

MINUTES
SENATE FINANCE COMMITTEE
April 27, 2007
9:02 a.m.

CALL TO ORDER

Co-Chair Bert Stedman convened the meeting at approximately [9:02:41 AM](#).

PRESENT

Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Joe Thomas
Senator Fred Dyson
Senator Donny Olson
Senator Kim Elton

Also Attending: MARK HANLEY, Public Affairs Manager, Anadarko Petroleum Corporation; CAM TOOHEY, Alaska Manager, Communications and Government Relations, Shell Exploration and Production.

Attending via Teleconference: There were no teleconference participants.

SUMMARY INFORMATION

SB 104-NATURAL GAS PIPELINE PROJECT

The Committee heard testimony from representatives of Anadarko Petroleum Corporation and Shell Exploration and Production. The bill was held in Committee.

#sb104
[9:02:48 AM](#)

CS FOR SENATE BILL NO. 104(JUD)
"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline

Inducement Act coordinator; making conforming amendments; and providing for an effective date."

This was the eighth hearing for this bill in the Senate Finance Committee.

[9:02:51 AM](#)

Co-Chair Stedman announced that the Committee would hear testimony from Anadarko Petroleum Corporation and Shell Exploration and Production. He informed that the testimony would provide insight into the concerns exploration companies had with the Alaska Gasline Inducement Act, or AGIA.

[9:04:58 AM](#)

MARK HANLEY, Public Affairs Manager, Anadarko Petroleum Corporation, introduced himself as a former commercial fisherman and legislator. He served in the Alaska State Legislature for eight years, four of those years as the House Finance Committee Co-chair.

[9:06:38 AM](#)

Mr. Hanley expressed that Anadarko was generally supportive of AGIA, and he would speak to his areas of concern as well as areas of agreement with the bill. As a smaller company, Anadarko had a different point of view than the larger producers. He would provide a presentation, which was accompanied by a handout titled "Anadarko Petroleum Corporation, Alaska Gasline Inducement Act, Senate Finance, April 27, 2007" [copy on file].

[9:07:13 AM](#)

Co-Chair Stedman asked that questions from Members be held until the conclusion of the presentation.

[9:07:33 AM](#)

Page 2

Anadarko's Investment in Alaska-Land

Anadarko Acreage

5.4 million acres (gross)
1.8 million acres (net)

[Map of the North Slope of Alaska depicting existing oil fields, and highlighting APC Operated acreage, APC Non-Operated acreage, Industry acreage, and APC wells as of November 2006.]

Mr. Hanley informed that the Industry leases represented areas in which Anadarko had no interest. The Anadarko Petroleum Corporation (APC) Non-Operated acreage signified areas in which Anadarko had a partnership interest, primarily with Conoco-Philips, and in the western area, Pioneer. Anadarko's share in these leases ranged between approximately 22 to 40 percent, and constituted 22 percent of the Alpine field. Companies diluted the risk of exploration by partnering with other companies, thus reducing the individual entity's exposure.

Mr. Hanley communicated that the APC Operated areas were managed by Anadarko, and often represented partnerships with Petro-Canada, BG, or the Artic Slope Regional Corporation (ASRC). The leases in the "Foothills" area of the State tended to be more "gas prone".

[9:10:43 AM](#)

Mr. Hanley noted that land on the central slope and foothills was a combination of State-owned acreage and ASRC land. Anadarko had an agreement with the ASRC to explore on its lands. An exploration well was drilled at Jacob Ladder in the winter of 2006, and the company held a contract to drill an additional gas exploration well. While currently no natural gas transportation infrastructure existed, Anadarko was willing to prospect for gas in order to retain their leases and "be ready for the pipeline when it comes."

[9:12:27 AM](#)

Mr. Hanley pointed out that under the schedule set forth in AGIA, Anadarko would likely not participate in the first open season if it occurred within four years as planned. The discovery of gas in the first well drilled by Anadarko was not sufficient to generate a commitment of volume, due to the fact that four to six years of exploration could be needed to identify adequate gas reserves to commit to the pipeline.

