

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**April 30, 2007**  
**1:57 p.m.**

**CALL TO ORDER**

Co-Chair Bert Stedman convened the meeting at approximately [1:57:15 PM](#).

**PRESENT**

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

**Also Attending:** RON BRINTNELL, Director, Gas Development, Enbridge; BRIAN WENZEL, Vice President, ANS Gas Commercialization, ConocoPhillips; WENDY KING, Manager, Alaska North Slope Gas Development, ConocoPhillips;

**Attending via Teleconference:** There were no teleconference participants.

**SUMMARY INFORMATION**

SB 104-NATURAL GAS PIPELINE PROJECT

The Committee heard from representatives of Enbridge and ConocoPhillips. The bill was held in Committee.

SB 125-PERS /TRS CONTRIBUT'NS; UNFUNDED LIABILITY

This bill was scheduled but not heard.

#SB104

[1:58:57 PM](#)

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 twelfth hearing for this bill in the Senate Finance Committee.

RON BRINTNELL, Director, Gas Development, Enbridge, testified, making the following opening statement.

My responsibility with Enbridge includes positioning the company to play a lead role in the development of an Alaskan natural gas pipeline project - a project which has been a high priority for our company for a number of years and it's a high priority for our senior executives.

Enbridge is a leading North American energy transportation company. We're a public company. Our stock is traded on both the New York Stock Exchange and the Toronto Stock Exchange. We supply a significant amount of the oil that's required in the Lower 48 and we have pipeline businesses that take all over the world.

I've been to Juneau several times and testified before a number of committees. But this is the first time in front of Senate Finance, so I look forward to the opportunity. My hope is that this will be a dialog not a presentation. That's my preference. I think we can probably address a lot more of your questions and issues if we make it a dialog.

I would like to start by first reiterating a message that my colleges and myself have made several times over the last few years. North American supply and demand is very fragile. I know you all know that but it's worth repeating again and again. If Alaska gas is to find a market in North America, time is truly of the essence. We need the gas but expediency is important. Real progress, not just the appearance of progress is got to happen.

We've been asked about the market window theory. If we believe that Alaska gas will hit the market, when and where

it's needed. When we answer this it's not so much about the timing of the market, but is it still going to be there? We are genuinely concerned about the fact that the market may be moving on, that it may be leaving Alaska gas behind. We've seen market degradation due to supply issues, due to cost issues, due to price issues. We see coal plants being contemplated. I know there are lots of environmental issues associated with coal but the reality is demand and supply will match. If gas can't supply the demand other sources of electricity will come into play. We'll also see LNG [liquefied natural gas] come on.

Mr. Brintnell utilized a presentation titled, "Alaska Natural Gas Pipeline" [copy on file.]

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[Maps of North America, Columbia, and although not identified, likely Spain. On these maps locations of Liquids Transportation, Gas Transmission, Gas Distribution, and Wind farms/developments are identified.]

- Interest in 50,000 miles of pipelines
- Own and operate the world's longest liquid petroleum pipeline
- Deliver 70% of WCSB crude oil production
- Deliver half of deep water Gulf of Mexico natural gas production
- Canada's largest natural gas local distribution company
- Employ 4,900 people
- One of the *Global 100 Most Sustainable Corporations in the World*

Mr. Brintnell stated that the company that eventually became Enbridge was founded in 1949. The company had "grown steadily though development and acquisition" and "operated at the highest levels in the business community." He proceeded to speak to the bullet points.

Mr. Brintnell identified the Liquids Transportation pipeline between Norman Wells and Zama as the first pipeline built in

permafrost in Canada. It was constructed over 20 years prior and has been operating since.

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Mr. Brintnell declared that Enbridge operated in the arctic, which was significantly different than "cold weather" that a different company testified as its area of experience. No other pipeline company operating in North America had the level of arctic experience of Enbridge.

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Mr. Brintnell pointed out the Alliance gas pipeline traversing from Fort St. John in British Columbia, Canada to Chicago and further east. This pipeline "has significance" to the proposed Alaska natural gas pipeline.

Mr. Brintnell continued detailing locations on the map of North America. Enbridge provided gas to approximately 1.7 million customers. It operates gas transmission lines in the southern and mid-western United States.

Mr. Brintnell remarked, "And, yes we're always looking for new supply." He added that "Along with looking for an interest in the pipeline, Enbridge may be looking for Alaska to be a supply of gas. We may take a shipping commitment."

Mr. Brintnell advised that the company's inclusion as a Global 100 Most Sustainable Corporations in the World was based on its performance on social, environmental and governance issues. Enbridge took "pride in being good corporate citizens."

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#### Unparalleled Experience in Recent Pipeline Development

- \$15 billion over the next 10 years
  - Unmatched recent experience managing labor, construction, procurement, environment, regulatory and cost-control challenges
  - Today's development environment is substantially different than 10 years ago
- Alliance Pipeline

o Technical and commercial similarities

[Map of North America depicts Proposed Pipeline Development with Canadian Supplied and Not Canadian Supplied Refineries, Enbridge Pipelines, Enbridge Energy Partners, and Potential Projects identified. Major Announced Projects are identified on the map and also listed with corresponding In-Service date as follows:

Spearhead	Q1 2006
Gulf Coast (XCM)	Q1 2006
Southern Access Expansion	2009
Southern Access Extension	2009
Southern Lights	2009
Alberta Clipper	2009
Gateway	2012/14]

Mr. Brintnell claimed that the "resource owners, producers and shippers that we deal with on a day-to-day basis continue to express their confidence in us." Recently, the company concluded a successful open season on an extension from metropolitan Chicago to Cushing, Oklahoma. This comprised part of the \$15 billion North American expansion which was planned for completion over then next five to ten years. Most of the growth was associated with development in the Alberta "tar sands".

Mr. Brintnell spoke about the "current" "cross-border permitting" and other experience in large scale North America pipeline projects that Enbridge would achieve through its expansion efforts.

Mr. Brintnell assured that adequate jobs would be available for Alaskans contrary to some concerns. Enbridge would employ "all Alaskans that want to come across the border to be trained up" for pipeline construction projects for the next five to ten years. The workforce is in short supply.

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Mr. Brintnell told of many changes in the pipeline industry over the past ten years, including the labor market. Additionally steel prices had increased substantially. Also changed was the "dynamic of who steps up to take capacity on pipelines." More marketing companies would have been involved five to ten years ago, but because of the issues regarding Enron, "that all changed."

Mr. Brintnell pointed out that in the current projects, Enbridge was interacting with the U.S. Federal Energy Regulatory Commission (FERC) and the Canadian National Energy Board (NEB), as well as environmental groups, Canadian First Nations, US Native organizations and other stakeholders.

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Mr. Brintnell emphasized the "recent experience, knowledge and training" gained from Enbridge's efforts that would be available for the Alaska natural gas pipeline project.

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#### Alliance Pipeline

[Dateline depicts the process of obtaining a NEB certificate and a FERC certificate as follows:

NEB {Canadian}	
Preliminary Submission	Dec. 31, 1996
File Application	July 3, 1997
Public Hearing	Jan. 1998
Public Hearing	May 1998
Draft CSR	June 30, 1998
Final CSR	Sept. 30, 1998
Certificate	Dec. 3, 1998
FERC {United States}	
File Application	Dec. 24, 1996
Preliminary (non-environmental Determination	Aug. 1, 1997
Draft EIS	Dec. 24, 1997
Final EIS	Aug. 24, 1998
Certificate	Sept. 17, 1998]

Mr. Brintnell utilized this as an example of the timeframe in which certification from Canadian and US agencies could be secured. He noted that the process for the Alliance Pipeline was completed in less than 24 months.

