/d, the tariff increases to \$5.71. If the pipeline is expanded to 5.9 bcf/d or even 6.5 bcf/d, the tariff is the same or a little lower than what is achieved at the 4.5 bcf/d level. Mr. Massey called that 4.5 bcf/d level the "sweet spot." The difference of about \$1 between the 4.5 bcf/d and 3.5 bcf/d impacts the state; the lower amount reduces the "NPV5" [related to net present value] by \$14.5 billion. Producer profits would see similar percentage reduction. Mr. Massey emphasized the importance of going with a 4.5 bcf/d pipe.

MR. MASSEY said the hydraulics and cost analysis show that the pipeline should provide low-cost expansion. For example, expanding from 4.5 to 5.9 or even 6.5 [bcf/d] could result in essentially the same tariff. Low-cost expansion means significant incentive for exploration, he said. Although the initial pipeline capacity will be determined during the open season, 4.5 bcf/d "appears to be the right pipeline size," he said.

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MR. MASSEY turned to slide 4, entitled, "Critical Elements - Point Thomson/Open Access." The chart on slide 4 shows the following known resources: Prudhoe Bay at 24 tcf, Point Thomson at 8 tcf, and 3 tcf in other fields, for a total of 35 tcf. The chart also shows that 50 tcf is needed to keep the pipeline full at 4.5 bcf/d for 25 years, which means that another 15 tcf of yet-to-find gas needs to be discovered, developed, and produced during that 25-year period. Mr. Massey said he thinks that illustrates how critical Point Thomson gas is to the project. He said it is estimated that Point Thomson could provide gas production of approximately 1 bcf/d. Without Point Thomson's 8 tcf of known resources, the amount of yet-to-find gas needed would increase to 23 tcf or essentially "another Prudhoe Bay."

MR. MASSEY related that through extensive technical work, Exxon has determined that a Point Thomson gas sales development will produce and recover a majority of the condensation of gas reservoirs. However, he said Exxon also recognizes that a gas pipeline project is still many years away and there is still some uncertainty about how best to produce Point Thomson. For this reason, Mr. Massey said, Exxon and the 26 other lease holders developed a current plan of development, which consists of a gas cycling project estimated to cost over \$1.3 billion. The project, he relayed, would bring Point Thomson under production by the end of 2014. More importantly, he added, the project would provide the information needed to remove any doubt about how best to produce Point Thomson. Mr. Massey said Exxon will perform the engineering studies necessary to prepare individual Point Thomson lease holders to participate in a gas pipeline open season. He stated that there is no faster way to bring Point Thomson on production and ensure Point Thomson gas will be available for a gas pipeline. He said the gas from both Prudhoe Bay and Point Thomson can keep the pipe full for well

over 10 years, which should be enough time for exploration and development of the additional 15 tcf gas needed.

MR. MASSEY said the previous slide showed that it may be possible to build a 5.9 bcf/d pipeline with essentially the same tariff, which would certainly generate more revenue; however, the gas is not available at this point in time to support a 5.9 bcf/d pipeline. Mr. Massey opined that it makes sense to build the pipeline at 4.5 bcf/d and then plan for low-cost expansions. He said significant gas exploration and development activity is expected, but will take time, and it is unlikely that shippers will make a commitment until that gas is discovered.

MR. MASSEY, returning to slide 4, said Exxon recognizes that the issue of open access has "long been on the minds of Alaskans and those in the industry." He said it is an important concern for Exxon, as well; however, the corporation does believe that necessary insurances are in place. He said substantial expansion capacity at low cost should be available, so, there are good reasons to expand the pipeline. The regulatory framework of FERC and NEB is based on the concept of open access, he noted. The U.S. government recognizes that an Alaska gas pipeline would be a unique undertaking. Additional rules were established by U.S. Congress and FERC which specifically apply to Alaska; these rules provide further assurances that explorers can obtain certain capacity on the pipeline through expansions. Mr. Massey related that Exxon is willing to discuss other assurances that would make the State of Alaska comfortable that explorers would have access to "the pie."

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SENATOR WIELECHOWSKI, acknowledging his question related to another topic, asked Mr. Massey what Exxon's plan is regarding payment to the plaintiffs in the case related to the Exxon Valdez oil spill.

MR. MASSEY acknowledged the concern legislators have expressed to him over the years regarding the case. He said the incident was tragic and is something Exxon deeply regrets. He said the corporation has worked hard to address the impacts of the spill and put in place necessary assurances in its operations to prevent such incidents from happening again. He said Exxon will abide by the Supreme Court order.

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SENATOR WIELECHOWSKI, returning to the present topic, observed that a report shows that many pipelines are being constructed even though crude reserves can only provide throughput for 10 years or less. He said the throughput from Prudhoe Bay and miscellaneous fields equally 27 tcf, which according to the Department of Natural Resources' calculations provide for 11-12 years of throughput. Three examples of the history of pipelines in the Lower 48 show that companies have started building pipelines with throughputs of only 5, 8, and 9.3 years. He asked Mr. Massey if he disagrees with the reports that "we need more than that to get the pipeline started."

MR. MASSEY stressed the magnitude of the project and stated that Exxon would not know until the open season whether or not there have been sufficient firm transportation commitments made in order to get financing. He said it is the judgment of Exxon that just a 10-year commitment will not be adequate to get financing for this project, "given the risk, scale, and complexity that we're facing to put this project in place." The market will ultimately decide that, he added.

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REPRESENTATIVE GARA returned to the issue of the Exxon Valdez oil spill and offered his understanding that Exxon has already been ordered to pay approximately \$500 million, while the corporation has taken the position that it is "entitled to further trial court litigations." He asked Mr. Massey if Exxon is going to pay the amount that was in the supreme court order or continue with the litigation.