Anadarko had a three-year plan to drill in its three most prospective areas, and which allowed for the possibility of an expedited process if large reserves of gas were discovered. While value was associated with participating in the first open season, Anadarko would more realistically take part in the first expansion of the pipeline project under AGIA, perhaps even before construction had begun. This could be accommodated fairly easily through the use of compressors if the request for an expansion came early in the design and construction process.

[9:15:59 AM](#)

Mr. Hanley allowed that Anadarko's exploration was a limited test project, and although one test well may be ample to "condemn" a prospect, it would not be sufficient to confirm the area for extensive additional drilling. The time required for exploration illustrated why expansion of the gasline was important.

Senator Huggins asked the length of Anadarko's leases.

Mr. Hanley replied that Anadarko held ten year leases. The company had expended tens of millions if not hundreds of millions of dollars for seismic programs throughout the lease areas over the years. Drilling an exploration well could cost in excess of \$30 million.

[9:17:24 AM](#)

Page 3

Support AGIA

Support Alaska Gasline Inducement Act

- We like the process
- We support the specifics
- Address Key Explorer Concerns
 - o Fair access
 - o Expandable pipeline
 - o Reasonable tariffs

Mr. Hanley reviewed the page.

[9:20:19 AM](#)

Page 4

Support AGIA Process

- We like the process
 - Three opportunities for input and key policy makers to consider issues before a deal is done
 - Initial legislation
 - Public comment on submitted applications
 - Legislative review of selected application
 - Creates competitive process
 - Lays out "must haves" that the state will require of any applicant

Mr. Hanley overviewed the page, noting the benefits of allowing participants to provide input during the formation of the policy and during the legislative review process.

[9:20:30 AM](#)

Page 5

Support Specifics in AGIA

- We Support mandatory provisions on access and rates
 - Pipeline (licensee) must:
 - Assess market demand for expansions every 2 years
 - Commit to expand in reasonable increments on reasonable terms
 - Propose and support rolled in rates up to 15% above initial rate and agree not to enter into negotiated rate agreements that would preclude the rolled in rates

Mr. Hanley highlighted the importance of constructing a natural gas pipeline that was "motivated" to expand as gas was discovered. Typically, a pipeline owner would be "enthusiastic" to expand the size of the line whenever possible due to the fact that more gas in the pipeline would translate to greater revenues for the owner. A producer-owned pipeline would be inspired more by "upstream" factors, and would require extra scrutiny as the producer-owner would be less motivated to expand to ship other explorers' gas. He directed attention to

additional supporting documents in the handout provided to members, referencing a position paper presented to the Law Seminars International by J. Curtis Moffatt titled "The Likely Impact of the Federal Energy Regulatory Commission's Alaska Natural Gas Pipeline Open Seasons Regulations on the Development of Oil and Gas Resources in Alaska," and provided to the Committee by Anadarko [copy on file]. He summarized the findings of the document as "not necessarily" adequate to protect access to the pipeline for explorers.

Mr. Hanley commented that gas producers would support the lowest cost pipeline with regards to construction expenses, but conceivably not the lowest tariff rate. He explained that if a pipeline were "owned and aligned" by a producer, that producer would effectively pay the pipeline tariff to itself. A higher tariff on the pipeline would increase costs to other explorers but would reduce royalties to the State by lowering the value at the well head. FERC regulation would be unable to effectively mitigate all such circumstances.

[9:25:11 AM](#)

Mr. Hanley continued that Anadarko appreciated the rolled-in rate provision, and had supported it before FERC during discussions regarding open season regulations. Rolled-in rate provisions differ from standard practice in the "Lower 48" due to the fact that a natural gas transportation system from Alaska would be a monopoly in that a shipper could not rely on a competing pipeline to ease costs.

Mr. Hanley pointed out that FERC policy was to not allow an initial shipper to subsidize subsequent shippers. FERC would determine what factors constituted a "subsidy" in the context of Alaska's pipeline. AGIA would not require rolled-in rates, but would require the pipeline to request rolled-in rates from FERC. FERC may or may not grant the request for rolled-in rates based on its determination of whether those rates would function as a subsidy.

