

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON ENERGY

July 28, 2008

2:37 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Lyman Hoffman
Senator Donald Olson

OTHER LEGISLATORS PRESENT

Representative Jay Ramras
Representative Bryce Edgmon
Representative Andrea Doll

COMMITTEE CALENDAR

SENATE BILL NO. 3001

"An Act approving issuance of a license by the commissioner of revenue and the commissioner of natural resources to 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

HOUSE BILL NO. 3001(efd fld)

"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."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB3001

SHORT TITLE: APPROVING AGIA LICENSE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(S)	READ THE FIRST TIME - REFERRALS
06/03/08	(S)	ENR
06/03/08	(S)	REPORT ON FINDINGS AND DETERMINATION
06/04/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/04/08	(S)	Heard & Held
06/04/08	(S)	MINUTE(ENR)
06/05/08	(S)	ENR AT 9:00 AM TERRY MILLER GYM
06/05/08	(S)	Heard & Held
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06/08/08	(S)	ENR AT 1:00 PM TERRY MILLER GYM
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06/19/08 (S) ENR AT 9:00 AM ANCHORAGE
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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
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07/08/08 (S) ENR AT 1:00 PM KETCHIKAN
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07/14/08 (S) Heard & Held
07/14/08 (S) MINUTE(ENR)
07/22/08 (S) ENR AT 1:00 PM SENATE FINANCE 532
07/22/08 (S) Heard & Held
07/22/08 (S) MINUTE(ENR)
07/23/08 (S) ENR AT 1:00 PM SENATE FINANCE 532
07/23/08 (S) Heard & Held
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07/24/08 (S) ENR AT 2:00 PM SENATE FINANCE 532
07/24/08 (S) -- MEETING CANCELED --
07/25/08 (S) ENR AT 1:30 PM SENATE FINANCE 532

07/25/08 (S) Heard & Held
07/25/08 (S) MINUTE(ENR)
07/28/08 (S) ENR AT 2:00 PM SENATE FINANCE 532

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
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06/06/08 (H) RLS AT 10:00 AM TERRY MILLER GYM
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06/26/08	(H)	RLS AT 1:00 PM KENAI
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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
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07/15/08	(H)	RLS AT 9:00 AM CAPITOL 120
07/15/08	(H)	-- MEETING CANCELED --
07/21/08	(H)	RLS AT 2:00 PM CAPITOL 120
07/21/08	(H)	Moved Out of Committee

07/21/08 (H) MINUTE(RLS)
 07/21/08 (H) RLS RPT 3DP 4DNP
 07/21/08 (H) DP: KERTTULA, GUTTENBERG, COGHILL
 07/21/08 (H) DNP: JOHNSON, FAIRCLOUGH, SAMUELS,
 HARRIS
 07/22/08 (H) BEFORE THE HOUSE IN THIRD READING
 07/22/08 (S) ENR AT 1:00 PM SENATE FINANCE 532
 07/22/08 (S) <Pending Referral>
 07/23/08 (H) TRANSMITTED TO (S)
 07/23/08 (H) VERSION: HB 3001(EFD FLD)
 07/23/08 (S) ENR AT 1:00 PM SENATE FINANCE 532
 07/23/08 (S) <Pending Referral>
 07/24/08 (S) READ THE FIRST TIME - REFERRALS
 07/24/08 (S) ENR
 07/24/08 (S) ENR AT 2:00 PM SENATE FINANCE 532
 07/24/08 (S) -- MEETING CANCELED --
 07/25/08 (S) ENR AT 1:30 PM SENATE FINANCE 532
 07/25/08 (S) Heard & Held
 07/25/08 (S) MINUTE(ENR)
 07/28/08 (S) ENR AT 2:00 PM SENATE FINANCE 532

WITNESS REGISTER

Governor Walter J. Hickel

POSITION STATEMENT: During hearing on SB 3001 and HB 3001, opposed license to TransCanada and supported an all-Alaska line.

Governor Tony Knowles

POSITION STATEMENT: Expressed concerns about AGIA during hearing on SB 3001 and HB 3001, proposing alternatives.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Special Committee on Energy meeting to order at [2:37:20 PM](#). Present at the call to order were Senators Green, Elton, Wagoner, Wielechowski, Stevens, Stedman, and Chair Huggins; Senators Dyson and Thomas arrived shortly thereafter, and Senator McGuire joined the meeting in progress. Also in attendance were Representatives Jay Ramras, Bryce Edgmon, and Andrea Doll.

SB3001-APPROVING AGIA LICENSE
HB3001-APPROVING AGIA LICENSE

CHAIR HUGGINS brought SB 3001 and HB 3001 before the committee for consideration. He welcomed former governors Walter J. Hickel and Tony Knowles. Chair Huggins invited Governor Hickel

to testify first, noting he'd been governor twice, had been U.S. Secretary of the Interior, and had recently gone with him and other Alaskans to China.

[2:38:42 PM](#)

GOVERNOR WALTER J. HICKEL testified as follows:

There is an issue before you of giant proportions. This is the most important vote you'll ever cast. You'll decide whether the State of Alaska, representing all our people, the owners of our resources won in our battle for statehood, should build a natural gas pipeline from Prudhoe Bay to Valdez, or whether you approve a Canadian corporation to control this resource, set the timetable, determine who gets the jobs and other benefits promised to the Alaska people in our Constitution.