Mr. Brintnell recounted the initial participation of 22 owners in the Alliance project. All parties remained involved until each became "comfortable" that the project would progress, that

sufficient financing was obtained and commitments of gas were secured from producers.

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#### Moving the Project Forward

- No producers No pipeline!
- Project is too risky - too big, too complex, too expensive - to move forward without producers
- Potential gas buyers see no producers as no progress
  - Buyers' dilemma, switch to coal, go off-shore or wait for Alaska?

Mr. Brintnell had followed the progress on the AGIA legislation through both bodies of the legislature and had not heard any organization that had previously constructed or operated a pipeline refute the statement that the project must include the producers. Some had expressed need for a five-party negotiation, others required fiscal stability, and others had testified to different requirements.

Mr. Brintnell opined, "If you legislate a process unworkable to the producers, it's our view that [it would] put the project at risk [because you're excluding the necessary participants, further delaying the project and signaling to potential gas buyers [that] Alaska's just not ready."

Mr. Brintnell spoke to the earlier presentation to the Senate Finance Committee by Sullivan and Cromwell regarding "financing in the face of risk." Enbridge agreed with the conclusion that the North Slope producers were the "best positioned companies" to assume the level of risk and make the shipping commitments. Mr. Brintnell considered the producers as possibly "the only companies" capable for such undertaking.

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Mr. Brintnell announced that Enbridge would not submit an application for AGIA. Until the producers were prepared to make a shipping commitment, which would require a resolution of the tax issues, "we don't see how it moves things forward for anyone else to submit an application either."

Mr. Brintnell clarified, "We anticipate ultimately being part of the project, as part of a consortium." Enbridge was interested in participating.

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Mr. Brintnell reiterated his job duty was to involve Enbridge in an Alaska natural gas pipeline project, potentially as an equity owner, an operator, and a shipper. However, this would not occur with the current uncertainty associated with the producers.

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Mr. Brintnell asserted that Enbridge could add value to the project, but until the producers "were on board and signaling a willingness to make shipping commitments that will underpin the financing of the project, this project is simply too risky for a pipeline company like Enbridge to spend the hundreds of millions ... of dollars up front." The issue was not that the company took risks; it was currently investing billions of dollars into projects. However, "this one's in a whole new category."

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Mr. Brintnell characterized the "pipeline business" as a "really small group" with few companies operating in North America. The companies attend many functions together and discuss customers, which in the case of the Alaska natural gas pipeline, are the North Slope producers. Customers would be required to advance the project. Although utility companies could participate, they would not have the ability to be significant contributors.

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Mr. Brintnell informed that potential buyers of Alaska natural gas "have been hearing for a long time that Alaska gas is ready, ramping up, and more recently there was negotiations with producers." An election was held, and the negotiations ceased. At this time the State was taking an alternate approach, which was its right. However, this caused uncertainty in the marketplace as to when the gas would "arrive" "or even if it's going to arrive".

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Moving the Project Forward  
Don't Just Focus On The Pipeline

- As drafted, AGIA is unlikely to produce significant commercial results.
- AGIA introduced as a catalyst to expedite the construction of a natural gas pipeline
- AGIA focus is on the pipeline and not entire project which requires Producer alignment
- AGIA adds unnecessary regulatory complexity
  - FERC process well defined and effective

Mr. Brintnell stated the following.

We believe the Governor and her team deserve recognition for the priority they placed on the project. We believe they appreciate how important Alaska gas is to North America. However, Enbridge is concerned that as written AGIA is unlikely to result in the movement of Alaska gas. AGIA's focus seems to be 90 percent pipeline, ten percent producer-shipper. We think that's the reverse of what is needed.

We believe that 90 percent of the focus should be on getting a shipper and ten percent on the pipeline. Now, whether it's 90/10, 80/20, what we're trying to say is the focus is wrong. The majority of the focus right now seems to be on the pipeline not on the project, and in order to get a project you need shippers, which means you need to talk to producers.

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Mr. Brintnell "took the risk of talking legislation" hypothesizing that before a committee chairperson would consider granting a hearing on a matter, legislation must be drafted and the bill referred to the committee. To pipeline developers, builders and operators, AGIA appeared as legislation that had not been drafted or referred to a committee. He stated "without shippers there is no bill; someone has to agree to ship the gas."

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Mr. Brintnell commended the Legislature for the time and effort devoted to the Alaska natural gas pipeline project. However, ultimately a shipper was required. The goal was to "move the gas" not just build the pipeline.

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Mr. Brintnell made the following statement.

Enbridge believes that AGIA adds unnecessary regulatory complexity especially with respect to rolled in rates. ... The potential for rolled in rates to go up is not only a negative for North Slope producers, and I know you've heard that over and over again, but it's also a negative for utilities like Enbridge's. ...

It is very difficult to get regulatory people to give us permission to take any long term contracts period these days. We're not unique in that. All of the Lower 48 utilities face the same thing. It's a difficult task to get the local regulatory bodies to give you the ability to take a long term commitment to take a long term supply.

Part of that just as a history I talked about before, five ten years ago the utilities bowed out the marketers stepped in, the Enrons stepped in and the regulators got used to the fact that utilities didn't have to take long term contracts.

With the demise of the marketers - some of them are coming back, but generally the demise of the marketers - utilities are now trying once again to be able to look at being able to take long term contracts. But the regulators are pushing back.

Enbridge has spent a fair a bit of time over the last couple years in dialog with NARUC, the National Association of Regulatory Utility Commissioners, the IOGCC, and others to try to do an educational process with some of the regulators to let those utilities take long term commitments, for example on an Alaska pipeline. But it's an uphill battle.

It's even more uphill when you have to go to your regulator and say "I'm going to make a commitment and I'm agreeing to pay x - oh, buy the way, in 15 years from now it might be x plus 15 percent." So it's not just the producers who are going to have trouble with this. It's other shippers as well.

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Moving the Project Forward  
Promote, Don't Stymie Innovation

- Absolute requirements may result in not having the opportunity to evaluate creative solutions that add value in different ways
- This is not a standard RFP project

Mr. Brintnell expressed concern with the language of Section 43.90.130. Application requirements., of Article 2. Alaska Gasline Inducement Act License., added by Section 1 of the bill. The State would "end up further ahead by clearly stating what it is they want, and then allowing the best companies in the world to pose the best way to get there." The current language was tantamount to a "command and control arrangement" in which "companies could not leverage their experience to the State's advantage even if they apply at all."

Mr. Brintnell failed to understand why "Alaska would want to create a process that might stymie innovation and result in the best project not moving forward, or more concerning, result in no project moving forward." He asked why the Senators would support a process in which they would not have an opportunity to consider a proposal that "doesn't check all the boxes, but potentially could offer more significant value to the State." He predicted a situation could occur in which an application that failed to meet all criteria would not be furthered for legislative review and approval.

Mr. Brintnell spoke of experts with an ability to assist the State in determining successful and unsuccessful project applications. Fair judgment of all proposals was "absolutely possible" albeit more difficult. He was unsure "what the bill drafters are afraid of here and why they insist on a potential developer meeting all the requirements or not show up."

Mr. Brintnell shared that pipeline developers compete against other developers and "make pitches" to potential shippers about their innovative methods. This process involves collaboration with shippers to achieve solutions and flexibility is necessary.