MR. MASSEY said he does not think Exxon has taken the position that it "would or would not." He stated his understanding that the Supreme Court decision is final and will go back to "the process that the courts go through to make that judgment final," and when it is final, Exxon will pay.

REPRESENTATIVE GARA, returning to the topic at hand, concurred with Mr. Massey regarding the importance of Point Thompson in relation to the gas line. There has been talk of mediation, he said, but mediation only works when both parties are ready to take part in it. He asked if Exxon has formally proposed mediation to the State of Alaska resolving Point Thomson.

MR. MASSEY said Exxon has not offered mediation but is fine with mediation if that is what the administration would like to do. He offered his understanding that the administration, through

the legal process, did not want to engage with Exxon until it got through the administrative process that it had been asked to complete. He stated his expectation that once that is over, Exxon will be able to meet with the administration, resolve this issue, and move forward. He emphasized the importance of such a resolution, because work is underway to date. He offered examples. He said DNR has issued Exxon a land use permit. The next proposal will be drill permits, which he said he hopes DNR will approve.

REPRESENTATIVE GARA requested that when Exxon does offer to partake in mediation with the administration, that the corporation submit that offer in writing to the legislature.

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REPRESENTATIVE GARA observed ExxonMobil would start off at 10,000 barrels a day in oil production. He said Point Thompson is an oil field first and a gas field later; to get the gas out to have a 4.5 bcf/d line, a certain amount of oil has come out first. He stated that at 10,000 barrels a year, "we'll never get there; it'll take 40 years." He asked Mr. Massey how quickly Exxon would "ramp up" and get the oil out in order to get to gas sales.

MR. MASSEY answered that Exxon is investing \$1.3 billion to get 2,000 barrels a day. He said it just so happens that the right design, given the compression and well capacities for an initial state is 283 feet a day of injection and 10,000 barrels a day. He shared his expectation is that it will not take long from "the first time we put this on production" to get the information that will show Exxon which path to take. One path would be expansion, another path might show that the oil condensate recovery is not adequate, thus the company should "back up and be ready for gas sales." A third option might lead Exxon to "some combination of additional gas cycling and gas sales." He said he thinks the data today will show that gas sales are best to do at Point Thomson, but he recognizes there is "some uncertainty in that." Exxon is ready for any course of action, he stated. He said the data that will be gained from the proposed project would remove any doubt about how best to produce the Point Thompson sand.

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SENATOR BUNDE said he is pleased to hear that ExxonMobil is willing to work with all players. He asked for more information

regarding cycling and information on the estimated timeline. He asked if approval of AGIA would hurt the success of a pipeline as other consultants indicated.

MR. MASSEY noted that cycling works in many places in the world. Point Thomson is a high pressure, large reservoir with large distances between the wells. The proposal for the initial production system - to give it the best chance of success - is to "put two wells a fair distance apart, but actually right in the heart of a reservoir." The condensate would be stripped out of the gas through a process of high pressure separation, and the gas would then go through several stages of compression and "be put back into the ejection well." The wells are so far apart, it would be many years before there would be any interference between the two, but the pressure in the reservoir would remain high and less liquid would be lost by putting the gas pipe in the ground.

MR. MASSEY spoke to booking reserves. He said reserves and production are Exxon's lifeblood; they are how the company measures its success. One step toward booking reserves is in discerning whether the project will be viable and generate an adequate return. The next question is to ask whether the project is "sufficiently far along that you know you're going to complete it." Mr. Massey offered his understanding that on big projects, some companies will actually book some of the reserves when the project is sanctioned, because at that point in time they are comfortable that once sanctioned, the project will follow through. Basically, reserves are booked once confidence is achieved.

MR. MASSEY explained his nonresponse to the question regarding whether or not approval of AGIA would hurt the success of a pipeline, by stressing that the question must be answered by the legislature. He said it is not the right of the company to advise the legislature, only to provide it with information. He said based on the deliberations he has heard thus far, the legislature's focus is "clearly on doing what's right for Alaska." He suggested the following questions to ask in arriving at a decision:

Does AGIA help align the parties to achieve a successful project? Does AGIA bring the producers and the state together such that we can reach alignment on what's necessary to allow a project to go forward. If your answer to that question is yes, then I'd vote yes; if your answer is no, then I'd vote no.

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REPRESENTATIVE KERTTULA observed that the source for the information on slide 3 was from Black and Veach, and she stated her assumption that Exxon has done its own internal projections. She asked Mr. Massey if he would share those projections and compare them to the ones provided by Black and Veach.

MR. MASSEY stated that Exxon's analysis, done in 2001-2002, with the other producers, is consistent with the one on slide 3. The report of a sweet spot being 4.5 bcf/d does not surprise him. He said Exxon estimated that low-cost expansion would not increase the tariff.

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REPRESENTATIVE KERTTULA asked if Mr. Massey would share information regarding Exxon's "internal rate of return hurdle."

MR. MASSEY said Exxon does not have a hurdle rate or single number; its management considers the total risk/reward of a particular project before deciding whether to invest.

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REPRESENTATIVE LYNN observed that Exxon chose neither to apply under AGIA nor partner with Denali, but apparently ships gas "with either one." He said he would also like to know with which AGIA "must-haves" Exxon has chosen not to abide.

MR. MASSEY said both questions would be covered when the next slide is shown.

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REPRESENTATIVE GRUENBERG, [in relation to the previously referenced oil spill case], mentioned a case in Miami in which the district court judge found that Exxon had delayed paying a judgment for years because "the internal rate of return on the money that Exxon held far exceeded the interest it had to pay on the punitive damages in the judgment." He questioned if Exxon is doing the same thing by "not paying the money that the Supreme Court has ordered it to pay now," and whether the corporation plans to "use the additional money it will earn internally if it delays paying it until the case winds its way back down to the district court, which really has no discretion

but to issue the same order the Supreme Court has already ordered." He asked, "How much money will Exxon earn on that judgment if it delays paying it."