Don't sell us out. Remember who you are. Remember where you are. This is Alaska. And don't sell us out. Ask yourself what is best for Alaska. If you do, you'll vote no on the TransCanada license and you will say yes on an all-Alaska gas line.

Your vote can have an immediate and positive impact on our economy and our future. We can get Alaska moving again. We can lead the nation with an economic turnaround badly needed in the South 48, 49. Your vote can begin a new era - not an era of giving out money. Giving out money does not save a society. It corrupts it.

The pluses of an all-Alaskan line: While the TransCanada plan means loss of control and serious delay, an all-Alaska gas line owned by the State of Alaska means the opposite. It means that Alaska will retain control of our resources and our future. It means that there will be absolutely no risk that any one corporation or group of corporations will control us.

While TransCanada readily admits that they won't even start building a gas line until the end of the next decade, and Canadian pipelines are well known for their delay, we can start the all-Alaska gas line this year. It will give us access to the most lucrative markets in the world. Alaska's natural market is

Asia, and we can provide all the gas they need to the U.S. West Coast. We have before us the greatest opportunity in my lifetime and yours. And if we stop acting like a fearful colony and stand up for our rights, we will have all the export licenses we need.

[2:42:35 PM](#)

GOVERNOR HICKEL continued:

In 1989, I helped obtain a presidential finding from President Ronald Reagan, an export license for Alaska LNG that is valid for 25 years from the sailing of the first LNG tanker. If called on to assist, I look forward to help renew and expand that license. All it takes is someone who knows our constitutional rights and isn't afraid to go to the top to fight ... for them.

And keep in mind, the anti-Asia mood in Congress will change once the South 48 is awash in the 500 trillion cubic feet of gas that will soon come on line. I know about these gas resources. I tried to kick-start them in 1970 as Interior Secretary. When that gas floods America, Congress will welcome Alaska coming to the rescue and saving our nation from our ... imbalance of trade and the economic giants of Asia. ...

Who will control our gas under the TransCanada plan? Not TransCanada. It will be the producers. No one but the State of Alaska, the owner of the resource, can force the producers to use the gas they control. That's why TransCanada has offered to give up equity ownership in their gas line in exchange for producers' gas. The end of this process is obvious. The producers will control the line through Canada.

In addition, the TransCanada plan will mean that the Canadian government will determine when a gas line is built, how it is regulated, how much it is taxed, how it addresses environmental issues, and the First Nations land claims. And when they negotiate these issues, depending how generous they are, there will be less revenue for the Alaska people because we will pay the bill.

What are the Canadians telling their people? Visit the TransCanada website and look up the Northern

Pipeline Act of 1978. Here's what it says: This Act ensures that the following benefits for Canadians are realized in the development of the Alaska pipeline project - Canadian ownership, access to Alaska's gas for Canada's petrochemical industry, gas to remote Canadian communities along the pipeline, property tax benefits in the Yukon, maximization of Canadian jobs and supplies. And it says that the tolls [for] this project would be set by Canada's National Energy Board.

If you grant this license, ladies and gentlemen of the Alaska Senate, all these promises made by TransCanada will come true and Alaska will be reduced once again to a colony. I remember in territorial days well when corporations from outside made decisions for us and we just got the crumbs. So don't sell us out.

If you vote yes for TransCanada, you are voting for someone else to take control of our future, someone else, governed by a corporate boardroom in Calgary and the Canadian government. For years to come, future Alaska governors and legislators will have to go to these individuals, hat in [hand], and say: "Please, can you hurry up? Please, can we have some of our gas? Please, can we have some jobs?" You and the Alaska people will be frustrated. And the northern part of Alaska, including Fairbanks and many remote areas, will be left without energy for years and maybe decades. Some of those communities will be abandoned.

2:46:53 PM

GOVERNOR HICKEL continued:

So I urge you, the members of the state Senate, not to transfer our wealth, our jobs, and our future to Canada. Don't grant exclusive control over the resource to Canada, with no commitment to build a gas line. Don't sell us out.

The U.S.-Canada natural gas treaty calls for Canada to prebuild a pipeline to Chicago and another to the West Coast. They built both. Through these pipelines, they have sold over 14 trillion cubic feet of Canadian natural gas ... to the U.S. But this is what the Canadian National Bank calls the dirty little secret. According to that treaty, if the Alaska gas pipeline

is built into Canada, the ... first 14 trillion cubic feet of Alaska gas must be sold to Canada - not America, but Canada.

So if this is true, those that think our gas will go [via] TransCanada to America haven't done their homework. This is an issue of enormous importance. I urge this committee to look into it.

Governor Palin has made the wrong decision. As most of you know, I endorsed Sarah Palin as candidate for governor in 2006, and I co-chaired her campaign. She has proven to be a good governor. But I cannot be silent on this decision because it is so bad for Alaska. She knows my views. On April 7, I flew here to Juneau to advise her that this was the most important decision since statehood. I met with her again on July 1 in Anchorage. I asked, over and over, why build an Alaska gas line through Canada, a question she didn't answer.