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Mr. Brintnell advised that "what you negotiated today may not ultimately be what ends up being the best project in the long term, or the ultimate solution." He acknowledged that the government request for proposals (RFP) practice was specific, and intended to facilitate an "easier apples to apples comparison" of proposals. However, the gas pipeline project was not a standard project. Rather it was unique in many ways, with the "sheer scope" being only one. The State must "assume a non-traditional role" and engage in non-traditional processes "in order for this to work. Insistence on utilization of the same processes used for procurement of office supplies and equipment would result in failure to achieve a pipeline.

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Canadian Oil Sands Development  
Valuable Lessons

- Investment of \$125 billion
  - Significant new employment, tax revenue, long term growth
  - Extensive new pipeline development
- Resulted from proactive progressive political vision that facilitated development
  - Worked cooperatively with industry
  - Generating greater returns for all

Industry Capital Spending  
Cdn \$billions

[Map of Canada with the following information superimposed:  
The oil & gas industry will invest over \$40 billion in capital in Canada in 2006

Northern Canada

'03	\$0.3
'04	0.3
'05E	0.5
'06F	0.5

Oil Sands

'03	\$5.0
'04	6.2
'05E	8.5
'06F	8.8

WCSB

'03	\$21.4
'04	24.5
'05E	27.0
'06F	29.0
East Coast Offshore	
'03	\$2.2
'04	1.9
'05E	1.0
'06F	1.7
International	
'03	\$5.5
'04	10.4
'05E	5.0
'06F	6.8

Note: Spending in Canada excludes spending associated with mergers and acquisitions. International and acquisitions net of divestitures.]

#### Canadian and U.S. Crude Oil Pipeline Alternatives

Growing oil sands production will require new pipeline capacity to existing and expanded markets

[Map of contiguous United States and the southern half of Canada with Potential Pipeline Expansion Routes, and Extensions to New Markets delineated.]

Mr. Brintnell read from his testimony as follows.

I mentioned earlier that if moving the resource is commercially viable, investment dollars will flow in Alaska. That very thing is happening right now in Enbridge's own backyard and it's called the Canadian Oil Sands.

We believe that you have to look at the gas pipeline as just the first stage of developing a bigger project just like they did in Alberta.

You've got tremendous potential here. You've got 35 tcf [trillion cubic feet], but that's still 20 tcf short of a pipeline. But indications are there's much, much more. I mean if you look at the sheer potential of gas side rates it's staggering. But it's not possible to tap into that without a pipeline.

Alberta recognized the potential of its oil sands when it started negotiating with its producers. At the time they didn't come up with the ultimate solution; but they showed they were willing to be flexible, come up with innovative

solutions and right now we're looking at \$125 billion in investment.

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Mr. Brintnell continued.

That's something like four times the Permanent Fund. Did the original people that negotiated those deals think they might have \$125 billion in investment? I doubt it. I wasn't there but I doubt it. But what happened was that they got the snowball rolling.

We think the same thing can happen here in Alaska. Don't look to get the ultimate solution first. Get the snowball rolling and it will keep rolling.

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Moving the Project Forward

Understand What Is Achievable

- o Binding or shipper commitment is required prior to spending significant \$'s on regulatory applications
  - o Not commercially prudent to assume producers will show, or that gas can be "acquired"
  - o Risk too high even with government cost sharing
- o Even binding shipper/pipeline agreements will have conditions including:
  - o An acceptable FERC Certificate
  - o Acceptable Financing
  - o Shipper resolution of Alaska state taxation issues
  - o Defined project milestones/timing
- o An unconditional commitment to proceed will not happen
  - o Regulatory certificates may have conditions making project uneconomic
  - o Events between application and certificate could make project uneconomic

Mr. Brintnell overviewed the information on this page. The State would not receive an unconditional commitment for this project to proceed, despite the intent of Alaskans. However, too many uncertainties exist with any pipeline project, especially the proposed Alaska natural gas pipeline. Concerns include

conditions imposed by U.S. and Canadian regulatory agencies, the labor market and the steel market could change in the time following submission of an application.

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Moving the Project Forward  
Understand Canada

No company has the exclusive right to build a pipeline to ship Alaska gas in Canada

- o 2 Options to Permit the Project Through Canada  
NPA

Northern Pipeline Act passed in 1977  
Socio-economic baseline impact developed in late 1970s  
Certificates of Public Convenience and Necessity issued to Foothills Pipeline to build the Cdn portion of the Alaska Natural Gas Transportation System proposal.  
Enshrines a 30-year old project never undertaken that has now significantly changed

NEB - CEEA

Modern, efficient and transparent regulatory process  
Dove-tails with FERC  
Consistent with NAFTA  
Contemporary, well understood processes:  
First Nations participation  
Environmental assessments and practices  
Economic benefits through open competition

Mr. Brintnell emphasized this information. Neither the National Energy Board (NEB) nor the Northern Pipeline Act (NPA) contains a provision to grant exclusive rights to transport natural gas from Alaska through Canada. Enbridge had prepared a document to further this argument, which he offered to provide to the Committee [copy not provided].

Mr. Brintnell remarked on the benefit the prohibition on exclusivity. If allowed, the competition would be limited to the

construction of the Alaska portion of the pipeline and would lack the "same level of competition and creativity on the Canadian side."

Mr. Brintnell opined that the only viable route on which to transport natural gas from Alaska would be through Canada.

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Mr. Brintnell surmised that the Canadian government understood the value of this cooperative yet competitive approach.

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Moving the Project Forward  
Understand Canada

"As we move forward, I am guided by five principles that I believe can be applied to all pipeline decisions:

- o First, the must not interfere with market forces. We will let the market decide.
- o Second, our decisions must be supportive of a modern regulatory regime
- o Third there must be a project management approach
- o Fourth, the pipelines must support Aboriginal economic development
- o Finally, decisions must ensure that Canadian benefits are realized

Honourable Jim Prentice  
Minister of Indian Affairs and Northern Development  
Presentation to Canadian Energy Pipeline Association  
Annual Dinner  
May 2006

Mr. Brintnell read this quote into the record. Mr. Brintnell added that Mr. Prentice had "also got the Alaska pipeline, McKenzie gas pipeline portfolio."

Mr. Brintnell associated Mr. Prentice's comment regarding the market forces with his statements about the necessity of competition.

Mr. Brintnell defined project management approach as "no different that what we're trying to achieve here; a step by step

process in which we go through each of the gates and make sure that this project makes sense."

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Mr. Brintnell recounted Enbridge being approached by the Yukon First Nation requesting information regarding pipelines. The company educated these residents with the basic fundamentals of pipeline construction and environmental impacts. The Yukon Territory government, the Canadian federal government and other agencies have also participated in dialog with First Nations. Many Native Alaskans had also never seen a pipeline.

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Mr. Brintnell acknowledged the "alarm bells" expressed by Alaska legislators upon learning of Mr. Prentice's expectation of Canadian benefits from an Alaska natural gas pipeline. Mr. Brintnell explained that the costs could not outweigh the benefits. Roads, bridges and other infrastructure would be constructed in Canada to accommodate the pipeline and Canadians must receive some benefit in exchange.

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Moving the Project Forward  
Final Thoughts

Enbridge believes:

- o Outstanding fiscal issues are the project's "elephant in the living room."
- o An unconditional commitment to advance the project is not achievable
- o AGIA will best serve Alaskans if it allows for the creativity and innovation that drives the market place.
- o Governmental financial assistance is not essential
- o Government can achieve key goals without adding to regulatory process
- o Canada will be ready for this project, but claims of exclusivity will be denied
- o Alaska should ensure that it does not create a process that is all about process

Mr. Brintnell remarked that until the State could address issues with producers regarding taxes, the project would experience no tangible progression.