[9:28:22 AM](#)

Page 6

Indicative Expansion Tariffs
Numbers from P. 25, State AGIA Presentation, March 12, 2007

[Bar graph depicting the following information:

Initial Capacity: 4.5 Bcfd
Rolled-In Tariff: \$1.62
Incremental Tariff: \$1.62

Expansion 1 (Compression): 5.5 Bcfd
Rolled-In Tariff: \$1.47
Incremental Tariff: \$1.07

Expansion 2 (Compression): 6.5 Bcfd
Rolled-In Tariff: \$1.51
Incremental Tariff: \$1.73

Expansion 4 (Looping): 7.5 Bcfd
Rolled-In Tariff: \$1.71
Incremental Tariff: \$3.25]

Mr. Hanley disclosed that the figures utilized in this chart were garnered from a presentation on AGIA given by the State on March 12, 2007. The exemplified tariff was for transportation to Alberta, and illustrated the potential benefits of rolled-in rates. In this example, the first two expansions could be accomplished by using compression rather than adding additional pipe. The cost of the first expansion would result in rolled-in tariff rates and incremental tariff rates lower than the initial rate. The second expansion was also to be accomplished through compression, and would produce an incremental tariff greater than the initial tariff, while the rolled-in rate would remain less than the initial rate. The next expansion would entail a significant increase in the incremental rate with a nominal increase in the rolled-in rate.

[9:30:52 AM](#)

Mr. Hanley summarized that rolled-in rates would encourage exploration by providing a more stable tariff range for new participants, and offering rates that would be lower than the initial rate through the first two expansions of the pipeline. If Anadarko was able to request the first expansion of the pipeline, that expansion could serve to reduce tariff rates for all shippers.

[9:33:22 AM](#)

Mr. Hanley shared that TransCanada had testified that it could build a pipeline with a 4.5 billion cubic feet per day (bcfd) capacity, and expand the capacity to 7 bcf/d without increasing tariffs above the initial rate by employing rolled-in rates.

[9:33:44 AM](#)

Co-Chair Hoffman asked why the third expansion was not included in the chart.

Mr. Hanley replied that the State did not provide that data in its presentation.

[9:34:22 AM](#)

Page 7

AGIA helps mitigate challenge of FERC rules

- Producers in court challenging FERC authority to ensure adequate pipeline capacity and low cost expansions
- Producers attempting to invalidate Sections 157.36 & 157.37
 - o 18 C.F.R. 157 Subpart B
 - o Section 157.36 Open seasons for expansions.
 - Any open season for capacity exceeding the initial capacity of an Alaska natural gas transportation project must provide the opportunity for the transportation of gas other than Prudhoe Bay or Point Thompson production. In considering a proposed voluntary expansion of an Alaska natural gas pipeline project, the Commission will consider the extent to which the expansion will be utilized by shippers other than those who are the initial shippers on the project and, in order to promote competition and open access to the project, may require design changes to ensure that some portion of the expansion capacity be allocated to new shippers willing to sign long-term firm transportation contracts, including shippers seeking to transport natural

gas from areas other than Prudhoe Bay and Point Thompson.

- o Section 157.37 Project design.
 - In reviewing any application for an Alaska natural gas pipeline project, the Commission will consider the extent to which a proposed project has been designed to accommodate the needs of shippers who have made conforming bids during an open season, as well as the extent to which the project can accommodate low-cost expansion, and may require changes in project design necessary to promote competition and offer a reasonable opportunity for access to the project.

Mr. Hanley voiced concern regarding the design of the pipe. He cautioned that it would be possible to build a pipeline with an initial capacity of 4.5 bcfd that could be fully compressed from the beginning, thus requiring expensive looping at the first expansion. Without rolled-in rates, that sort of expense would "sink" the expansion and exploration. FERC and the oil producers were currently involved in litigation that challenged FERC's authority to ensure pipeline capacity and low cost expansions.

Mr. Hanley expressed that the requirement under AGIA which would allow FERC to consider the project design was important for the aforementioned reason. This provision of AGIA would also meet Congress' requirement that Alaska "not only get the pipeline built, but promote competition and exploration."

Page 8

Support AGIA

- Support Alaska Gasline Inducement Act
 - o We like the process
 - o We support the specifics
 - o Address Key Explorer Concerns
 - Fair access
 - Expandable pipeline
 - Reasonable tariffs

Mr. Hanley reviewed this page, commenting that he expected Canadian participants to require rolled-in rates for the portion of the project regulated by that country.