Now it is up to you to reverse that decision for the good of the Alaska people. If you take this ... step, Governor Palin in her heart of hearts may be thankful. She has a gift of moving beyond temporary defeats and turning them into victories. I haven't given up. If you vote down TransCanada, I think she will embrace the all-Alaska line as she used to.

[2:49:27 PM](#)

GOVERNOR HICKEL continued:

Let me describe what can happen if you deny this license. The door ... will swing wide open to a wonderful new era for Alaska. The next step will be "build it and own it."

If we put all our shoulders to the wheel, we can start getting North Slope gas to ... Alaskans in the Interior in five or six years. Then we will move our gas to the highest and most profitable markets. And by keeping the gas line within our boundaries, we will keep the jobs - all the jobs - here at home. These jobs belong to Alaskans, not to Canadians. Don't sell us out.

How much will an all-Alaska gas line system cost? About half of the \$50 billion estimated by the TransCanada line. And we don't have to build LNG tankers; there are plenty available to ship our gas to the markets.

As anyone in business knows, you have to spend money to make money. If Alaska invests \$7 billion in an all-Alaska gas line, the market will jump at the chance to finance the rest. It's ... not only doable, it would be the ... best investment we could make. Keep in mind: Wall Street is a risky place to be right now. It's the right time to diversify Alaska's portfolio.

2:51:00 PM

GOVERNOR HICKEL continued:

Building and operating the all-Alaska gasline: For those not familiar with government-owned infrastructure, let me describe the steps we should take. It starts with a decision, a decision by our governor, supported by the legislature. Remember when JFK announced we were going to the moon? Then she names a project director who hires the best gas pipeline builder in North America. State employees will not build the gas line. The best pipeliners in our country will build it.

Once the pipeline is built, it will be operated by the private sector through a management contract. Such contracts are used worldwide to manage pipelines and market gas. Keep in mind that an all-Alaska pipeline would be built much faster and cheaper than either of the two Canadian lines being proposed because it can start ... nearly immediately. It would follow the right-of-way of the Trans-Alaska oil line. Permits and right-of-ways already exist.

And for those who criticize projects created by the State of Alaska, take another look. The all-Alaska natural gas pipeline will follow in the tradition of our state's roads, ports, and highways. And think of the Ted Stevens International Airport, the Bradley Lake hydro facility, the Four [Dam] Pool, and the Alaska Railroad. And don't forget the permanent fund.

I want to take a minute now to clarify the difference between monetizing and maximizing our resources. [Monetizing] means transforming our gas into cash for the state treasury. And so, one of the greatest failures of AGIA was that it failed to require that the ... priority use of our gas liquids must be within the state.

That was a fatal flaw. The intent of our Founders was to create an outstanding quality of life in Alaska. With the rich gas liquids ... from Prudhoe, generations of our people will earn a decent salary so they can afford to live here, raise their children here, and enjoy all the glories of the North.

[2:53:45 PM](#)

GOVERNOR HICKEL continued:

How will the state get the gas it needs for a state-owned all-Alaska gas line? First of all, keep in mind that it's our gas. The state has the power of taxation and ultimate control over all leases on state lands. All the state has to do is announce we will build the all-Alaska line and invite the producers to use it. They will join us in a heartbeat. They recognize they have made tens of billions from Alaska's lands and resources. They do not want to be shut out of the great promise ahead of us.

Alaska has all the power it needs to choose where to build its pipeline and market where it will sell its gas. It simply needs to choose not to yield that power. Don't sell us out. Remember who you are. Remember where you are. This is Alaska. Don't sell us out. And the very worst thing to do would be to ... yield control and pay someone \$500 million to take it. The world is watching to see if we will fall for something so bad for our state.

But I want to end on a positive note. Your vote can build a culture here dreamed of by Alaskan visionaries for a century, a society of productive people. Your vote will determine if this Senate will live up to your pledge as public servants, to care for the residents of this unique owner state and make a model for the world. Yes, Alaska can inspire people all

over the [globe] to follow our lead. God bless you and thank you.

2:55:43 PM

SENATOR DYSON thanked Governor Hickel, but said he'd understood that a regulated independent pipeline would be like a common carrier in that shippers would have a market and end users, and they'd control where the gas ends up. He asked: How could the Canadian government or a Canadian firm pull shippers' gas off and use it for purposes other than what the shippers intended?

GOVERNOR HICKEL answered by questioning how that could be stopped because Canada is its own country. He said an all-Alaska pipeline doesn't work that way. The gas would go to Valdez and could be shipped where needed, for instance, as liquefied natural gas (LNG) to the U.S. West Coast. Since Alaska's economic ties are with Asia, it could be shipped to China, Japan, Korea, and so on. He said the Canadian gas line couldn't do that.

SENATOR DYSON responded that it's against the law and shippers wouldn't allow their gas to be taken to a market other than what they intended and the contracts they'd made, which probably would be long-term contracts.

GOVERNOR HICKEL reiterated earlier points and added that before statehood "we could never get anything past Seattle." He cited some history and said he doesn't want to lose that.

SENATOR DYSON responded that TransCanada said explicitly that if the shippers nominate gas for the pipeline for the LNG market, they'll build the pipeline to Valdez or Cook Inlet, wherever the shippers want it to go. He asked Governor Hickel whether he believes that isn't a true promise.