Mr. Brintnell overviewed the bullet points on this page. He cautioned against creation of a process that would not accept proposals that did not meet every criteria, but that could provide value in different ways.

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Mr. Brintnell stated that governmental financial assistance on the pipeline project was not essential, although it could be of value to a potential applicant and should therefore be considered. Additionally, undue "regulatory complexity" should not be added to the process to create difficulty for potential shippers.

Mr. Brintnell recognized the "fear" and potential "fear mongering" that Canada would not be prepared for an Alaska natural gas pipeline. However, Canadian officials understand the importance of this project and were making preparations.

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Mr. Brintnell concluded his presentation.

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Co-Chair Stedman announced his intent in considering this legislation to identify solutions. He clarified that Enbridge did not deem the proposed \$500 million reimbursement incentives necessary to accomplish the project.

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Mr. Brintnell affirmed. Financial assistance was beneficial, but usually "comes with attachments". AGIA had attachments, and those attachments were of greater cost than \$500 million. The State funding would not necessarily be required to finance the project.

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Co-Chair Stedman spoke of the AIGA condition that if an AGIA licensee held an unsuccessful open season it would still be required to secure FERC certification. He asked Enbridge's opinion on this clause.

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Mr. Brintnell responded that Enbridge would not be placed in such a position that FERC certification must be pursued regardless of whether a successful open season occurred. Enbridge would not apply for a FERC certificate without knowledge of "where the producers were at."

Mr. Brintnell pointed out that the project would also require certification from the Canadian National Energy Authority (NEA). Achievement of the specificity necessary to convince shippers and producers to commit gas in a binding open season would cost "hundreds of millions of dollars". It could be possible to expend less and secure commitments in a nonbinding open season. Enbridge would not expend this amount to progress to an open season "beforehand not knowing the answer."

Mr. Brintnell identified two types of pipelines as "producer pushed" and "market pull". The proposed Alaska gas pipeline would be a combination.

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Mr. Brintnell explained that the Alaska gas pipeline would likely be producer pushed from the North Slope to Alberta Canada, and market pulled to the Lower 48 by utility companies. Regardless, if Enbridge were to engage in this project, it would have upfront knowledge of the shippers and whether those shippers would commit.

Mr. Brintnell characterized an unsuccessful open season as "career limiting". A pipeline company should always know upfront that an open season would be successful. Under the provisions of AGIA an open season could be held with no advance knowledge of whether shippers would commit.

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Co-Chair Stedman understood that Enbridge would not apply for the AGIA license.

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Mr. Brintnell affirmed that Enbridge would not be a sole applicant for the AGIA license under the current legislative provisions. Enbridge "hoped" to participate in a consortium. A consortium that included the producers would be required to undertake the project.

Mr. Brintnell qualified that if sufficient changes were made to AGIA that allowed "the producers to see their way to potentially make an application" Enbridge would "create enough value" to become part of the consortium.

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Co-Chair Stedman requested the witness identify the sections of this bill that were "troublesome" to Enbridge as well as solutions. Co-Chair Stedman commented, "It's easy to tear things apart; it's much harder to build things." Additionally, he asked Mr. Brintnell the provisions of AGIA he supported.

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Mr. Brintnell agreed, although expressed he was reticent to provide significant detail because Enbridge did not deem AGIA to be necessary. His greatest concern with the bill was the State's "must haves" listed in Section 43.90.130.

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Mr. Brintnell opined that this provision would create a situation in which the Legislature could not have the opportunity to view "the most creative solution, and the one that may in fact add more value." An application that failed to comply with one criterion could offer value in other forms, but would not be considered. This would be a "mistake".

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Senator Huggins, referencing Page 12 of the presentation, noted the statement that "Canada would be ready for this project, but claims of exclusivity would be denied." He requested an explanation.

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Mr. Brintnell asserted, "There is no exclusive right to build a pipeline in Canada." Whether the pipeline was constructed under the provisions of the Northern Pipeline Act or the NEBC Act, would be decided by the shippers and the market.

AT EASE [2:38:26 PM](#) / [2:39:01 PM](#)

[2:39:32 PM](#)

Co-Chair Stedman requested an elaboration of the argument that the project was "too risky - too big, too complex, too expensive - to move forward without producers". He asked the amount of the project that could be financed by the "downstream market".

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Mr. Brintnell replied that potentially hundreds of millions and possibly one half billion dollars could be committed from utility companies. He told of past dialog between Enbridge and utility companies on the topic. The actuality would depend upon approval from the regulatory authorities that governed the utility. Utilities need new gas supplies; however they require regulatory approval to make long term commitments. Because of the substantial funds involved, regulatory agencies must give applications careful consideration because "in the end, it's not the owners that necessarily going to bear the risk, it's moms and dads." The utility companies could increase supply for its customers, but if "they're wrong" the customers would be required to pay higher rates.

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Co-Chair Stedman asked the gross capacity of one-half bcf per day.

[2:41:42 PM](#)

Mr. Brintnell indicated a scope of a pipeline capacity of approximately 4.5 bcf per day. The producers would "step up for" the majority of the capacity. The utilities would not be able to "fundamentally underpin the project." Although the utilities could "top up" at the open season, they would be required to acquire the transport and the supply.

[2:42:34 PM](#)

Co-Chair Stedman noted the witness relayed that Enbridge was not "100 percent" supportive of the requirement for rolled-in rates, which was a FERC presumption. Co-Chair Stedman understood that Canada had rolled-in rates and asked the reason for Enbridge's lack of support for this.

[2:43:05 PM](#)

Mr. Brintnell informed that the "three most recent" cross border pipelines constructed between the United States and Canada involved negotiated rates. The shippers negotiated with the pipeline companies and secured fixed tariffs or tariffs that excluded a rolled-in presumption. While most of the gas transported through Canada was subject to rolled-in rates, this was not indicative of recent negotiations.

[2:44:02 PM](#)

Co-Chair Stedman relayed that discussions had occurred regarding a gas treatment plant, which would be necessary to allow a natural gas pipeline to be "usable". He asked if Enbridge had an interest in owning the gas treatment plant.

[2:44:38 PM](#)

Mr. Brintnell answered that the company engages in gas processing. Much of Enbridge's activities in the Lower 48 involved gas processing, mostly occurring in the state of Texas. "If the opportunity presented itself" he stated that Enbridge would consider partaking in gas treatment of Alaska natural gas.

Mr. Brintnell understood preference to locate the plant in Alaska to create a petrochemical complex and new industry. This was a "laudable goal". However, the distance from the market was substantial and capacity was available in Alberta, Canada to process the liquid gas. As a resource owner, the State could find that its ability to "create greater wealth for the liquids" might entail selling the liquid in Canada rather than construction of new facilities in Alaska.

[2:45:51 PM](#)

Mr. Brintnell furthered that the "midstream extraction business" was "highly volatile". Although "things look rosy today" as few as five years ago, the situation was not favorable. Oil prices and gas prices fluctuated and economically affected gas treatment operations.

[2:46:10 PM](#)

Senator Huggins identified the issue of a producer-owned or producer-partnered pipeline. The producers of the gas transported by the Alliance pipeline initially had part ownership of that pipeline with Enbridge owning 11 percent. As the pipeline project progressed, the producers divested from the partnership.

