

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 21, 2007

3:35 p.m.

MEMBERS PRESENT

Senator Charlie Huggins, Chair
Senator Bert Stedman, Vice Chair
Senator Lyda Green
Senator Gary Stevens
Senator Lesil McGuire
Senator Bill Wielechowski
Senator Thomas Wagoner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 104

"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."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 104

SHORT TITLE: NATURAL GAS PIPELINE PROJECT

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/05/07	(S)	READ THE FIRST TIME - REFERRALS
03/05/07	(S)	RES, JUD, FIN
03/14/07	(S)	RES AT 3:30 PM BUTROVICH 205
03/14/07	(S)	Heard & Held
03/14/07	(S)	MINUTE(RES)
03/16/07	(S)	RES AT 3:30 PM BUTROVICH 205
03/16/07	(S)	Heard & Held
03/16/07	(S)	MINUTE(RES)
03/19/07	(S)	RES AT 3:30 PM BUTROVICH 205
03/19/07	(S)	Heard & Held
03/19/07	(S)	MINUTE(RES)
03/21/07	(S)	RES AT 3:30 PM SENATE FINANCE 532

03/21/07

(S)

RES AT 5:30 PM SENATE FINANCE 532

WITNESS REGISTER

KEVIN TABLER, Land Manager and Government Affairs
Chevron
Anchorage, Alaska
POSITION STATEMENT: Spoke to SB 104.

VINCE LEMIEUX, Manager
New Ventures Alaska
Chevron
Houston, Texas
POSITION STATEMENT: Spoke of the need for SB 104 to create alignment.

TIM HOUSTON
Commercial Management, Alaska
Chevron
Houston, Texas
POSITION STATEMENT: Spoke to SB 104.

DAVID N. KEANE, Vice President
Policy and Corporate Affairs
BG North America
Houston, Texas
POSITION STATEMENT: Spoke to SB 104.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Resources Standing Committee meeting to order at [3:35:04 PM](#). Senators McGuire, Stedman, Wielechowski, Green, Huggins, and Wagoner were present at the call to order. Also in attendance were Senators Stevens and Thomas and Representatives Samuels, Ramras, Guttenberg, Dahlstrom, Gatto, Kawasaki, and Johansen.

SB 104-NATURAL GAS PIPELINE PROJECT

CHAIR HUGGINS announced the consideration of SB 104, establishing the Alaska Gasline Inducement Act (AGIA).

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KEVIN TABLER, Land Manager and Government Affairs, Chevron, said SB 104 will require a lot of discussion and corporate approval, so Chevron's comments are preliminary.

VINCE LEMIEUX, Manager, New Ventures Alaska, Chevron, said Chevron has been working, exploring, and producing in Alaska continuously for over 50 years. He said last year Unocal was at the heart of Cook Inlet and "very much a participant in driving the industry in the inlet, and Chevron purchased Unocal." Without that purchase both companies might not be in Alaska. It is one of the few companies that both produces and actively explores in the state. Chevron is the third largest operator and the fourth largest producer in Alaska.

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MR. LEMIEUX said over 300,000 acres were acquired by Chevron last year for exploration on the North Slope, so there is "a real commitment in terms of looking at...how to grow Alaska within the Chevron system." It is building a new rig to conduct a two-year exploration in the inlet. The rig will drill two or three wells, and then in October it will be placed on the North Slope. "That commitment doesn't really come to a company like Chevron, lightly." Cook Inlet is impacted by this change in ownership, he stated. Chevron will have at least two or three rigs running in the inlet developing oil over the next few years. One thing that Chevron has not gotten credit for is its underlying commitment to resources in Alaska. It spends a lot of money, and that is a change in the last year, "to the degree that they changed the name of the business unit, which used to be Mid-Continent Business Unit for Chevron, and now it's Mid-continent/Alaska." The change of a name is very significant in how people within the company identify with the opportunities that are there, he stated. Chevron has a large presence and commitment in Alaska.

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CHAIR HUGGINS asked Chevron's expenditures in Alaska.

MR. LEMIEUX said the expected capital budget for 2007 is about \$170 million, which is split evenly between oil and gas. Regarding AGIA, "This pipeline is a unique undertaking. There aren't any other pipelines like this in the world." It is unique from construction and resource-to-market perspectives. There are not many places in the world that are trying to move "this amount of product, multi-nation-type pipeline, and it really creates a lot of complexity...that we are concerned about." Big projects require the alignment of objectives and economics of all the parties. Managing misalignments through contracts are just "Band-Aids to a fundamental practically, which is alignment of parties that are participating in a project--becomes an important success criteria for long-term projects." He said alignment means: who is taking risk and how that risk is

mitigated. If one party takes more risk than others, that is misalignment, he said. The financial incentives are critical and how they are divided is absolutely critical. The stake holders must share in the benefits, he stated.

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MR. LEMIEUX said a phase gate system is required for managing a large, complex project. First, the framework must be understood and how elements are put together and how they are aligned. Then the alternatives must be evaluated and the planning must be detailed. He said it is dangerous to get ahead of yourselves in large projects.