[9:37:07 AM](#)

Co-Chair Stedman asked about Anadarko's participation in the first binding open season.

Mr. Hanley responded that if the AGIA process worked as expected with the first open season occurring in December of 2010, Anadarko would have the 2008 and 2009 seasons to drill and explore for gas. That would likely not be adequate time to identify sufficient gas volume to participate in the first open season.

Co-Chair Stedman understood that if Anadarko was unable to participate in the first open season, the company would not receive the fiscal stability offered by AGIA in the form of a fixed tax rate. He asked Anadarko's position on that matter.

[9:38:53 AM](#)

Mr. Hanley acknowledged that Anadarko "took issue" with that condition. Any commitment to the pipeline should receive similar treatment, whether those commitments were made in the first open season or in subsequent open seasons.

[9:39:22 AM](#)

Senator Olson, referencing the paper by J. Curtis Moffatt which stated that the oil producers were disqualified from building the TAPS pipeline, asked what changes had occurred to currently allow gas producers to build the proposed natural gas pipeline.

Mr. Hanley was unsure of the historic details, but shared that either President Carter or President Reagan had changed that requirement. He informed that a Federal Trade Commission (FTC) review was still required, and that he would provide further information.

[9:40:10 AM](#)

Senator Olson set forth that concerns existed in his representation district with regard to offshore exploration and production. He asked if Anadarko held any offshore leases.

Mr. Hanley answered that Anadarko had "a couple" of offshore leases.

Senator Olson asked if Anadarko had plans to explore its offshore leases or produce in those areas.

Mr. Hanley replied that Anadarko did not have plans for offshore development at that time, and was primarily focused on onshore areas. He divulged that the company had worked extensively with the community of Anaktuvuk Pass, located in the foothills area, while exploring in that region. He reiterated that the company had no plans to drill offshore.

[9:41:22 AM](#)

Senator Olson announced the "obvious concern" of the people in northern coastal communities was the effect seismic and drilling activity could have on whale migration, possibly driving the animals farther offshore and impacting the whale hunt.

[9:41:34 AM](#)

Senator Huggins referred to page 7, and relayed that the oil and gas producers had expressed concerns that FERC could require expansion of the pipeline. He predicted this could have both a monetary and a "timetable" impact on the pipeline builder's construction plan, and asked Anadarko's perspective on the issue of FERC-ordered expansion.

Mr. Hanley stated that Anadarko understood that producers would not want FERC to have the authority to require a change in the design of the pipeline. While a required expansion could cost the pipeline builder time and money, it was "appropriate" to allow FERC the authority to review the pipeline design to ensure that it would allow for expanded capacity.

[9:44:13 AM](#)

Senator Huggins asserted that the State had a responsibility to accommodate future gas, and must consider expansion capability when evaluating project applications.

[9:45:01 AM](#)

Mr. Hanley specified that in the FERC appeal case currently before the court, Anadarko was supportive of FERC's regulatory right.

[9:45:22 AM](#)

Co-Chair Stedman asked if Anadarko had ever been in a "reverse position," in which the company was a substantial holder of gas in an area where a gasline was proposed and other explorers were "poised to enter".

Mr. Hanley was unaware of any such circumstance, but told of the many small fields where the only pipeline to transport a product was owned by the producer although other explorers had a presence. Anadarko was a majority member of a consortium operating in the Gulf of Mexico that constructed transportation for natural gas; however, the project would not have otherwise been economical.

Mr. Hanley hypothesized a scenario in which 36 trillion cubic feet (tcf) of gas on the North Slope was equally divided in ownership between 12 different companies on separate fields, with no company having an interest in any of the other fields. He assumed that in that instance a pipeline company would enter as a "consolidator," build an expandable pipeline and hold an open season. The current circumstance in Alaska differs in that three companies hold the majority of the gas.

[9:47:43 AM](#)

Co-Chair Stedman asked if Anadarko had ever supported incremental tariffs in any of the projects it had been involved in.

Mr. Hanley was not aware of any such support, and would report back to the Committee if it had.

Co-Chair Stedman detailed that he was asking "particularly" if Anadarko had ownership interest in any pipeline.

Mr. Hanley would provide the information. As an independent producer, Anadarko was less likely to own a pipeline as it was not "integrated".