MR. MASSEY responded, "No, we are not delaying it." In response to a follow-up question, he said he does not have information regarding how much Exxon will be paying on that money.

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SENATOR THERRIAULT referred to Point Thomson. He questioned if Exxon would consider relinquishing the leases if it does not decide to move forward, as some of its partners have indicated.

MR. MASSEY pointed out that this is the first time that Exxon has ever committed to bring Point Thomson on production during a POD period. If that production is not achieved during a POD, then all the state's remedies regarding violation of the POD would exist. He said senior management has delivered a commitment to develop the field and has offered milestones. If the Superior Court agrees that those milestones have not been met, then "the unit is terminated." There are no preconceived notions of what Exxon will and will not do. Everything is on the table for discussion, he said.

SENATOR THERRIAULT noted that Exxon's POD has retroactive provisions, and he questioned why the state would consider accepting them.

MR. MASSEY observed that Exxon had felt that it would be more palatable to the state if the POD period was extended so that there would be "a firm commitment during the POD period to put it on production." The corporation realized there may be some concern about that long period, so it said it would provide regular updates throughout that whole process. Regarding retroactivity, Mr. Massey said, "We guessed that's what the state would want to do." However, he said if that is not the case, and another solution would work better, the corporation would "sit down and resolve that issue."

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CHAIR HUGGINS asked if Exxon has evaluated the Denali project.

MR. MASSEY noted that ExxonMobil has had discussions as to how Denali might participate. The issue for Exxon is that it will not have a successful project until the state and the producers

"align on what is necessary to make this project a go." He acknowledged that it makes no sense for two projects to go forward in competition.

CHAIR HUGGINS asked if, compared to Denali and TransCanada, there are any differences in the criteria that Exxon considers regarding "the commitment process of its gas potential in the future."

MR. MASSEY responded that if alignment has not been achieved by open season, there will be tough decisions to make regarding to which pipeline to commit the gas. He concluded, "It's really hard to predict today exactly how that might play out. I don't have a good answer on that."

The Joint Senate Special Committee on Energy and House Rules Standing Committee was recessed at 4:08 p.m.

CHAIR HUGGINS called the meeting back to order at 4:21 p.m.

CHAIR HUGGINS asked how Exxon views federal loan guarantees in relation to their importance to the gas pipeline viability and execution.

MR. MASSEY replied that his understanding after reading the license application is that loan guarantees are critical factors in moving a pipeline project forward. He added, "I don't know if they're going to be available or not. I believe they're in a situation where they still have to be scored and funded, and I don't believe that has occurred. If we had access to them, we would seriously look at it." Mr. Massey surmised that those entities that back the federal loan guarantee could make loan guarantees so expensive they would not be worth "going after." He suggested that Exxon could use its financial strength to "put the pressure on that to make sure it's done at the lowest possible ... cost."

[4:23:56 PM](#)

MR. MASSEY returned to his PowerPoint presentation. He discussed slide 5, entitled, "FT Commitments - Real Risk and Cost to Producers." He noted that Black & Veatch calculated the NPV10 to be \$13.5 billion. Black & Veatch made a simplifying assumption by treating the firm transportation cost as an operating expense, which it said did not materially impact the economics of the producers. Mr. Massey said this assumption has an enormous impact on producer economics, because it does not

reflect the reality that firm transportation commitments represent real risk and operate differently than an operating expense by the financial markets. He explained that since an uncommitted operating expense cannot be used to support the proposed project like a 25-year, ship-to-pay firm transportation commitment can, "clearly something of value has transferred from the shipper to the pipeline developer and lender." He said Exxon, like many economists and finance practitioners, believes that firm transportation commitments are long term and debt-like in nature. He said these financial commitments should be capitalized, and there is a lump sum cash flow in the year they are made.

MR. MASSEY stated, "Hearing the commitments in this manner significantly reduces Black & Veatch's estimate of a producer's economics." As shown by the yellow [arrow] on slide 5, producer economics are dropped from \$13.5 billion to essentially zero NPV10. Mr. Massey explained that for this project, as a gas shipper on a pipeline, there are two choices: The one option is to invest in the project as a pipeline affiliate, investing a share of the capital. The other option is to make a long-term financial commitment to the pipeline developer to reimburse the developer for its actual - not estimated - costs, plus a return on its investment. In the second scenario, the shipper, through the firm transportation commitment, is paying for the ultimate cost of the pipeline, the profit that pipeline building requires, and the economic financing costs. Mr. Massey clarified as follows:

Because these [are] long-term, binding commitments to pay for the project, regardless of whether the gas flows, we treat these commitments as if we were investing based on the value of those firm commitments. When you think about it this way, the economics have to be (indisc.) for us, because we're making a commitment to a third-party pipeline available, like TransCanada, because we're paying for their actual costs, plus their profits, and potentially higher financing costs. This is conceptually no different than looking at the true cost of leasing a car rather than purchasing it outright.

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MR. MASSEY said he thinks it is important for the legislature to understand the economics involved, and he said he can tell that the legislators understand the value of firm transportation

commitments. He brought attention to the red arrow on slide 5, which shows there could be additional risks, including a change in fiscal terms, an increase in tariffs, exposure to higher costs and lower natural gas prices. Some of these factors are difficult to predict, he said, but it is prudent to recognize them when doing an economic analysis. He indicated that when Exxon considers those risks against Black & Veatch's analysis, the NPV10 for the producers drops to well below zero. Mr. Massey offered to share Exxon's analysis and concluded that "we are in a much different place on the economics for a producer for a third-party pipeline." He said this information does not make the product unattractive; Exxon is willing to bear a price risk and, if an owner in the project, will also bear its share of capital risk. He added, "However, from our perspective, the other risks that I've outlined need to be mitigated."