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MR. LEMIEUX said Chevron views this project in the first phase of development. So it is assessing the proposal. The project definition is important. It is not a new topic. There is a very large range of variability in how to view the pipeline including big swings in proposals and that is a challenge for Chevron. He asked what the key elements are and where the truth is and added that there is uncertainty around the economics including the material costs of the line and competition of industry resources. It amazes him that there isn't more discussion about the cost of the pipeline. "No matter how you put together the economics, if you really don't understand the building blocks at the top, it's hard to access how the economics are going to be run." The pipeline is an amazing undertaking and will push technology, he opined. There has never been a pipeline like this regarding the pressures, volumes, environment, and distance, he stated. He said the pipeline is big enough "to create its own weather; in and of itself it will drive behaviors within the world markets," including the steel and labor markets.

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MR. LEMIEUX spoke of industry capability and said that "when you have a project that is this big...I'm starting to worry about if I'm successful in exploration, I better get my facilities in before the pipeline comes along, because when the pipeline comes along, and that's the focus, other projects aren't going to get done." He said there isn't enough capacity in the world to do everything, and the project will soak up the resources. He said he is amazed that there isn't a more vibrant discussion about the real cost of the pipeline. He worries about that. The fiscal certainty is a hot button, and if the tax rate is going to change, that adds a lot of risk. It is an important area. "If you're making a 20 or 30-year commitment—firm transportation commitment—you're going to pay that bill no matter whether the

gas gets shipped or not." He said 10 years doesn't seem like a lot in the context of this project.

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MR. LEMIEUX said the tariff structure means how the rent is going to be shared up and down the value chain. "We're going to take all these uncertainties around cost and schedule and design, and those are all going to be wrapped up into the tariff structure, and even that tariff structure can change over time." The structure can also change, he said. So how the values are shared between shippers, producers, and the state has huge uncertainty. It will make it difficult to make a commitment.

MR. LEMIEUX said access to explorers is one of the elements that can be misaligned. Chevron has been asked how it is going to participate with gas on the North Slope, and he wonders what that gas actually is. "With the uncertainty around Pt. Thompson, it's not clear that Chevron has a big stake in this discussion. We certainly want one." Pt. Thompson is important to Chevron, but there is a lot of uncertainty with how explorers get access to the pipeline. He said he wants to be an explorer and he wants to participate in the initial open season. Chevron is exploring the implication of a 15 percent potential rise in tariff over the course of the pipeline. "Now we have AGIA, now how does it fit into all of these elements within the overall project?"

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SENATOR STEDMAN noted Mr. Lemieux's chart of the keys to success that deals with a five-phase gate path. There has been a lot of discussion about certainty. "We actually have some form of a tighter structure than we have had in the past in other proposals. How tight do you feel the state can make those particular dates of those gates?"

MR. LEMIEUX suggested against being too prescriptive on schedule to the detriment of planning or allowing the pipeline builder to manage contracts and relationships. If the teams feel that the only goal is to meet a deadline, risk is increased. This project is pushing the envelope on new technology and techniques, so it would be more important to align the participants instead of focusing on a schedule, he said.

MR. HOUSTON said the five steps should run in series, and decisions should be one step at a time. He doesn't suggest committing to anything beyond one step. On a mega project, outcomes are either as expected or disastrous, he said. All the stakeholders need to be comfortable from one step to the next.

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SENATOR STEDMAN asked how the phases move forward and who makes those decisions--the foreman or the board of directors.

MR. LEMIEUX said the standard approach is to create a decision review board with expertise that is objective and not necessarily involved in the project. It also includes key stakeholders who will own the project. It is typically senior management determining if the team is doing a good job. He said his legacy is Unocal, and it was bought by Chevron. He asked what was going wrong that it got purchased by Chevron, and he concluded Unocal was not good at project management with the large projects on the horizon, and senior management decided that the projects would have more value in a company that could execute the projects more effectively.

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MR. LEMIEUX said it is a real eye-opener to see the rigor of another company. The phase-gate decision must be made by the right people who have a vested interest in the outcome and who have some objectivity, he emphasized. It is absolutely not done at the working team level, he stated.

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SENATOR WAGONER asked what new technology, other than higher compression, he was referring too.

TIM HOUSTON, Commercial Management, Alaska Chevron, said the proposed operating pressures are higher and diameters are larger than exists anywhere else. More steel or higher strength steel is needed, so it is new technology because it hasn't yet been applied, he said.

SENATOR WAGONER said that technology is not known yet because that project may not [indisc.]. That was last year when that was being discussed, and whoever brings up a proposal may come up with something different. There are a lot of [indisc.] inch lines. "I'm just trying to find out, other than those two variables, what would be the other technologies."

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MR. HOUSTON said if it were a 48-inch line at 1,500 pounds, it runs into a more expensive project and it might not fit some of the other parameters. "It's all a matter of trying to pick the right decisions from a number of different combinations to come up with an overall fit."