[2:46:45 PM](#)

Mr. Brintnell affirmed and detailed that the Alliance pipeline was the concept of the producers, intended to create more competition for the transport of the gas from western Canada to Chicago, Illinois. Enbridge "joined the process" and initially owned 11 percent of the project. As the design process and tariff negotiations progressed, the producers "stepped up" to participate in the open season along with Enbridge Utility. The producers eventually determined that partial ownership of the pipeline was no longer necessary "to get what they wanted", which was progression of the pipeline project and certainty of tolls and tariffs. At the time the pipeline was completed, no producers held ownership in the pipeline.

[2:48:11 PM](#)

Senator Huggins asked Enbridge's "experience" with the "boundaries" of debt-equity ratios. The current language of AGIA would provide for a ratio of 70:30, and suggestions had been made to adjust the ratio to 80:20 or 75:35.

[2:48:31 PM](#)

Mr. Brintnell replied that the debt-equity ratio of the Alliance pipeline was 70 to 30. This ratio would be "achievable" for the Alaska pipeline project. The Maritime pipeline had a 75 to 25 debt ratio.

[2:49:02 PM](#)

Senator Elton asked if the witness's statement that Enbridge would not submit an application for the AGIA license pertained only to the current provisions of the bill and whether the company might participate if the language were amended.

[2:49:37 PM](#)

Mr. Brintnell responded that Enbridge would not make a proposal in which it was the sole owner. The project must include the participation of the producers at least initially as equity owners. If the provisions of AGIA were modified to be "palatable" to the producers, Enbridge would consider submitting an application as one part of a consortium.

[2:50:30 PM](#)

Senator Elton concluded that the "best possibility" for Enbridge participation would be a scenario in which the producers constructed the pipeline rather than another pipeline company.

[2:50:53 PM](#)

Mr. Brintnell affirmed and reiterated that Enbridge did not envision the project progressing without the producers. The producers would have to bear the risk.

[2:51:33 PM](#)

Senator Elton clarified Mr. Brintnell's definition of "participation of a producer" as an equity stakeholder in the pipeline.

[2:52:16 PM](#)

Mr. Brintnell again affirmed and explained that in discussions with producers over several years about the proposed Alaska natural gas pipeline, the producers "want to be part of it" because they would bear the risk as equity owners. The producers have expressed, "If we're going to be bearing the risk as shippers" they should have control as equity owners. This was the "premise" of the Alliance pipeline. The producers' intent was to have input in the development of the pipeline.

[2:53:36 PM](#)

Senator Thomas spoke to the witness's concern that the "market may be moving on" and asked if Mr. Brintnell had an estimated timeframe in which this would occur.

[2:53:59 PM](#)

Mr. Brintnell answered as follows.

The reality is that some of that market [had] moved on already in terms of some of the fertilizer plants and other things. The power plants were moving on. I think that some of the environmental issues that are coming to the forefront will slow some of that down. But you and I and the rest of the North America haven't slowed our hunger for power, for electricity. So it's going to have to [indiscernible] somewhere. LNG may fill the gap but it's not the panacea right now either. I mean two or three years ago, the fear was Alaska gas has to get moving because LNG is going to eat its lunch. The reality is LNG is not moving that fast either because they're facing the same hurdles; the cost and labor and a whole bunch of other things including foreign control. So if it isn't LNG, it's going to have to be something else and it may well be coal.

[2:55:06 PM](#)

Senator Thomas next asked the capacity of the Alliance pipeline and whether it would have space available to transport any gas from Alaska.

[2:55:22 PM](#)

Mr. Brintnell informed that the Alliance pipeline was "fully contracted and full" to the year 2015. He did not anticipate that gas from Alaska would be available to transport before that date and production was declining in Alberta. Therefore, space would be available and the pipeline would be "easily expandable fairly cheaply" in the future "when the time comes".

[2:56:10 PM](#)

Co-Chair Stedman asked the "magnitude" of the cost of the Alliance pipeline project.

[2:56:20 PM](#)

Mr. Brintnell reported the cost in US dollars was approximately \$5 billion.

[2:56:27 PM](#)

Co-Chair Stedman surmised that Enbridge was therefore capable of undertaking a project of the magnitude of the Alaska natural gas pipeline "all else being equal".

[2:56:48 PM](#)

Mr. Brintnell requested clarification of the implied ability to construct the pipeline or the financial capability.

[2:57:02 PM](#)

Co-Chair Stedman specified that if firm transportation (FT) commitments were secured sufficient to proceed to application for a FERC certificate, Enbridge would be capable of undertaking the project. Testimony from other companies had asserted those companies were "the only ones in the world that can build it."

[2:57:22 PM](#)

Mr. Brintnell acknowledged that Enbridge would have the capability to build the Alaska natural gas pipeline but stressed the company did not have the "desire" to undertake the project independently. The project would be too big. Enbridge's "market cap" was approximately \$15 billion US dollars and this project would be "a bet the farm project if we were the sole owner". Instead, Enbridge would likely hold ten to 20 percent equity in the pipeline.

[2:57:49 PM](#)

Senator Thomas referenced Page 3 and the map depicting Proposed Pipeline Development in Canada and the contiguous United States. He directed attention to a route marked between Kimat, British Columbia and the state of California and asked if this reflected a proposed natural gas pipeline to central California.

[2:58:14 PM](#)

Mr. Brintnell corrected that the marking was an indicator of the proposed Gateway project to transport oil from the Alberta Tar Sands to offshore British Columbia with some oil shipped to Asian markets and some shipped to California.

[2:58:39 PM](#)

Senator Thomas asked if Alaska natural gas could be utilized to "assist in" this project.

[2:58:45 PM](#)

Mr. Brintnell replied that that the Alberta Tar Sands had a "growing need" for additional gas to produce oil. However, uncertainty of gas supply also existed, including uncertainty of whether natural gas from Alaska would be produced and transported. Therefore, the producers operating in Alberta were considering alternatives.

[2:59:16 PM](#)

Senator Thomas next noted the two year time period between application for the FERC certificate for the Alliance pipeline and issuance of the certificate as demonstrated on Page 4. He asked the "overall" timeframe between the "serious concept" of the project and construction completion.

[2:59:45 PM](#)

Mr. Brintnell answered that he would research and provide a response.

[2:59:54 PM](#)

Senator Thomas recalled the witness testified that the construction period was approximately two years.

[3:00:00 PM](#)

Mr. Brintnell stated that calculation of the total time period would require a definition of "serious concept".

[3:00:12 PM](#)

Co-Chair Stedman requested Mr. Brintnell expedite his identification of the "positive aspects" of the AGIA legislation as well as suggested language changes.

AT EASE [3:00:37 PM](#) / [3:02:07 PM](#)

[3:03:06 PM](#)

BRIAN WENZEL, Vice President, Alaska North Slope Gas Commercialization, ConocoPhillips, introduced himself and gave the following testimony.

[3:03:33 PM](#)

Mr. Wenzel:

Although ConocoPhillips supports and very much applauds the Governor for her efforts to move the gasline project forward we do not support AGIA as originally introduced. We do not support the CS [committee substitute] recently adopted by Senate Judiciary.

Rather we believe that AGIA needs a critical change; a change in approach. AGIA should be changed to allow an applicant to submit an application that achieves AGIA's intent but does so with a different mix of commitments and terms and conditions.

As a potential applicant, we need the ability to propose a comprehensive package - including critical resource terms that I'll talk about in a moment - a package that appropriately balances the risk and returns associated with the project while still providing the necessary maximum benefits to Alaska.

[3:04:33 PM](#)

Mr. Wenzel continued.