MR. MASSEY highlighted the keys to developing a commercial project, which are shown in a box in the lower-left portion of slide 5. First, the producer ownership needs to be equal to the firm transportation (FT) commitment it makes. Exxon intends to make an FT commitment equal to its throughput, and its ownership would be equal to that on a percentage basis. With that approach, he said, any pipeline profits from transporting Exxon's gas would go to Exxon rather than a third-party pipeline developer. Mr. Massey said Exxon thinks it can also work to achieve lower financing costs, and being able to participate in the project means it can develop the project at the lowest possible costs. He said the cost of building the pipeline will drive the ultimate tariff. Second, Mr. Massey noted, Exxon will at some point have to align with the state on fiscal and tariff predictability. Third, world-class project execution is imperative to minimize the total cost of the project. The Alaska Natural Gas Pipeline is unprecedented in terms of scope, cost, and financing requirements. As a means of offering perspective, Mr. Massey relayed that a 20 percent overrun in this project would cost the state over \$5 billion of NPV. The value comes from the net back of the gas, he said. He reemphasized that a project of this magnitude requires the combined resources, skills, expertise, and financial strength of all parties involved in order to succeed.

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SENATOR WIELECHOWSKI referred to slide 5 and the impact of \$200 billion in firm transportation commitments. He noted that the reserves can be booked once the transportation system is in place, which would have a positive impact on Exxon's stock price and its financial health. He observed that Bergman Sax said

this is not carried as a debt, but rather as a footnote. He asked Mr. Massey if he agrees with that statement.

MR. MASSEY responded that financial markets look at the footnotes. He noted that the total footnote Exxon has on the unconditional obligations is only \$3 billion for "the total of our company." He stated, "With this one, our share of the phone transportation commitments [is] ... going to go from \$3 to \$75 or possibly \$80 billion. There's no question the financial market is going to look to that in determining ... the impact on that company in having that obligation - if we make it to ... a third-party pipeline."

SENATOR WIELECHOWSKI noted that any jurisdiction would change the equation.

MS. MASSEY disagreed. He stated that in any major project, Exxon has established with the government the terms under which it will apply for that project, "essentially for the life of that project." He said there is a binding obligation between Exxon and any country with which they enter into an agreement, in terms of what the fiscal terms will be. He reiterated that there really is no project of the same magnitude, in terms of risk and exposure. He concluded, "For us to be able to properly assess the economics of this project, we have to understand how we're going to share the revenue from the project and to predict that within a reasonable range. That, he said, is "a mess" and is "normal business."

SENATOR WIELECHOWSKI observed that on Juneau 7, 2008, Pedro Van Meurs, Ph.D., [President, Van Meurs & Associates Limited], stated, "It can no longer be recommended for governments to provide comprehensive fiscal stability." He asked Mr. Massey if he concurs or disagrees.

MR. MASSEY said he cannot answer without understanding the context in which that statement was uttered.

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REPRESENTATIVE DOOGAN asked what the advantage would be to TransCanada in the case of a 4.5 bcf/d, fully subscribed pipeline at open season, "if they're the ones who go to the open season and you subscribe and then they've got to sell out ... essentially the whole stake in the pipeline."

MR. MASSEY answered as follows:

Our requirement is they do not need unequal people to a throughput. In your hypothetical [example], if ... all of us have our same position, then the ownership to the pipeline company will depend on if they can buy some gas from us at the wellhead and they ship it themselves. Are they able to buy gas from the state for their share of gas, and they decide to ... take on the shipping cost for that portion of the gas? So, there are many ways to get at it so a pipeline company can have ownership in the pipeline project, but I will admit this is a tough hurdle to overcome if all of us indicate that that's what a requirement we have to make the project viable.

REPRESENTATIVE DOOGAN offered his understanding that the presence of fiscal predictability on slide 5 means that AGIA does not provide sufficient fiscal predictability for Exxon. He asked if that is correct.

MR. MASSEY responded that AGIA offers no fiscal predictability. He said there is an indication that the legislature has said it will work to "not change for 10 years." However, he said that is not a contractual relationship, so the legislature has the ability to make changes related to its production taxes from day one. He said it is necessary to look at the total bill - the tax rate, "your share of the take," and "my share of the revenue" - and to determine: "How long does that need to go for?"

MR. MASSEY emphasized the importance of figuring out what the share will be and whether or not it can be predicted over "the turn of this project." With a prediction comes the ability to run the economics, whereby a determination regarding viability can be made. Without viability, the project will not move forward.

REPRESENTATIVE DOOGAN remarked that fiscal predictability is problematic, not just in terms of duration, but that "it's not solid enough for you, basically."

MR. MASSEY responded, "It's a complete deal."

MR. MASSEY, in response to a question from Representative Doogan regarding tariff predictability, recalled a former slide showing a range of tariffs that could occur depending on different pipeline capacities. He said it is first known what the

pipeline capacity will be and how much gas is going to be available and what tariff rate that will provide. Other issues that need to be "nailed down," he said, are related to the debt:equity ratio and the handling of cost overruns, for example. He said he thinks "you get close to that when you get to the open season."

REPRESENTATIVE DOOGAN remarked that the tariff is inherently unpredictable because it is a function of the cost of building the pipeline, which, despite everyone's best efforts, is "unknowable." He said Mr. Massey is talking about "as reasonably precise and upfront predictability as you can get in there."

MR. MASSEY reiterated that as a producer who owns the pipeline, Exxon is willing to share the capital risk, "because that's what we do."

[4:42:57 PM](#)

SENATOR HOFFMAN asked if the tax structure currently on the books is acceptable to Exxon.