GOVERNOR HICKEL noted he has nothing against Canada, but asked why someone would do that. He added, "We should build it ourselves. We own the gas. It's our land."

2:59:42 PM

SENATOR WAGONER pointed out that he'd distributed information he'd received last week, consisting of federal legislation H.R. 6515; a page labeled "Section from an amendment introduced by Senator Bingaman (D-NM), chairman of the Senate Committee on Energy and Natural Resources, introduced on July 24, 2008 - currently pending on the Senate calendar"; and a page labeled "Use of Loan Guarantees" attributed to Greenberg Traurig.

SENATOR WAGONER explained that Congress is watching Alaska closely. The proposed amendment in part gave the sense of the U.S. Senate that "the Alaska natural gas pipeline is a critically important national infrastructure project that would benefit all consumers in the United States" and went on to talk about reserves and so on.

SENATOR WAGONER said H.R. 6515 failed in the U.S. House because it required a two-thirds vote. This resolution attempted to reinstate the ban on exporting oil and talked about the 35 trillion cubic feet (Tcf), saying these gas supplies could contribute significantly to meeting U.S. energy needs, but the lack of a natural gas transportation system prevents these resources from reaching Lower 48 markets. He said, as U.S. Senator Ted Stevens noted, that everything indicates this gas won't be allowed to be exported outside the U.S.

GOVERNOR HICKEL responded that as Secretary of the Interior he'd heard all those things. Kansas isn't told it cannot export wheat around the world, for instance. He related some history, suggested the world doesn't understand Alaska's uniqueness, and said it's the only commonly owned area in the world that has a democracy. He reiterated the need to manage the resources that Alaska owns.

[3:05:03 PM](#)

SENATOR THOMAS referred to attachments mentioned in the written copy of Governor Hickel's testimony, including one that says the U.S. Department of Energy (DOE) is granting the application of Yukon Pacific Corporation (YPC) for authorization of Section 3 of the Natural Gas Act to export natural gas from the North Slope of Alaska to the Pacific Rim countries of Japan, South Korea, and Taiwan by means of the proposed Trans-Alaska Gas System (TAGS). Senator Thomas noted it says DOE concluded that this export won't be inconsistent with the public interest.

SENATOR THOMAS said he believes this gets to one major problem when looking at the reality, including what Senator Wagoner and U.S. Senator Ted Stevens said recently about the reality of exporting this natural gas. People are concerned about it.

GOVERNOR HICKEL asked what the concern is.

SENATOR THOMAS responded that it's whether there'll be the ability to export natural gas to those countries. Even for offshore drilling on the Outer Continental Shelf (OCS), if

that's approved for exploration and development, people are indicating gas and oil would have to come to the U.S. Now almost 70 percent of the energy is being imported. While expressing support for in-state gas, he suggested the question is whether to limit the opportunity to the Denali project if the TransCanada project is done away with. He noted just eight months ago the Port Authority had the opportunity to come forward with its plan, but didn't for whatever reasons.

SENATOR THOMAS said this has been a concept since 1989 or before, when the Natural Gas Act was passed. He surmised everybody wants to believe what Governor Hickel is saying and produce the gas in Alaska, run it through Alaska, and use it here. While supporting this concept, however, Senator Thomas said a fleshed-out plan isn't there that shows how everyone is involved, what it will cost the state, and the reality of whether that gas can be exported.

[3:09:02 PM](#)

GOVERNOR HICKEL reiterated that as Secretary of the Interior he'd seen those battles. He asked why they don't say wheat or beef from Montana cannot be sold; noted the market is a world market; and emphasized that because it's Alaska's gas, Alaska should decide and say what to do. He suggested if Alaska had had the opportunity to "become an independent country under the United States" it would have been all right. He asked how many states are owned in common like Alaska and answered "nobody."

GOVERNOR HICKEL related his experience in China, where he said the desire in return for building a pipeline was to have a contract to buy the LNG. Suggesting the U.S. doesn't want to see Alaska be a competitor, he said Alaska cannot let some other state or country dictate what it does with its resources.

[3:13:00 PM](#)

SENATOR McGUIRE asked how Governor Hickel had arrived at the decision to oppose rewarding the license to TransCanada.

GOVERNOR HICKEL asked: Why give away our resources? Why have another country tell Alaska what to do? He said he'd gone to China and Russia years ago, and Russia wants to change its whole government to be like Alaska. He said the resources belong to the total, and the commons of the ocean are owned by no one.

SENATOR McGUIRE noted that some folks who support granting this license to TransCanada say it will bring more opportunities for

the state. She asked how Governor Hickel sees that as limiting the opportunities.

GOVERNOR HICKEL replied by asking why it should be sold to Canada and how that helps Alaska. He said Canada hasn't even settled its land claims yet. He again suggested taking the gas to Valdez or another port from which it can be shipped.

[3:17:57 PM](#)

SENATOR DYSON noted that some people in the industry that he respects have suggested that maybe Alaska itself should build the pipeline somewhere east of Delta Junction and let the market direct where it goes. He asked: Do you envision using the permanent fund corpus to build the line and treatment facilities or at least use it as a backstop for borrowing the money?