[9:48:54 AM](#)

Senator Huggins asked if Anadarko had been consulted in the design of AGIA as it was "emerging" as legislation.

Mr. Hanley told of a meeting with "a couple" commissioners in January, at a time that other producers were also meeting with the Administration. He stated that Anadarko had collaborated with the State for years, and its position was clear.

Senator Huggins declared that he had asked "for the record".

[9:50:23 AM](#)

Co-Chair Stedman asked Anadarko's position in being a participant in the AGIA licensee application process, assuming that the company would not be prepared to come to the table in the first open season.

Mr. Hanley responded that Anadarko would probably not participate in the application to FERC. Anadarko did not typically build or operate pipelines, but would consider participating in a project if it could add value to the pipeline.

[9:52:04 AM](#)

Co-Chair Stedman asked for Anadarko's areas of support and concern within the bill.

[9:52:22 AM](#)

Mr. Hanley informed that he had "touched on" most of his concerns, and referred to the application requirements under section 43.90.130. of the bill, which included the detailed description, route, receipt and delivery point, size and design capacity, and description of transportation services. These were all aspects of the bill that were important to Anadarko. The two-year solicitation provision on page 5, line 5 was supported by Anadarko, as was the "commitment to expand" provision on line 28. Anadarko was also in agreement with the commitment of the applicant to support rolled-in rates up to 15 percent above the negotiated rate as set forth in the bill, beginning on page 6, line 11.

[9:54:00 AM](#)

Co-Chair Stedman asked if Anadarko had a position on setting the rolled-in rate limit at 15 percent above the initial negotiated rate, and if so, the company's reasoning.

Mr. Hanley replied that the company was "generally comfortable" with 15 percent, but commented that Anadarko had argued in the past to roll rates in "totally", with no limit on the impact rolled-in rates could have on the rate of the initial shipper. He suggested always allowing the rates to be rolled-in, with the pipeline owner requesting that FERC set an economically reasonable limit at each expansion.

[9:55:30 AM](#)

Co-Chair Stedman asked if Anadarko supported the possibility of a forfeiture of appeal rights before FERC.

Mr. Hanley answered, "It depends." Assuming a lack of commitment at the first open season, Anadarko would not receive any of the incentives in the bill, and would have to balance those circumstances. If Anadarko participated in the initial open season, it would make the decision regarding FERC appeals at that time.

[9:56:38 AM](#)

Co-Chair Stedman asked that Mr. Hanley provide the Committee with information regarding the waiver of FERC appeal rights.

Mr. Hanley would provide that information.

[9:57:10 AM](#)

Mr. Hanley explained that Anadarko supported all the provisions intended to keep the tariff low, including a demonstration by the applicant to illustrate how it would manage cost overruns, as required in paragraph (11) on page 8, line 18.

[9:57:55 AM](#)

Mr. Hanley shared that Anadarko was in agreement that the \$500 million incentive should not be included in the rate base, but should be utilized only to reduce the pipeline's rate, as defined in paragraph (18) on page 9 line 17. Under Section (3)

the successful applicant would be required to prevent or reduce cost over-runs that would affect tariff, a provision that Anadarko supported.

[9:59:22 AM](#)

Senator Huggins pointed out that paragraph (4) spoke "explicitly" the State's responsibility to carefully evaluate the initial project proposal to avoid an appeal to FERC at a later date.

Mr. Hanley agreed. Anadarko supported the State's evaluation criteria.

[10:00:14 AM](#)

Mr. Hanley mentioned that he had already addressed resource inducements, and reiterated his position that all participants that commit to ship gas should enjoy some of the benefits offered under AGIA. There was economic value in the tax stability and royalty certainty. These benefits served to create a competitive advantage for those companies able to participate in the first open season.

[10:01:08 AM](#)

Senator Huggins asked how the State could appropriately offer inducements to Anadarko subsequent to the first open season.

Mr. Hanley declared, "We need a pipeline." Anadarko could not explore without a pipeline, hence the line itself represented the biggest incentive for continued exploration. Favorable expansion provisions would also benefit Anadarko after pipeline construction was underway. He opined that the PPT legislation had a "positive effect" on the economics of gas exploration.