Now let me be clear that from ConocoPhillips' standpoint we very much want to develop our ANS [Alaska North Slope] gas resources. If we collectively can find a way with the legislature, with the Administration, with the public of Alaska, to make this project economic, those gas resources will be developed.

[3:04:55 PM](#)

Mr. Wenzel cautioned the following.

But conversely, if our upstream resources - the terms for developing our upstream gas resources - are not sufficient to make the project economic, it won't get developed. We need to find a way to essentially balance the risks - the massive risks - associated with this project and the development of those resources with the needs of Alaska.

[3:05:28 PM](#)

Mr. Wenzel shared:

The real question in my mind, the real question before us I believe, is not "what does it take to make a gas pipeline happen". Rather, I think the real question before us is "how do we make sure that Alaska's gas resources are developed."

We believe there's been too much focus on the pipeline and not enough focus on the upstream fiscal terms that are necessary to make the development of those resources economic.

We should all be focused on the upstream, on the resource side, where the vast majority of the project risk lies. I think you've had prior testimony and it's definitely come up before other committees about the nature of this project and how this project will get presented and put together. The fact that not only does the geologic risk - to the extent there is any risk with the upstream - but the upstream infrastructure risk, the price risk, the mid-stream, the pipeline infrastructure cost risk, lies with the upstream.

[3:06:32 PM](#)

Mr. Wenzel emphasized:

The vast majority of all risk associated with this project of developing ANS gas resources will rest with the upstream. We need to understand those upstream fiscal terms such that we can assure ourselves that the project is economic.

[3:06:48 PM](#)

Mr. Wenzel offered the following.

One way to essentially come to ground on those upstream fiscal terms would be to enter into a dialog, a discussion around our needs, our objectives and those of the State. In fact you've heard not only the producers but many of the third-party pipeline companies indicate [that] we've got to solve the upstream resource issues first and the pipeline project gets much easier.

From ConocoPhillips' standpoint, we definitely agree. We believe the best way to resolve these upstream fiscal terms is to sit down and have that dialog.

[3:07:31 PM](#)

Mr. Wenzel qualified:

Now admittedly that dialog, that discussion, has been characterized as just another negotiation by the Administration. AGIA is not about negotiation. We understand that.

By the same token, the Administration has indicated there unwillingness to discuss and adjust the upstream - the resource terms. So it seems this first avenue for resolving the appropriate fiscal structure for the resources is closed.

[3:08:03 PM](#)

Mr. Wenzel continued:

So then we turn to maybe a second alternative to resolve the necessary upstream resource terms, and that would be to essentially ask the business decision makers - those who need to make the investment and develop these resources - to put on the table, a comprehensive proposal of what it takes in terms of resource terms and pipeline terms, to make this project a reality.

[3:08:30 PM](#)

Mr. Wenzel made the following remark.

Unfortunately AGIA does not provide that flexibility. AGIA stipulates the exact upstream resource terms, in a limited fashion, that are available. Again as indicated, [AGIA] provides no flexibility for an applicant to propose a different set of resource terms.

[3:08:53 PM](#)

Mr. Wenzel summarized:

So again with the two best methods for resolving this issue - for resolving the necessary changes to the fiscal terms for the resource side - you can appreciate the quandary we're in, in terms of how to proceed with the project; how to move this forward.

[3:09:13 PM](#)

Mr. Wenzel informed:

Now I'll admit at the same time that we have many of the same concerns that you heard presented to you, I think yesterday, by BP around some of the other issues with AGIA. I don't want to discount those. But at the same time, for us the heart of the issue is how do we get comfortable with the upstream resource terms.

The inadequate resource terms stipulated in this piece of legislation causes the uncertainties associated with the project to outweigh the potential returns. That in turn prevents ConocoPhillips from participating in the AGIA process.

[3:09:52 PM](#)

Mr. Wenzel asserted:

If AGIA is not changed, we will not be able to make an application under the AGIA process. I said more generally, the lack of flexibility in AGIA will prevent ConocoPhillips from making an AGIA application.

[3:10:11 PM](#)

Mr. Wenzel communicated:

I also want to address a claim that came up just this morning in the paper where an Administration representative suggested the return on this project was in excess of 50 percent. I have to tell you from my standpoint, looking at internal project models; I've never seen a return on this integrated project anywhere close to 50 percent. In fact again my problem is rather that the returns on the integrated project are closer to zero than they are to 50 percent.

Our problem is the project as described through AGIA is not economically viable. We need different fiscal terms.

The claims that the project is wildly economic are simply misleading. This project is not wildly economic. If it were, it would be moving ahead.

The claims that it's wildly economic are based on a set of assumptions, which no one can guarantee. They're also based on an assumption that \$100 billion plus financial commission can be ignored when doing your project economics.

[3:11:22 PM](#)

Mr. Wenzel advised:

I would urge you to be very careful about the set of assumptions behind the claims of the economics of this project.

At the same time, if any one can step up and guarantee some of those assumptions, this project's ready to go. No doubt. If we could guarantee gas prices will always be high, capital costs will never increase, gas will be discovered in sufficient quantities to fill this pipeline, this project's ready to go.

[3:11:55 PM](#)

Mr. Wenzel characterized the aforementioned:

Those are the very risks that we as producers of gas lessees need to get comfortable with in order to advance this project.

[3:12:09 PM](#)

Mr. Wenzel reiterated:

Again from our standpoint we need to address some of those key risks and try to mitigate those with an upstream resource fiscal package to help us advance the project. That the easiest way for the State to help mitigate those risks.

[3:12:27 PM](#)

Mr. Wenzel pointed out the following.

Now resource risk has always posed the greatest obstacle to a gas pipeline. Long term clarity on State taxes and royalties is critically important to reducing those risks.

[3:12:45 PM](#)

Mr. Wenzel relayed:

The other thing I wanted to delve into a little bit is our other concerns on AGIA. You may have had the opportunity to hear my colleague, Wendy King, testify on numerous occasions over the last few weeks on AGIA. She repeatedly indicated that ConocoPhillips is very concerned with the AGIA process and the overly prescriptive approach. She strongly suggested that a mechanism be introduced into the bill to allow for resource lessees to propose alternate resource terms. She's recommended that the Committee make amendments to change AGIA's bid requirements to bid variables or broad objectives to provide the flexibility for an applicant to respond to those variables or those objectives in a way that presents the best package proposal. And she's frequently warned about the dangers of the exclusivity provisions that exist within AGIA and the danger that it could hamstring the State's ability to advance the project in the event that a licensee is chosen who cannot or will not advance the project for some reason.

Behind all of her testimony, lay numerous issues that concern us within AGIA. There are rigid deadlines, there [are] requests for initial shippers to subsidize future shippers or subsidize third-party pipeline companies. [AGIA] requires the waiving our due process rights. It requires parties to accept FERC certifications without the ability to negotiate any conditions on those certs.

There's a requirement that makes all project changes to the project subject to State approval and control. And again most importantly, AGIA as structured provides inadequate clarity and predictability around resource terms.

[3:14:46 PM](#)

Mr. Wenzel posed:

In the end all of our suggestions and concerns, recommendations can be boiled down to a request that AGIA be changed sufficiently that we can submit our best proposal and know that it won't be rejected simply because it doesn't meet all of the exact requirements - the must haves, the terms and conditions of AGIA.

As currently drafted AGIA would require that a proposal be rejected immediately if it doesn't exactly meet the terms and conditions of AGIA.