GOVERNOR HICKEL opined that it wouldn't be necessary and that there'd be no problem finding financing. Whether it costs \$10 billion or \$50 billion, 20 percent will be earned on that. Or if a few billion were financed, the market would finance the rest because it's unique, and the gas line would make Alaska billions of dollars. Relating his experience from Asia, where he said resources besides coal are lacking but money is available, he emphasized that the arctic has those resources.

[3:19:51 PM](#)

SENATOR THOMAS said the producers are cycling gas now and reinjecting about 8 billion cubic feet a day (Bcf/d) at Prudhoe Bay. He asked: How would we get that gas out of their hands? Would we take back leases, as at Point Thomson? He noted TransCanada wouldn't be buying and selling gas, but would just transport it, whereas the producers might sell some into the Canadian tar sands or through whatever lines take it to the Lower 48.

GOVERNOR HICKEL again stressed that it is Alaska's gas and that Alaska should develop it. He said it takes a strong legislature and governor to tell the oil companies that this is Alaska's gas. Giving some history involving oil, him, and former U.S. presidents, he added that he won't give up and that U.S. education doesn't teach about the commons, which conflicts with a lot of economic reasoning.

[3:23:25 PM](#)

CHAIR HUGGINS referred to Governor Hickel's two books and praised his long history of service and consistency in supporting a course of action, noting Governor Hickel is

cautioning that the choices here have a long-term impact. Chair Huggins expressed concern about the \$500 million being offered, that the state is limiting its ability to deliver in-state gas by removing flexibility, and about the treble damages.

CHAIR HUGGINS also voiced concern that more money will follow the \$500 million, including a request from Alaska's Department of Natural Resources (DNR) for \$6.3 million to ensure TransCanada's compliance with license terms and a like amount to ensure that the first and subsequent open seasons are successful. He agreed with Governor Hickel's counsel to avoid giving up exclusive control and selling Alaska out.

[3:27:15 PM](#)

GOVERNOR HICKEL concluded by saying he didn't know when this battle would be won. People are starting to understand the uniqueness of Alaska, he told members, and six years ago, 62 percent of the people voted for an all-Alaska pipeline. He surmised those with economic interests don't want Alaska to develop that gas because they cannot own it and be in competition. He said Alaska doesn't have to put up with others telling it what to do, and ideas are more powerful than money. Returning to the idea of the commons, he predicted that will come to reality.

CHAIR HUGGINS thanked Governor Hickel for his time, wisdom, and service.

The committee took an at-ease from [3:32:58 PM](#) to [3:41:12 PM](#).

CHAIR HUGGINS introduced Governor Tony Knowles, noting he was a Yale graduate and Vietnam veteran and had been mayor of Anchorage and a two-term governor of Alaska.

[3:43:29 PM](#)

GOVERNOR KNOWLES lauded Governor Hickel for his service and told members he always learns something from him and his grand vision for the future. Governor Knowles testified as follows:

I thank you for the opportunity to share my thoughts with you on the Alaska Gasline Inducement Act, as to whether it will promote or hinder the realization of development of North America's largest known reserve of natural gas. Like every other former governor since the discovery of the North Slope reservoir, I worked hard to promote the development of this

resource, as have past legislators and the current governor and this legislature.

We all know the stakes are high. The benefits of the largest private-sector project in American history are unmatched, both for Alaska and America. The difficulty and risks are equally significant. We also all know the current and projected price of natural gas is the dominant factor in making this project viable. At a little over \$10 an Mcf, it is at an all-time historical high for this time of year. On a cautionary note, though, it has fallen 29 percent since April.

Now this economic advantage, nonexistent until the last three years, offers the State of Alaska an historic opportunity for building a success or creating an unfortunate barrier.

It is my opinion that the consequences of passing AGIA as it now stands could needlessly jeopardize the entire project. It surrenders the sovereign right of the State of Alaska to negotiate for the best interests of its citizens. And its very risky subsidy/grant of \$500 million of Alaska's money to a Canadian corporation for the purpose of applying for a certificate is, I think, a very wrong decision for the State of Alaska.

The passage of AGIA could well be termed as snatching defeat from the jaws of victory. I urge you to reject these impediments to developing our resource.

3:46:58 PM

GOVERNOR KNOWLES continued:

Let me take just a minute to explain my conclusions and suggest a positive alternative approach. While price is a primary factor in making a gas line viable, it's not the only determining factor. Costing upwards of \$30 billion, spanning two countries and five states and provinces, extending 3,600 miles of some of the world's most challenging terrain and extreme weather conditions, the complexity and scale of this project demand the cooperation and alignment of all the participating parties, public and private, for successful completion.

Yet the AGIA legislation, prior to any process in determining the costs or capitalizing the project or before the Federal Energy Regulatory Commission, ... has picked TransCanada as Alaska's choice as the pipeline owner and in the legislation has provided - with the overwhelming majority of the money - for TransCanada to solicit gas shipments from the producers and to apply for the certificate to build the line from FERC.

Meanwhile, ConocoPhillips and BP, owners of two-thirds of the gas leases, have initiated their own project for the same goals. Dividing the participants is not in the state's best interests and, as I said before, could jeopardize the entire project.