MR. MASSEY indicated that there is more to it than just considering the tax rate. Other questions to consider include: whether the state will take the gas in kind; whether the state will take cost rate in kind; and whether Exxon will be responsible for shipping the state's share of gas that it is currently responsible for through lease agreements. He said it is a hard question for him to answer. He explained, "I need to understand what pieces are put together to do it, so that I can predict what that share of revenue is going to be over the long term, and I can't do that with just the one piece that you're talking about."

SENATOR HOFFMAN commented that the one surety is that the tax structure Mr. Massey recommends won't go any higher.

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SENATOR FRENCH summarized that Mr. Massey had previously said Exxon had troubles with the tax structure, both in terms of its strength - being statutory rather than contractual - and its short duration.

MS. MASSEY responded that he had not meant to comment on the length. The issue is the needs of each entity and finding

creative solutions to minimize Exxon's risk while helping the state achieve its goals. Figuring that out dictates the confidence level. He said it is difficult to answer hypothetical questions today.

SENATOR FRENCH explained the reason he brought the subject up is because the last time any state entity engaged in a lengthy negotiation with an oil company, the result was the SGDA contract two years ago. He recalled a conversation he had with Mr. Massey and Kevin Jardell at the time, when he said in frustration, "You guys still want 30 years of tax stability," and Mr. Massey responded, "35." He said that was a funny moment that showed that Exxon is "a hard-nosed negotiator," and it showed him how hard it would ever be to arrive at some kind of agreement. He said he thinks that's why the state took the approach in AGIA to make its "last, best offer in that statute" with 10 years of statutory tax stability being the best offer within the confines of the Constitution of the State of Alaska. He said he thinks it is important for Alaskans to know that "we've made that kind of promise only once before in the 50-year history of the state." He encouraged Mr. Massey to value the state's offer as being its word as a body to whoever nominates gas in the first open season. He said he realizes it is conceivable that a future legislature could change that, but from his perspective, it is a solemn promise from the state to maintain that tax structure. If that is not enough of an inducement, he said, he thinks the state should know that before getting to open season.

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SENATOR STEDMAN asked why the state should look at "locking down oil taxes" when the economics of the gas will "carry" the economics of the gasline investment.

MR. MASSEY responded that last year Exxon proposed to the legislature in a contract that "there was a period of instability that was associated with that deal." He explained, "That doesn't mean it has to be in this deal." He said it depends on the totality of the deal and whether Exxon can predict well enough what the shares will be for Exxon and the state. The last deal made sense at that particular point in time, but it does not necessarily make sense now.

SENATOR STEDMAN observed that under the old concept, the debt:equity ratio was 80:20. He asked if that is still a good ratio.

MR. MASSEY agreed that the last deal was set at 80:20. He offered his understanding that a change to 70:30 would result in .35 cents on the tariff. He spoke of the confidence instilled by sponsors in a project that is financially strong. He reiterated that the open season would provide more information.

4:53:19 PM

REPRESENTATIVE SEATON, referring to slide 2, observed that Alaska gas would be approximately 50 percent of Exxon's total volume of production. He asked if Exxon also owns "50 percent of all the pipelines that you ship that other 50 through."

MS. MASSEY pointed out that in the Lower 48, Exxon is selling all of its gas at the wellhead, and the buyers pay for the transportation. The project in Alaska is a different situation, since the pipeline will not get built without a firm transportation commitment. Exxon wants to "own a piece of the pipe equal to the transportation that we put through it."

REPRESENTATIVE SEATON, regarding slide 5, said he presumes a lot of the additional risk is upstream costs.

MR. MASSEY answered that actually a good portion of the risk is fiscal and related to the tariff.

REPRESENTATIVE SEATON noted that Mr. Massey's presentation seems to include discussion of the necessity of Point Thomson. He asked, "That's not a large function in here ... - the development ... of Point Thomson?"

MR. MASSEY clarified that Point Thomson is included in Exxon's analysis of the project; however, there is very little risk of "increasing the exposure in the economics for that." The bulk of the risk, he reiterated, is in fiscal, tariff, and [gas] price.

REPRESENTATIVE SEATON questioned the additional risks for upstream cost and, under the current fiscal structure, how much of that risk would be born by the state rather than by Exxon and the other owners of Point Thomson.

MR. MASSEY said he doesn't view it as the state bearing the cost. He clarified that it is just another method to calculate the taxes that will be paid. He said his taxes have increased dramatically because of PPT and ACES. He acknowledged that the

state is paying the tax credit portion of a capital piece, which is 20 percent, but that does not result in a lower tax - quite the opposite.

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MR. MASSEY concluded his PowerPoint presentation, referring to the summary information on slide 6. He reviewed that a successful gas pipeline would require: 4.5 Bcf/d initial gas sales with low cost expansions; Point Thomson gas; ownership equal to FT; fiscal and tariff predictability; and world-class project execution. He stated his belief that "aligning on all these important considerations will maximize a value to the state." He reemphasized Exxon's commitment to the development of Alaska's gas resources, as well as its readiness to work with the State of Alaska, TransCanada, ConocoPhillips Alaska, Inc., and BP to make this project happen.

The Joint Senate Special Committee on Energy and House Rules Standing Committee was recessed at 5:02 p.m.

SENATOR HUGGINS called the meeting back to order at 6:34 p.m.

CONSENSUS BUILDING INSTITUTE

CHAIR SENATOR HUGGINS introduced the Consensus Building Institute panel members. He noted that the task of the institute is to look for solutions.

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JOSHUA GORDON, Practitioner Consultant, Consensus Building Institute (CBI), described the work of CBI.

FRANCIS MCGOVERN, Board Member, Consensus Building Institute (CBI), described mediation as a process and acknowledged the complexity of the situation in Alaska.