The Administration has indicated that if AGIA process does not produce enough bids or bids of sufficient quality, that they'll repeat the process; we'll start over. Our view is that both we as producers, you as the Legislature, the Alaskans, do not have the latitude - can't afford to wait a year to see if we get enough bids or get the right bids.

Rather we should find a way to make the process flexible enough to make sure all bids come in up front; all bids are put on the table and evaluated.

We're not suggesting ours will be the only bid. We're suggesting we want our bid on the table. We want to be evaluated and considered next to all other bids upfront as opposed in some later iteration.

[3:16:09 PM](#)

Mr. Wenzel expressed the following position of ConocoPhillips.

We believe that if AGIA - if the AGIA process - is truly to allow open and transparent competition it will allow each applicant to propose a set of work commitments, inducements, terms and conditions, which that applicant believes are best for all stakeholders.

In such an arena, where AGIA has been changed, we will bid. We will put on the table our best proposal, which we believe best meets the needs of Alaska.

[3:16:36 PM](#)

Mr. Wenzel:

And in terms of the process forward, I also want to point out in ConocoPhillips' view the most efficient, the most expeditious way forward on this project is for ConocoPhillips to work with BP and Exxon Mobil to advance this project. We can't ignore the expertise and the knowledge of these three producers. That consortium, in our view, needs to be the key or the core behind our proposal through AGIA if and when AGIA is adjusted to allow us to bid.

[3:17:16 PM](#)

Mr. Wenzel announced:

At the same time we've also indicated, not only before various committees, but also to other entities, that we are open to the possibility of including other entities in our consortium bid. To the extent that there are entities out there - be they third-party pipeline companies or other entities - who bring meaningful additions to our proposal to the table, we're happy to include those. For instance, to the extent that there are entities who could bring better ways to mitigate risk; better particular assets to the table, cash - cash is always welcome - all of these things. There are other assets that other entities could bring to the table and provide a meaningful contribution to a joint proposal.

[3:18:12 PM](#)

Mr. Wenzel began his summarization as follows.

In closing, ConocoPhillips very much want to develop our ANS gas resources. We want to do that by winning the AGIA license and constructing the ANS gasline. We want to participate in this process and truly compete by putting our best proposal on the table for administrative, legislative and public review. However, in order to get that proposal on the table - and in fact other creative proposals on the table - up front, AGIA needs to be amended to allow and indeed encourage

applicants to submit their very best proposal regardless of whether it actually conforms to each of the requirements - the must haves, the terms and conditions of AGIA.

[3:19:02 PM](#)

Mr. Wenzel informed:

Neither the producers, nor the Legislature, nor Alaska itself, want another delay that might come from an overly prescriptive process.

We need to encourage the greatest quantity and the greatest quality of bids in this first bid process. We need all proposals on the table and open for review.

[3:19:25 PM](#)

Mr. Wenzel concluded his presentation as follows.

We believe that Alaska deserves to see comprehensive proposals from companies that are already doing business here in Alaska and have the expertise and resources to make the project happen.

Alaska deserves to see the best proposals. At ConocoPhillips, we believe we can make a proposal that gives Alaska a project with the most jobs and the highest revenues.

But most of all, at this stage of the process, we want to be able to compete. We want to be able to put our proposal on the table and know that it won't be rejected.

In order for us to do that, AGIA needs to be amended to allow bidders to address the total risks of the project by proposing a comprehensive package including resource terms.

[3:20:22 PM](#)

Co-Chair Stedman commented on the appearance that ConocoPhillips was "reluctant" to become an applicant under the current provisions of AGIA. He requested that the provisions considered problematic by the company be identified and that suggestions of solutions be proposed. He sought constructive recommendations to advance the project.

[3:21:18 PM](#)

Mr. Wenzel responded that ConocoPhillips had suggested during previous hearings in other committees, various methods to amend the bill. He offered to provide those recommendations to the Senate Finance Committee. However, the "volume of the changes required to allow us to bid, to deal with the flexibility we need to put a competitive viable economic project on the table, is so great that we fear it can't be dealt with in the time allowed." Consequently, his testimony was intended to instead suggest "another way, which is to focus on amendments, which would allow the flexibility for [an] applicant to come in with a new mix of terms and conditions and commitments."

[3:22:16 PM](#)

Co-Chair Stedman spoke to the witness's mention of cash. The State would offer \$500 million to further the AGIA process. He was "getting mixed signals" in reaction to this proposal and asked if ConocoPhillips was "interested" in this incentive if it were to apply for the AGIA license.

[3:22:40 PM](#)

Mr. Wenzel answered, "Respectfully yes." The company would always accept cash contributions. However, this incentive was not in the best interest of Alaska nor would it be necessary in a competitive bidding process. Rather the State should obtain an equity position as its contribution.

[3:23:25 PM](#)

Senator Elton understood the Mr. Wenzel spoke in "umbrella terms" given his determination that the amount of necessary changes to the bill was significant. However, the testimony supported a "default" to the proposed contract negotiated between ConocoPhillips, BP and Exxon Mobile, and the Murkowski Administration and rejected by the previous legislature. Senator Elton asked how an application under the terms Mr. Wenzel suggested would differ.

[3:24:31 PM](#)

Mr. Wenzel replied that the involvement of competitive bidding would be the "critical" difference. His proposal would allow the State to benefit from an environment in which ConocoPhillips, BP and Exxon Mobile, if the companies formed a consortium and

submitted an application, would be required to compete against bids from other entities. The consortium would have to consider the possible incentives and commitments other applicants would propose. However, each applicant would have the option of proposing the best possible project.

[3:25:30 PM](#)

Senator Elton asked if AGIA was amended favorably for ConocoPhillips, whether the witness expected that the company would submit an application package that included specifics relating to taxes and other conditions needed to accomplish the pipeline.

[3:25:57 PM](#)

Mr. Wenzel affirmed that the objective would be "to stay as close as possible to the original terms of AGIA" and that the only variations would be those necessary to ensure a competitive project and that were acceptable to the company's board of directors.

[3:26:33 PM](#)

Senator Elton repeated his question, asking if ConocoPhillips would submit a bid that included resource tax structures for oil and gas.

[3:26:39 PM](#)

Mr. Wenzel answered, "Yes we would definitely."

[3:26:44 PM](#)

Senator Dyson posed a scenario in which an applicant was allowed to submit two bids, one that complied with the conditions of AGIA and another that the applicant determined would meet its goals "but had better ways of doing it."

[3:27:14 PM](#)

Mr. Wenzel would not oppose a provision to submit one or two applications "so long as we could do either-or".

[3:27:19 PM](#)

Senator Dyson clarified that an application compliant with the AGIA terms would be required before a noncompliant application would be accepted.

[3:27:30 PM](#)

Mr. Wenzel expressed concern that the conforming bid would propose a non-economic project that could not be financed or completed.

[3:27:57 PM](#)

Senator Dyson asked if ConocoPhillips was involved with any projects located in North America that had the degree of upstream fiscal certainty that was requested of AGIA.

[3:28:18 PM](#)

Mr. Wenzel answered in the negative. The outstanding element of the Alaska natural gas pipeline project was its "absolute size". Additionally, the company operated in no other location in North America that has a "regime where it is so dependant on oil and gas revenues for its future" earnings. He recognized ConocoPhillips' responsibility to provide revenue for the State for the long term and the issues that would arise "should the State run short of funds."

[3:28:59 PM](#)

Senator Dyson announced, "I just heard him say that they've got us over their hip because we've got to have the money."