Everyone acknowledges that the gas line must have the commitment of the owners of the gas leases to ship the gas, regardless of who owns the gas line. Now, this commitment is an irrevocable commitment to ship, for the next 20 to 25 years, 4.5 billion cubic feet of gas a day. ... The \$30 billion for the construction of the pipeline pales to the enormity of that financial commitment by these companies, which could exceed upwards of \$180 billion.

It is obvious they would probably in making that commitment to ship ... choose their own pipeline project rather than a lesser study done for another project. But at the same time the owners of the gas leases recognize that they need both TransCanada or another Canadian pipeline company and the State of Alaska.

Now, from Alaska's perspective, there are advantages to both a shipper-owned line and a pipeline-company-owned line. As the owner and shipper of ... 12.5 percent of the royalty gas, the state is in alignment with the shippers in wanting the lowest tariffs to maximize the financial returns. But the state also wants to promote maximum exploration and development of additional gas. This is in alignment with the interests of a pipeline-company-owned project.

Perhaps the most disturbing consequence of the AGIA legislation is the self-imposed prohibition and treble-damage penalty of the state discussing any fiscal terms of a pipeline project with another party. Beyond a field day for lawyers in interpreting when and how this applies, this is an unprecedented transfer of our state's sovereignty.

It is my belief that the state's sovereign right and responsibility to negotiate the terms of a project that will have a multi-generational effect on our future is not transferable to a Canadian corporation or any other party. Alaska should never hesitate or be afraid of directly negotiating jobs and businesses for Alaska's families.

What is truly baffling to me is that we are transferring, along with our rights and responsibilities, a \$500 million subsidy for an independent party to hopefully qualify to build this project.

[3:51:40 PM](#)

GOVERNOR KNOWLES continued:

I mentioned earlier about AGIA ... snatching defeat from the jaws of victory. Well, let me explain ... how we would describe these jaws of victory, and I think that'll help us understand a better way forward.

We know the conditions are right for this project. There is an extraordinary unity behind the project. Can you think of any project that even comes somewhat near to the size and scope of this project that has such broad support? The civic, business, and political leaders of two countries and five states and provinces - every known organization of environmental, organized labor, development, and [indigenous] peoples - have unified in support of this project.

The price of gas ... has made this project commercially viable. Now is the time for the state, in its unique position, to step forward with a policy that is a sensible, long-term business plan for the construction and operation of the pipeline and the development of known and yet-to-be-discovered natural

gas resources. It should reflect market conditions and Alaska's best interests.

The first step of a policy and a plan is to identify the essential participants and engage them in a collaborative process. This would include the owners of the gas leases, including Alaska as a royalty share owner, TransCanada, and to identify the interests in the areas of negotiation.

[3:53:57 PM](#)

GOVERNOR KNOWLES continued:

Now, there are those ... who say that a vote for AGIA is ... a harmless vote, that coming together will inevitably happen. I disagree. Many experts, to this day, say despite all of the unity and the favorable prices that this is - and always will be, until construction - a marginal project.

The limitations placed upon the state and the unexplored and undetermined relationship between parties, as I mentioned, is a lawyers' feeding frenzy and the riskiest approach that I believe that we could possibly take. At best, Alaska would be on the back bench, with its hands tied from intervening on our own best interests.

Now, there are also those who say that the \$500 million, which is unprecedented subsidy to a private-sector project, is a good investment and that we'll recoup it. Well, this defies logic to me. They say that it will lower the tariff and therefore the state as a shipper will then recoup the money.

Well, now, think about that for a minute. We own 12.5 percent. That is our share. So if it's a benefit to us ... and we pay the \$500 million, why are we subsidizing this benefit at no cost to the other shippers: BP, ConocoPhillips, and ExxonMobil? Why would we ever pay that and they get no benefit and they don't participate at all in it?

Now ... it is also said that if we give the \$500 million that this will elicit companies to show their interest. ... I would hope so. But if you look at the scale of the project, if \$500 million makes a

difference as to whether they're interested or not, I don't think we want them as a partner; I don't think they would be capable.

And finally, in terms of the \$500 million, if indeed it is an investment, let that reflect itself in an ownership on the pipeline-ownership side. And I'm not advocating that, but I'm saying if you do that ... then at least you will guarantee your share will get a return on investment, through the rate of return that is given by the regulatory body. And that's how it would limit your share, the participation to your share, and you don't necessarily subsidize others.

3:56:18 PM

GOVERNOR KNOWLES continued:

Now, there are some that [say] ... this doesn't limit the opportunity, that we can sign it and that we'll all get together afterwards. Well, that comes from an interpretation that I don't see in the legislation as it's before the public. It very specifically states that the state cannot negotiate any fiscal terms with what is a competing party. And there's already, I know, arguments and discussions on "Does this mean that you can't change the tax rate and the general gas tax that has nothing to do with a specific project?"

But yet there's arguments on the other side that absolutely ... you can't do that and the state would tie its hands on its most sovereign powers. And I find that does not open it up, but rather it entirely limits what we're going to be doing.