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MR. MCGOVERN introduced a PowerPoint presentation explaining the mediation process. He described mediation as "structured negotiation," during which a neutral, third party assists two parties in their negotiation and attempts to help the parties work toward a common solution that is both acceptable to everyone and has longevity.

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MR. MCGOVERN said there are two models of resolving disputes. One is a problem-solving model. In it, everyone is involved who is potentially interested in the particular problem being addressed. He said, "In the case of a public dispute, after you get your core of problem solvers deciding what [the] potential outcome might be, one moves out in concentric circles to make sure that you involve everybody who's potentially interested in the particular problem that you're addressing." The other approach, he noted, is a consensus-building model. In it, everyone comes to the table, and even though each person may have a different view of what the problem is, an accommodation can be reached. He offered an example. He stated, "The strategy is: How do you get from here to there, in time, with the available resources?" The fundamental model is in litigation. However, in typical litigation, the parties are the litigants. In mediation, he said, "you're not bound by a given set of parties." Anyone believed to be an appropriate party can be brought to the table. Sometimes it is helpful to bring in additional issues to help solve a case, while other times it is more helpful to "push some issues to the back" for clarity. Unlike in litigation, information can be obtained in any manner and any type of procedure may be used. He said, "To design a dispute resolution process under mediation is about as broad as you can possibly get." Mr. McGovern said mediation seems to be a suitable mechanism for resolving disputes involving multiple parties and interests.

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MR. MCGOVERN related that there are mediation styles, including: facilitative, evaluative, empathetic, and assertive. Mediators try to examine the interests, relative values, and opportunities that would conclude in both parties being better off. They also take advantage of differences - for example, when one party is risk adverse and another is risk seeking. He pointed to a graph in the PowerPoint which illustrates this. Mediators take into account psychological and cultural tendencies in communication and different bargaining styles. In understanding these factors, it is possible for a mediator to keep parties from getting upset, look at the bottom line, and come up with an optimal solution for everybody.

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MR. MCGOVERN suggested first envisioning an acceptable solution and then figuring out how to get there. He talked about using a mediation variable and using feedback loops for updates, since there are always changes, especially in natural resource cases. He told the legislators that they need to define the problem at hand. For example, whether the problem is that the bill needs to be decided or if it is a bigger issue, such as ownership of the pipeline, the tariff, the tax, and exploration. How the problem is defined makes a big difference in how to proceed. The greatest weakness is at the detail level.

MR. MCGOVERN described the process of defining the enterprise narrative as a means of resolving disputes. He concluded his presentation by playing video clips - of people playing chess or playing "chicken" - to demonstrate various ways to solve disputes.

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SENATOR BUNDE said TransCanada's goal is to sell gas, while the goal of "the majors" is to sell gas and build a pipeline where they can control costs and get reward for transporting the gas. He speculated that TransCanada would probably like to mediate, but he sees no incentive for the majors to mediate. He asked Mr. McGovern if he sees a role for mediation when only one party is willing to negotiate.

MR. MCGOVERN rephrased the situation as trying to get people to negotiate who don't want to negotiate. He related a situation in which he helped mediate an Exxon case. Based on earlier discussions he has heard, Mr. McGovern said he thought the issue was not one of mediation but of timing. He said he would be astonished if all the parties involved would not be willing to negotiate; however, the question is whether they are more willing to come to the table before or after the vote on AGIA has taken place.

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SENATOR THERRIAULT said he thinks it is important to determine who the parties are that will sit at the table, which is what the state is being asked to decide.

MR. MCGOVERN acknowledged that a critical component of mediation is deciding who should be at the table, and he concurred that the State of Alaska gets to make that decision.

SENATOR THERRIAULT said it seems that the point has not arrived when a business negotiation takes place; however, he indicated that business operations would engage if and when the AGIA license is issued.

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MR. MCGOVERN emphasized that Alaska is a sovereign that can guide the negotiations or choose to have TransCanada negotiate with a producer. He stated:

Understanding who's meeting when, where, and what kind of coalitions are going to form - I can make a very strong argument that the legislature and the administration getting together and negotiating would be much more powerful than almost anything else you could ... do, because there would not be an opportunity for any kind of divide and conquer.

MR. MCGOVERN specified that a public dispute is very different than the economic interest of the party. The legislature has responsibilities beyond the economic interests of corporations. He reminded the members that the state has plenty of opportunities.

SENATOR THERRIAULT said it seems the legislature is on the brink of making "that decision of governmental unity." If the legislature agrees with the governor, those branches will be unified in "how we see this thing going forward."

MR. MCGOVERN reiterated that there is a breadth of options available, and how the state decides to put together the negotiations is "absolutely critical."

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SENATOR WIELECHOWSKI asked if Mr. McGovern had come to attempt a mediation between TransCanada and the producers. He noted that there may be a completely separate all-Alaska line built. He asked how Mr. McGovern defines the problem.

MR. MCGOVERN asserted that it was too early for him to define the problem, and he said he thinks it is the state's decision to define the problem. He suggested, "You could define it as a problem of all Alaskans to come up with a solution that would lead to a result that is satisfactory, so that whether or not you have a negotiation as the senator was talking about between "A" and "B" is tactical rather than strategic." He concluded,

"I'm not here to tell you what your problems are. All I'd like to do is identify an analytic process that might help you engage that issue."

SENATOR WIELECHOWSKI noted that 60 legislators may each define the problem differently, and he asked Mr. McGovern how to ultimately define the problem.

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MR. MCGOVERN gave an example of a mediation issue related to the Snake River. He scrolled through a list of sixty cities and showed a long list of the problems, the procedures, and the information. He said compared to that case, 60 people is a small group in which to find a consensus. In response to a follow-up question, he said the Snake River case lasted through two administrations.