[3:29:13 PM](#)

Mr. Wenzel viewed the situation in reverse as "the State has us over the hip."

[3:29:20 PM](#)

Co-Chair Stedman referenced a letter from dated July 24, 2006 to former Commissioner Bill Corbus of the Department of Revenue from Shell Exploration and Production [copy on file] that included the topic of FERC regulations and the presumption of rolled-in rates. He cited from the letter, "FERC regulations

should not be prospectively limited or conditioned in any contract or other agreement with the State of Alaska." He understood that Shell would not be an applicant for the AGIA license partially due to concerns on this issue. He asked the concerns of ConocoPhillips as a resource holder.

[3:30:19 PM](#)

Mr. Wenzel replied that ConocoPhillips did not oppose rolled-in rates. It was supportive of FERC regulations and its continued regulation of the "appropriate tariffs". The FERC process was "very established".

[3:30:52 PM](#)

Co-Chair Stedman indicated that his question was not answered explaining that language in the bill pertained to "appeal".

[3:30:59 PM](#)

Mr. Wenzel deferred to Ms. King.

[3:31:04 PM](#)

WENDY KING, Manager, Alaska North Slope Gas Development, ConocoPhillips, testified to the concern expressed on the issue of rolled-in rates. The FERC adopted regulations to provide that it would have a "rebutable presumption of rolled in rates up to the point that there was a subsidy." The current language of AGIA would limit a pipeline entity and shipper from "proposing an incremental rate if they believe that there is a subsidy." FERC was the "appropriate adjudicator" of issues relating to subsidies.

[3:32:21 PM](#)

Co-Chair Stedman next spoke to the debt to equity ratio of 70:30 percent. The State preferred a lower tariff. By lowering the equity requirement, the tariff could be reduced. He asked if the ratio should be changed to 60:40 percent or 80:20 percent.

[3:32:53 PM](#)

Mr. Wenzel opined that the State should not stipulate the debt to equity ratio, but rather set a preference for "more debt

where possible". The State should recognize the difficulty to secure financing for this project. The licensee would be required to utilize "every possible lender out there" to finance a project of its size. The licensee would not have latitude to require a specific debt to equity ratio. The licensee would possibly be required utilize a different ratio for tariff purposes than the actual ratio. This represented a "commercially unreasonable situation".

[3:33:58 PM](#)

Ms. King identified the greatest variable that would influence the toll was the capital cost of the project. She reiterated Mr. Wenzel's recommendation to provide the maximum flexibility to allow the "most financially reasonable financing" for the project.

[3:34:32 PM](#)

Co-Chair Stedman recounted the intent of the proposed project negotiated by the previous Administration, included an 80 to 20 percent debt to equity ratio.

[3:34:59 PM](#)

Ms. King affirmed "in the context of our intent." She explained the intent to utilize the federal loan guarantees, which were "drafted" with an objective of 80 percent debt to 20 percent equity. However, uncertainties existed as to the implementation of the federal loan guarantees. ConocoPhillips had intent to qualify for the loan guarantees and therefore comply with the 80 to 20 percent ratio.

[3:35:46 PM](#)

Senator Huggins utilized the assumption of the project cost of \$25 billion with gas production commencing in the year 2020. He recalled testimony that without the gas treatment plant, the tariff was predicted to be \$1.65. He asked the "bandwidth of desired, predicted, hopefully-will-be, tariff".

[3:36:21 PM](#)

Ms. King reminded of previous testimony in which she indicated ConocoPhillips would utilize a "gated decision making process".

As the project continued to advance, the cost estimate would be updated. Currently the cost estimate was uncertain. She recalled "the previously public figure back in 2002 was a total of about \$2.00 to \$2.40" depending on the calculation of the gas units. Steel and labor costs had increased, and the toll could actually be \$3 to \$4. Further engineering must be conducted and a better indication of the financing and capital costs must be obtained prior to the first open season. At open season parties would "make a best estimate" of the toll.

[3:37:37 PM](#)

Senator Huggins asked if the \$3.00 tariff estimate included gas treatment.

[3:37:48 PM](#)

Ms. King responded that toll figures included "GTP, the mainline to the Alaska/Canada border, includes to Alberta and also to the Lower 48". She furthered, "It is a necessary cost to get that gas moved from the markets in Alberta to [the] Lower 48 so we include all in cost estimates in the calculation of the toll."

[3:38:06 PM](#)

Senator Huggins expressed concern that the amount was twice the amount quoted to the Committee by the Department of Natural Resources, although it excluded the gas treatment plant. This "further underscores" the uncertainty of the tariff amount despite modeling efforts.

[3:38:44 PM](#)

Senator Thomas referenced Mr. Wenzel's complaints about the lack of flexibility and asked if issues other than those identified in response to Senator Elton's query existed.

[3:39:12 PM](#)

Mr. Wenzel added the concern about "the clarity of the predictability of upstream resource terms". He specified the "absolute production tax rate" and the stability of those rates over a period of time.

[3:39:30 PM](#)

Senator Thomas reviewed the provisions of Section 43.90.140. Initial application review; additional information requests; complete applications, and Section 43.90.150. Proprietary information and trade secrets, as well as the language pertaining to the initial application review, and failed to understand "that concrete of a rejection of any proposal based on such rigid details that are defined in the items." Instead he considered the provisions to contain many similarities to provisions of most requests for proposals (RFP). He acknowledged that the Alaska natural gas pipeline was larger than any project for which he had reviewed an RFP. The intent of this legislation was to minimize potential problems and to address matters in a "shorter period of time". He cautioned against "getting it so off track with too many incidentals or small things that people would like to see fixes but may not necessarily be a big problem."

[3:41:04 PM](#)

Mr. Wenzel informed that the upstream resource terms addressed in the provisions of the bill relating to inducements, "were very prescribed" and "hard fixed in AGIA" with no ability for an applicant to propose different inducements or different certainty on State taxes. Potential applicants need the ability to adjust "some of the terms of AGIA, never mind the requirements." The requirements were also an issue.

Senator Thomas understood Mr. Wenzel's original concern. Senator Thomas reminded that he had posed two separate questions.

[3:41:46 PM](#)

Senator Elton posed a scenario, in which AGIA was amended as suggested to provide for a competitive process without rigid guidelines, and ConocoPhillips submitted an application but failed to be awarded the AGIA license; an open season was held and ConocoPhillips did not participate; then, without exclusivity, ConocoPhillips had the option to leverage the State to "get what you want". He requested assurance that this would never occur.

[3:42:43 PM](#)

Mr. Wenzel disagreed with the characterization of ConocoPhillips leveraging the State. He proposed that the AGIA licensee selected through the competitive process, regardless of whom, should be able to compete with any project. The licensee should be forced to always be competitive against other projects. This would be in the best interest of Alaska. He expected that the licensee would have an advantage given that its project was started first. If ConocoPhillips were granted the AGIA license under the aforementioned scenario, he assured that it would continue to compete if other projects were proposed.

[3:43:33 PM](#)

Senator Elton opined that, "one ways you would demonstrate that is [to] not participate in [the] open season" because ConocoPhillips' project would be more tangible than the project sponsored under AGIA.

[3:43:52 PM](#)

Mr. Wenzel asserted that the decision to participate in an open season would be dependant upon whether ConocoPhillips deemed the project economically viable. The company would evaluate and determine if the risks were offset by the potential returns. This effort would be undertaken regardless of the project.

The bill was HELD in Committee.

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**ADJOURNMENT**

Co-Chair Bert Stedman adjourned the meeting at [3:45:05 PM](#)