GOVERNOR KNOWLES concluded by noting that some say this is too far down the road to take a different path. He suggested for those there is a way out: Put it on the shelf for six months, a year, or what's necessary to see how the other project plays out. He said everyone agrees it is preferable to have all parties working together to make this project happen.

3:58:31 PM

SENATOR WAGONER asked whether Governor Knowles was promoting the Denali project, but somewhat modified to bring in a Canadian pipeline partner.

GOVERNOR KNOWLES answered no. He clarified that he was suggesting that it isn't in Alaska's interests to pick the winner prior to any public process. As the Denali project moves forward in requesting a FERC license, the all-Alaska pipeline could certainly do that, as could TransCanada if it wants to pursue a FERC application. He opined that the state shouldn't choose or subsidize any party at this point.

SENATOR WAGONER said the reason there wasn't a deal with the producers under the Stranded Gas Development Act (SGDA) was that the concessions were \$10.2 billion. He'd sent a letter to the governor asking about \$13.3 billion in upstream concessions, including part of the gas treatment plant. He asked why the state could get a deal with the producers through the Denali process any better than the SGDA process.

GOVERNOR KNOWLES replied that nothing says concessions have to be made, and his suggestion was that negotiations must occur and that the state shouldn't back away from negotiating directly with the parties that own the leases to the gas. There cannot be a pipeline project without their commitment to ship, no matter who owns it. The state doesn't have to agree to anything that isn't deemed in its best interests.

4:01:06 PM

SENATOR WAGONER concurred with that point, but said the producers had the opportunity to apply under AGIA but didn't, claiming in part that AGIA didn't provide fiscal certainty. Also, AGIA was set up to protect the state's interests and rights, not those of the producers.

GOVERNOR KNOWLES opined that that's one interpretation of the purpose of AGIA, which he recalled as being advertised as an open, competitive process that turned out to be an exclusive process after it was laid out, primarily aimed at one party that didn't apply. He said what exists isn't an opportunity to look at all offers and that no offer will have all the negotiations completed at the time of the offer.

GOVERNOR KNOWLES also surmised that the producers had chosen not to participate because there was no honest discussion of the demands with respect to how those would fit into a business plan to produce a pipeline. He highlighted the need to have a discussion to do that, which he said any business plan will do. He further suggested that AGIA doesn't allow avoiding that, but pushes the day outward. He expressed concern that this project

is still marginal and doesn't allow the necessary negotiation of the terms of this agreement.

4:03:19 PM

CHAIR HUGGINS asked: As governor, did you contemplate paying somebody \$500 million to participate in a gas pipeline?

GOVERNOR KNOWLES answered that it was a different time, with oil at \$9 to \$20 a barrel.

CHAIR HUGGINS asked if he recalled any scenario under which he'd have considered subjecting the state to treble damages if it did something.

GOVERNOR KNOWLES replied absolutely not. He explained that in 2000-2001 natural gas spiked at \$3.50 an MCF and everyone got excited that it would make a pipeline viable. Discussions began with the producers and there was a meeting with the pipeline companies of the day, including Duke Energy; El Paso; Foothills, a precursor of TransCanada; and others. When asked if they'd be interested in participating, those companies had said they'd participate only with the producers' commitment to ship.

GOVERNOR KNOWLES added that most gas companies are owned by pipeline companies and not producers, but they don't build the line until getting the commitment to ship. He recalled being advised that the state shouldn't have any ownership interest unless it could be shown to be absolutely in the state's financial best interest; there was no consideration of giving money to a selected party during the process or selecting the winner prior to the FERC process.

4:06:20 PM

SENATOR THOMAS asked: Why would the Denali folks, who said a year ago that it's uneconomic, risky, uncertain, and so on, rush forward now for preapproval from FERC, spending \$600 million and incorporating most of the state's must-haves into a contract, if it was believed to be marginally feasible? Why wouldn't Denali just wait to see whether someone else proves this up?

GOVERNOR KNOWLES noted Denali would have to speak for itself, but surmised the belief is this: At the current price and what's projected over 7-10 years while the pipeline comes on line, it is economically viable but not a slam-dunk. Thus Denali is putting so much capital into the phase of proving it up before the open season, when that commitment to ship would be made. He suggested the \$600 million is being put in to make the

best possible case for a commitment of some \$150-180 billion. The desire is to be as sure as possible. He surmised Denali doesn't believe the proposed project would provide the necessary information to make that kind of commitment.

SENATOR THOMAS asked where the project would be if somebody hadn't stepped forward to spend some money to push it forward.

GOVERNOR KNOWLES responded that he doesn't believe it is the state's responsibility or role to spend money such as the \$500 million to explore whether the project is viable. He opined that since all signals show there can be a commercially viable project, the state is in the unique position to call those parties together and insist that they negotiate.

GOVERNOR KNOWLES added that signals have been given that this is not only a viable alternative, but perhaps the preferred one when compared with the course being embarked upon now. He referred to Governor Hickel's testimony and cautioned that once the state starts down that path, there isn't a 24-hour "buyer's remorse" clause.

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SENATOR WIELECHOWSKI recalled a previous speech by Governor Knowles and asked what analysis his administration had done on the viability of an all-Alaska line and whether his opinion has changed, particularly with respect to the state's participation.