REPRESENTATIVE DOOGAN said that there are many factors in the gas pipeline issue and stories that are told, some of which change frequently; therefore, he said, the issue is more multifaceted than just 60 people. He asked how to mediate factors outside the control of the parties.

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MR. MCGOVERN related a story demonstrating that there are many techniques in mediation. He talked about building enough trust to make it safe for the information to come out, and he said this tends to be done in baby steps. Regarding how to ultimately reach a conclusion in less than six years in dealing with the situation at hand, he reminded the legislators that there are built-in incentives to encourage parties to "do something sooner rather than later." People need to understand the natural incentives that they have. He encouraged focusing on the positive side of issues as a technique to use to "try to put the frogs in the wheel barrow" and to produce a satisfying outcome.

REPRESENTATIVE DOOGAN said if the problem is defined as trying to ship gas, the problem is that there are "some factors in the equation that get you to that solution that are outside the control of any of the parties that you might try to get into ... whatever system you had - mediation, negotiation." He asked Mr. McGovern how he would handle that.

MR. MCGOVERN said that is not a problem unique to issues related to natural resources. Sometimes a time frame helps, he related. Another option is to guarantee a "floor," while the other side "gets the risk." He offered an example. Still another way is to share the risk in a particular formulaic way. For example, the deal could be made that only certain triggers would re-open the negotiations. A dispute resolution mechanism can be put in place so that if something happens that the parties did not foresee, it would then be possible to go to arbitration or some sort of dispute resolution mechanism. Probably the best idea, he related, is to put in place mandatory discussions all along to build trust, because then, when problems arise, the parties involved have "a leg up in dealing with what the solution might be."

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REPRESENTATIVE DOOGAN surmised, "And this would apply equally to situations in which you're trying to solve more than one problem."

MR. MCGOVERN confirmed that is true. He said, "In these kinds of cases, you have to design the methodology and the way in which you look at the issues specifically to this case." He talked about trying to analyze the situation and make use of the variety of techniques.

SENATOR MCGUIRE explained to the body that the idea [behind hearing this presentation] is to empower the legislature. She stated her concern that the negotiation involved is high risk, because exclusivity will be given to some entity, while "hoping that the rest will follow." She said two years from now, during open season, the people who have the gas will have little incentive to cooperate with the people who have the entity with the exclusive license, and she questioned what the solution would be if that were to happen. Senator McGuire said she thinks the solution would be litigation, a situation which would conclude in years of opportunity being lost. She expressed her hope that the body would recognize that there are many ways to think about solving problems.

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MR. MCGOVERN said he loves looking at disputes and trying to figure out solutions, and he stated that it has been an honor to come to Alaska and talk to so many who really care about the future of the state. He said even though everyone may not

agree, they have a common goal and there is a way to come to a consensus.

REPRESENTATIVE GARA asked Mr. McGovern if he has a position on the state's trying to settle a case with sophisticated partners "if the other side hasn't approached you about settling," and if he has an opinion on whether the state will be in a stronger position to negotiate if it moves ahead with a competing proposal.

MR. MCGOVERN responded that he is not comfortable addressing the details. He related his experience is that if there is disparate bargaining power, it is extremely difficult to get an agreement. Usually, the party with the least bargaining power will try to buy some time to see if its bargaining power might increase. He said he would be surprised, based on what he heard today, that Exxon would "sit on their hands." However, he said the state will not know whether or not Exxon will negotiate in a way the state finds acceptable until they actually sit down to negotiate.

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REPRESENTATIVE SAMUELS warned that if Alaska grants a license to TransCanada, the state will be stuck with a corporate entity looking after its shareholders' interests. He stated his belief that TransCanada will be part of the gas pipeline, but asked Mr. McGovern what steps he would recommend if the legislation being considered does not pass.

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MR. MCGOVERN responded that he would probably do the same thing whether it passed or not, which is to talk independently to the parties at the table, learn from them who else should be involved, and conduct a mediation assessment. He explained that a mediation assessment means talking with relevant parties to find out if there are worthwhile deals to be made and arrangements or solutions that should not be made. During this process, he said, it is possible to discover whether there is a "potential zone of agreement."

REPRESENTATIVE GUTTENBERG offered a hypothetical situation in which the answer to getting gas in the ground to market is to build a pipeline, but there is no movement of those "in the room" until an "elephant" is invited in, at which point there is

a lot of movement and interest. He asked, "Do you send it home or do you invite it in?"

MR. MCGOVERN said there are so many variables inherent in the hypothetical situation that it would be difficult to [answer]. For example, he indicated he would need to know "exactly what kind of elephant" and "how big the doorway is." He stated, "You are at a detail level where I'm probably not in a position to really give you an answer that would in any way be helpful to you." He said he would be glad to discuss various approaches with Representative Guttenberg after the meeting, but cannot answer his generic question "in the context of the situation right now."

REPRESENTATIVE GUTTENBERG clarified his concern is that many legislators are in the situation of having to "answer that question."

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REPRESENTATIVE GATTO told a story and asked if the state is in a position where its legislators have the authority and the public wants the legislators to make the decision regarding what to do.

MR. MCGOVERN posited that Alaska is not like the Lower 48, because it is a sovereign entity. He said he thinks of how Russia, Mexico, Saudi Arabia, and Dubai - other sovereigns - have "dealt with the issue." The question is what the State of Alaska's values are regarding resource extraction. He related that historically, most populations are "not real fond of whoever extracts the resource." He said the question is whether Alaska can design a situation in which its people are happy about and have no regrets regarding the extraction process.

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REPRESENTATIVE CISSNA talked about the effect of having face to face discussions. She referred to the issue of trust and the feelings of having or not having power. She asserted that the members had more power than they felt and that set-up was essential.