Mr. Hanley stated:

At this point I don't have anything to tell you that we need extra incentives. I think what we're asking for now is number one, get a pipeline built, number two, make sure that it has fair access and reasonable terms. With that, we'll go do our business.

[10:03:06 AM](#)

Co-Chair Stedman expressed that the fiscal certainty offered in the bill was designed to function as a "reward" for the parties that were able to be present at the first open season and commit ample volumes of gas to the pipeline for as long as 25 years. He asked why the State should extend fiscal certainty to later open seasons when participation would carry less risk exposure as the initial commitment.

[10:04:33 AM](#)

Mr. Hanley responded that subsequent open seasons may or may not carry the same risk exposure as the initial open season. An immediate expansion could involve the same amount of risk, as well as additional risk, such as the deliverability of gas. If Anadarko requested an expansion within a year of the State granting a license, the company would have the same length of commitment and the same cost over-run considerations. He allowed that if the first expansion occurred after 15 years of operation, the risk exposure would be less. However, he anticipated Anadarko would participate in a much earlier expansion that would involve a substantial amount of risk.

[10:06:23 AM](#)

Co-Chair Stedman asked Anadarko's position on the length of fiscal stability embodied in AGIA.

Mr. Hanley replied that the longer the timeframe for a favorable tax structure, the better. It made "rational sense" to tie the length of fiscal stability to the length of the financing for the pipeline, approximately 20 to 25 years. Anadarko had not taken an official position.

Co-Chair Stedman articulated that 20 to 25 years was different than 10 years.

Mr. Hanley affirmed.

AT EASE [10:09:09 AM](#)/[10:12:19 AM](#)

[10:12:32 AM](#)

CAM TOOHEY, Alaska Manager, Communications and Government Relations, Shell Exploration and Production, communicated that

Shell had "reentered" Alaska in 2005 to participate in the MMS lease sale in the Beaufort Sea, where it purchased 84 leases. Shell was the first royalty payer to the State in 1965. Exploration planned for 2007 included drilling three to four wells in the Beaufort Sea, as well as seismic activities in the Chukchi and Beaufort Seas.

[10:14:13 AM](#)

Mr. Toohey provided written testimony to the Committee [copy on file], and testified as follows.

I appreciate the opportunity to be here today to give Shell's comments in support of SB 104, Governor Palin's Alaska Gas Inducement Act, or the AGIA legislation. Last year Shell submitted formal comments on the natural gas pipeline proposal as it was developed by the Murkowski Administration. I'm going to highlight a couple of points that we discussed in that letter as they're relevant to the legislation before you. I did provide a copy and I think it's in your packets.

Shell strongly supports the development of a North Slope natural gas pipeline, and believes it's important to the economic stability of the State as well as the nation.

While Shell currently does not have material proven gas reserve to commit to a North Slope pipeline, Shell has made a significant investment in the State and we are working to explore our acreage and we hope to find if it's economically feasible and produce those reserves in the future. The certainty of construction of a North Slope gas pipeline is an important factor in Shell's planning and future investment decisions. So it's important to stress the fact that the existence of a pipeline is very important to Shell.

Of importance to Shell is the capacity access issues and expansion issues. And as we stated last year in our letter any North Slope gas pipeline project should be structured to insure reasonable access to pipeline capacity by new explorers and non-owner producers. In addition it would be prudent to design and permit the project in anticipation of this future expansion of the pipeline. Especially with respect to establishing adequate right-of-way width and

environmental assessment that paves the way for future incremental expansion, incremental facilities, pipeline looping, and or second parallel pipeline. The project structure should provide reasonable terms for accomplishing future expansion of the line, including the presumption of rolled-in rates and mechanisms for requiring and advancing the timely completion of expansions.

Shell believes that AGIA addresses these aspects very well. Another important element of the North Slope pipeline identified in our 2006 letter was the terms of service. The project should provide fair and reasonable terms of service for new explorers and non-owner shippers. The terms of service, particularly the transportation costs and the rates, have a critical bearing on whether North Slope development projects are economic and competitive with other global opportunities. Project construction costs will be the principal driver of the future rate for shipping gas on the pipeline system, and it is important that the State take steps to ensure that construction is completed in the most cost-effective and timely manner to ensure the lowest possible rates. I know Mark Hanley discussed this quite a bit before, but it is truly important to all shippers.