GOVERNOR KNOWLES answered that there'd been an extensive public process and he'd always felt good about the foundation built in terms of listening to the public. There'd been little money to hire expert consultants, but they'd sat down with the principals, both producers and pipeline companies. They'd also talked with leadership throughout Alaska about the state's best position. Although it didn't select the winner, the best position was the most economical at that time, the so-called highway route, which had the most interest for a commercially viable project at \$3.50 per MCF.

GOVERNOR KNOWLES recalled that the public spoke out strongly on the need for in-state gas; for hiring and training Alaskans and having a strong project labor agreement, not making the same mistakes with Title 29 as during the building of the oil pipeline with respect to Alaska Native people; and for a commitment to growing Alaskan businesses. Given that foundation, he said, he'd felt the state was in a strong position to negotiate well with the producers.

GOVERNOR KNOWLES also stressed that the constitution prohibits binding future legislators' actions on taxation. He highlighted the need to discuss ways to provide the most comfort in terms of certainty without forgoing that responsibility. Noting that is a challenge, he said it nonetheless isn't one to shrink away from. If giving certainty is wrong for 2 years, it's wrong for 10 or 20 years, and legislation needs to be crafted that gives the most comfort to not only the producers, but also the capital market that will loan them the money. He emphasized stability rather than certainty.

[4:14:55 PM](#)

SENATOR STEDMAN asked: In your perspective, should the state take seriously the statement from the major producers that it should provide fiscal certainty in some form? Or is the current tax structure fair enough so the industry will come forward without any alterations?

GOVERNOR KNOWLES replied he wasn't well versed enough to advise on the specifics of the current legislation or even what kind of stability would be acceptable to the state and the capital market that will loan that money; that will have to be looked into. He opined, however, that a framework would include something along the principle of "share the gain, share the pain." In times of increasing prices for natural gas and more profitability, the state would take a larger share; if prices dropped, the state would take less and share the pain. Such a structure would give the least need for change over time.

[4:17:21 PM](#)

SENATOR MCGUIRE thanked Governor Knowles for his leadership. She asked: How do you see the provisions that give up the ability to discuss incentives for other projects? Noting that part of the bill disturbs her, she asked how he'd have conducted himself as governor under such rules.

GOVERNOR KNOWLES answered that each governor has a style and method of representing the people's interests; it wouldn't be his place to critique someone else's style. He then opined that a governor's most powerful role relates to negotiation. The governor has the power to call parties together to negotiate, which is why he said Alaskans were pleased to hear there'd be a process to have all parties come forward with their best offer.

GOVERNOR KNOWLES said there clearly is an executive branch role for hard negotiations in that. Then the legislature has the

difficult role of approval. There's overlap because legislative leadership and members are an important part of a negotiating position, and there must be good communication so the state puts its best foot forward.

GOVERNOR KNOWLES added that he couldn't conceive of the advantages of taking away the state's ability to act in the best interests of the Alaskan people. In the beginning stages of a project, when information hasn't been developed on who has the best opportunity to develop the pipeline, the state needs to be at the table. When FERC gives its certificate and the open season awards shipping contracts, the state wants to be talking with them on behalf of the best interests of Alaska. For the state to remove itself from that forgoes a fundamental responsibility.

4:20:28 PM

SENATOR McGUIRE expressed concern that so little has been reduced to writing, resulting in a field day for lawyers. She asked: When negotiating as governor, how did you approach it, and did you rely on interpretation of a statute to be the contract?

GOVERNOR KNOWLES emphasized that legislation isn't required to negotiate; he expressed puzzlement over AGIA in this regard. He said negotiation can be done in an open process. He recalled working with legislators that were part of the public process in a bipartisan approach along with community and civic leaders to try to develop the best position for Alaska.

GOVERNOR KNOWLES explained that such a process gives the executive branch, as the primary initial negotiator, the ability to go in with the full force of the state's support to say what is needed in a project. The legislature then goes through an open and serious deliberative process on how to approve but also amend it. He added that he never would have told the legislature it couldn't amend a law that was passed.

SENATOR GREEN brought up hindsight and surmised Governor Knowles' idea of negotiating must have been after 1996 and 1997.

GOVERNOR KNOWLES acknowledged that congenially.

4:24:27 PM

GOVERNOR KNOWLES closed by thanking legislators for their work. He said when people look back later, the political nuances will have long since faded. They'll want to know what the state did

to take advantage of a great opportunity and whether, right or wrong, it was a thoughtful position that had little to do with politics and everything to do with a collaborative process that reflects Alaska's unity. He said he doesn't know of anyone who doesn't want the project to work, though the legislature will have to sort through the different ideas about how it would work best. He added that he believes it will work out.

[4:26:11 PM](#)

CHAIR HUGGINS thanked Governor Knowles for his past leadership, noting while they are of different political persuasions, he believes the approach of "lead, follow, or get out of the way" has proven itself in Alaska. Saying both Governor Knowles and Governor Hickel want to successfully bring Alaska's gas to market, Chair Huggins thanked them for their continuing efforts on behalf of the state. SB 3001 and HB 3001 were held over.

There being no further business to come before the committee, Chair Huggins adjourned the Senate Special Committee on Energy meeting at [4:27:44 PM](#).