MR. MCGOVERN shared an anecdote and talked about the difficulties of negotiating both with public entities and with corporations. He concurred with Representative Cissna regarding the importance of having face-to-face discussions. He added, "But you really have to trust the folks across the way, and the

only way you get people to trust each other is by ... getting together over time and critically picking the right people."

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SENATOR THERRIAULT, regarding Mr. McGovern's previous comment regarding the power in the executive and legislative branches being unified, said there are 60 people in the legislature. He asked how, other than voting unanimously in agreement with the executive branch, the legislature can express unity on behalf of the citizens of the sovereign.

MR. MCGOVERN stated his respect for the collective ability of the body, and said he could think of fifty other ways to accomplish the same goal. He clarified that the state chooses how it would like to deal with the classic problem of representative democracy. He said there are other ways besides voting unanimously that the legislature can express unanimity in terms of having a unified approach in dealing with the producers and with the pipeline, including doing more after voting.

SENATOR THERRIAULT asked what Mr. McGovern would suggest after or in addition to taking that vote to show a "unanimous position for the citizens."

MR. MCGOVERN expressed his discomfort in making a value judgment. He stated, "Your innovativeness as a group to come up with ideas to accomplish that goal will lead you to do whatever you think is appropriate." He said he can talk about options, but, as a mediator, it is not his role to tell any legislator or person what he/she should do. He reiterated that there are any number of methods that could be used to show a consolidated front with the legislature and the governor.

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REPRESENTATIVE RAMRAS pointed out that many of the questions were framed in the present. He said a vote will be cast soon. He questioned what the next step will be for the legislature. He spoke about open seasons in the future. He asked Mr. McGovern to provide a response with "broad strokes" regarding the future.

MR. MCGOVERN said that is an apt question. He opined that in terms of getting people on board, "the bigger the tent the better." He observed that "a little dysfunction" exists in regard to the knowledge level of the administration, the

legislature, and the people as a whole. For example, he said the focus of concern by those he heard speak in Ketchikan is on fuel oil prices and pot holes rather than on "some of these other kinds of issues." He said he views members of the legislature as emissaries to the populace, "to help bring the populace into the posture that when a realistic deal can indeed be done, ... the populace is ready for it ... [and] will accept it." One of the great dangers in public disputes is when the leaders are "out in front" and change course to match the realities of the situation, but they don't bring the populace along with them. He indicated that the time it takes to ensure that the people of Alaska are comfortable with the legislature's stance regarding the extraction of natural resources is time well spent.

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REPRESENTATIVE DAHLSTROM brought up Mr. McGovern's discussion of Alaska, as a sovereign, being different from the Lower 48. She noted that companies have told the legislature that they have experience in the Lower 48, and she asked Mr. McGovern whether he thinks that experience is meaningful in terms of what the companies can do in Alaska.

MR. MCGOVERN responded that in Texas, for example, most of the leases are private and most of the pipelines are owned by independent entities. In contrast, in Alaska there is one pipeline and the state owns the resource. He compared that to the federal government in the gulf. He said that creates a different dynamic. He concluded, "So the model ... that you might look at would be more closely akin to the federal government in the Gulf [of Mexico], rather than the State of Texas in dealing with the natural resources that it has." Because of the location of Alaska and the fact that "that pipeline is going to be one pipeline rather than competing interstate pipeline," there will be a different dynamic in terms of the way the state comes up with a solution, which means that the negotiations should be slightly different.

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REPRESENTATIVE ROSES said he concurs with Representative Samuels that the state, at some point in time, will end up in partnership "with all these entities"; therefore, he said the question becomes who gets the state to that partnership the fastest and with the greatest certainty. He noted that Mr. McGovern had shown slides showing commonalities and some slides

showing differences. He listed the factors that are the same or similar: gas, producers, steel, contractors, route, market, market price, regulator, and tariffs. He noted that the only difference that has been discussed since Mr. McGovern has been present is fiscal certainty. He asked how that difference is defined. He said with the Denali project, it appears that the state is the entity that will have to negotiate what that fiscal certainty is. With TransCanada, he observed, it appears the state has hired the corporation to serve as a sort of real estate agent to whom the state will pay a commission. He indicated that TransCanada will negotiate with the producers to figure out what it needs and then come back to the state for approval. He asked Mr. McGovern how he would suggest getting differences to be an area of commonality.

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MR. MCGOVERN said [the answer] is complex; "the interests aren't aligned depending upon the issue." Interests between shippers may be aligned, but interests between exploration and shipping may not be particularly aligned. He said what has impressed him is regarding "the devil in the details" and Exxon's analysis heard today. He explained:

It was at a level of generality that I just could not evaluate ..., because there are certain assumptions embedded in the words, and as a result I think it is so complex that any kind of simplistic analysis is probably counter-productive. I think you can do it sequentially; you can have the issues one after the other. You identify the parties. That is, the analysis you're doing is absolutely correct, only it seems to me, to use the pun you used earlier today, you need to dig a well on each one of those issues.

SENATOR MCGUIRE emphasized the importance of defining the problem. She asked Mr. McGovern if he could see value in the state's having some kind of mediation process prior to a vote, during which Mr. McGovern would help the administration and the legislature identify what the issues are that should be nailed down. She offered further details.

MR. MCGOVERN said normally what CBI would do is a mediation assessment, which, if there were more time, would involve an evaluation of the interests of the parties to discern what might be a logical way to reach an agreement "wherein the details would be put on the table so that folks could understand it

completely." However, given the time frame "since Monday," he said he does not feel comfortable doing that at this point. He reiterated that there is no question in his mind that the legislature will "put something together"; it is just a matter of timing.

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

ADJOURNMENT

There being no further business before the committee, the Joint House Rules Standing Committee and Senate Special Committee on Energy meeting was adjourned at [8:03:52 PM](#).