These concerns are not simply a matter of Shell's economic interest. For the State, as a royalty owner, the terms of service are vitally important because increases in pipeline project costs will be passed on to the shippers in the form of higher transportation rates and higher transportation rates will be detrimental to the development of these new reserves and will decrease the netback value to the State of Alaska.

[10:18:17 AM](#)

Mr. Toohey continued his testimony as follows.

Shell believes that these issues are well incorporated in AGIA. Shell also believes it is important that all sections of the pipeline traversing the United States be subject to the regulatory oversight of the Federal Energy Regulatory Commission, FERC. FERC oversight is necessary to ensure open access, fair and reasonable terms of service and non-discriminatory behavior. FERC oversight will also provide all parties an impartial forum to seek redress of

grievances. Should FERC decline regulatory oversight of certain components of the project, then those facilities should be regulated under the jurisdiction of the Regulatory Commission of Alaska.

In closing, Shell applauds the efforts of the Palin Administration to advance the gasline project. Shell fully supports the Administration in efforts to include all interested parties in the gasline discussions, as this will impact the future of all involved for generations to come. Shell believes development of the North Slope gas project is critical to the continued economic health of this state and of the Nation. The certainty of construction of the North Slope gas pipeline is an important factor in Shell's planning for current holdings in the State as well as decision-making on regarding Shell's future investments. Shell believes it's critically important for future explorers that they have access to the gas pipeline and the line must be expandable. The project should provide fair and reasonable terms of service for new explorers and non-owner shippers, which will benefit the State of Alaska in the long run.

Thank you for the opportunity to present here this morning in support of AGIA. And as you mentioned, Mr. Chairman, I'm prepared to collect questions and provide written response. I apologize for our lack of involvement in time on this legislation at this time, but we have been primarily focused on securing permits for upcoming summer and have not been able to spend the time here in Juneau on this legislation. Thank you.

[10:20:13 AM](#)

Co-Chair Stedman asked Shell's position regarding fiscal certainty at the first successful open season. He also asked whether Shell had ever been in a "reverse situation", in which the company was a major owner of gas in a region where another entity was entering to open the area to production. If Shell had experienced such a situation, he asked if the company had supported incremental or rolled-in rates.

Mr. Toohey would provide the requested answers.

Co-Chair Stedman further requested that Shell respond to the issue of a waiver of appeal rights before FERC, as well as provide an opinion on an appropriate fiscal stability time frame.

[10:22:02 AM](#)

Senator Thomas read a passage from the J. Curtis Moffatt document into the record as follows.

Concern that private financing could not be accomplished without greater participation by the producers, however, ultimately led President Reagan to request and obtain from Congress a waiver overturning the prohibition against producer participation through the ANGTA section 8 waiver process. Importantly, however, the waiver was subject to the proviso, "that any agreement on producer participation may be approved by the Federal Energy Regulatory Commission only after consideration of advise from the Attorney General and upon finding of the Federal Energy Regulatory Commission that the agreement will not (a) create or maintain a situation inconsistent with the antitrust laws, or (b) in and of itself create restrictions on access to the Alaska segment of the approved transportation system for nonowner shippers or restrictions on capacity expansion..."

Senator Thomas asked if that statement summarized Shell's position.

Mr. Toohy asked for the statement in writing.

[10:24:11 AM](#)

Senator Elton remarked that Shell was the "odd person in the debate" due to the fact that Shell was neither multi-national nor solely an explorer. He asked how Shell would integrate firm transportation commitments into its economic analysis and its decision making processes.

[10:25:30 AM](#)

Co-Chair Hoffman asked why Shell decided to reinvest in the oil and gas industry in Alaska. He inquired if the decision was

based on the potential in the State, the tax structure, or the "problems" that the industry faced in other parts of the world.

[10:26:16 AM](#)

Mr. Toohy responded that Shell reentered in 2005, before the PPT tax debate and restructuring. Shell's interest in Alaska was attributed to the opportunities for significant oil discoveries.

#

ADJOURNMENT

Co-Chair Bert Stedman adjourned the meeting at [10:27:15 AM](#)