REPRESENTATIVE SAMUELS asked about the review board process and if the same process is followed if Chevron is just bidding gas into somebody else's pipeline.

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MR. LEMIEUX said each company has its own culture, and within Chevron that way of thinking permeates all elements of the business. It is a standard process for any decision, he said.

REPRESENTATIVE SAMUELS said between an open season and Federal Energy Regulatory Commission (FERC) certification, if the open season doesn't have enough gas to get the financing to build a line, "and we continue down the road to the certification anyway, what work is being done along those lines?" How much detail is required to get certified by FERC, he asked, and how much work needs to get done after an open season that did not have enough gas bid into it?

MR. HOUSTON said regulatory approval requires sufficient market support and enough of a finding to be able to view that it would be used and useful and in the public interest. So if only 60 or 70 percent is there, but the rest is expected, and the project proponent is willing to go through the permit process, it can do so and not build until the numbers are there.

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REPRESENTATIVE SAMUELS said, "You assume that Congress said that there is a need, and you did not need FTs [firm transportation commitments] to go through. And you have an open season that fails, how much can you design a project without talking to your customers about their needs? If I know I am going to ship 4 [bcf] of gas, and the first open season fails, but I know that I need to ship 4 [bcf] of gas, can I design a pipeline that would ship 4 [bcf] of gas without being a huge problem to my customers at the other end if I did not include them in the design work, if Congress has assumed that the need for the pipeline exists?"

MR. HOUSTON said the pipeline has to meet the needs of its customers, and there are many terms and conditions that go along with the service that's being provided. The provisions in the contract and the mechanisms are best worked out by discussion and through alignment of the stakeholders rather than being dictated by one of the parties at the table, he stated. It is important to try to understand the customer's needs rather than reduce the risk of the pipeline at the expense of the customers.

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SENATOR WIELECHOWSKI asked what Chevron thinks of the bill.

MR. LEMIEUX said it is a great step forward to engage people in the discussion and how to frame the project. He wants more information. The bill can't change the fundamental economics, and that is important. "Do I understand what the project is and how it's going to make money for the participants all the way up and down the line?" He said the bill brings forward inducements, but he asked if it goes far enough. He said everyone ought to be happy to be on that path.

CHAIR HUGGINS asked for an explanation of Chevron's presentation connecting fiscal certainty with waiting for expansion.

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MR. LEMIEUX said the project's timeframe makes fiscal certainty an important element. The greater the fiscal certainty, the more alignment there will be with the participants. He noted that fiscal certainty doesn't mean lower taxes, only predictable ones. Ten years is a start, but it is not long enough.

CHAIR HUGGINS said some people have said that open season is a major risk point in a project of this magnitude. He asked if that is true, and what other risks are in AGIA.

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MR. HOUSTON said, "If you've met with the customers ahead of time, if you've designed a package--terms and conditions--that is responsive to the needs of the customers, and you've properly gauged the market as far as how much demand there will be so that your rough design, cost estimate, and schedule are all realistic for that. And then you hold the open season and it fails--that would not be good." It would mean the market was overestimated or there was some other misalignment. If the open season succeeds, it validates that all assessments were right.

CHAIR HUGGINS said multiple parties have to make decisions and there's a risk about decisions not going the way you want them. He asked what other places have risk in the AGIA process.

MR. HOUSTON said fiscal certainty. Risk for the customer is different from the pipeline risk. The cost of the pipeline is the biggest risk for the customer, he said. There is a wide range of pipeline costs that people have discussed, and it is quite scary. The amount of gas moving through the pipeline is another question. Spreading the costs over just 35 tcf will cost

twice what 70 tcf will cost over the life of the pipeline. If the pipeline will recover the full costs from the first 35 tcf, it translates into more risk "for me as a customer."

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MR. HOUSTON said the schedule is another risk. The date when the pipeline is ready is important. Chevron has to spend money to get the gas ready to move because it will have to start paying for that capacity on a certain date, he explained. The risk is in pre-investing. All parameters have a risk component that falls to the customers, depending on the alignment.

CHAIR HUGGINS asked if Chevron were an applicant, could it predict the tariff.

MR. HOUSTON surmised that over 90 percent of projects have higher rates when they go into service than what the customers were told to expect during the open seasons.

MR. LEMIEUX said one real risk is around the ability of Alaska to become aligned. It is one aspect of AGIA that needs to be addressed. He worries about the alignment of the pipeline, producer, and Alaska. He asked how the teamwork will be managed over the next few years so the open season won't be a surprise.

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SENATOR STEDMAN said last summer the oil tax was restructured with a 20 percent investment tax credit to stimulate exploration and expansion in the North Slope basin. And he asked if that is motivating Chevron to explore.

MR. LEMIEUX said he doesn't perceive that the PPT structure is changing Chevron's investment strategy in Alaska. About Cook Inlet, he said, "The recognition that there are opportunities to redevelop the oil and given the macro-economics of oil today, that that made a lot of sense...It is turning out to have a large implication to how we view individual decisions. Obviously the individual decisions then roll up into the large strategic positions that the company takes. So I know it's embedded in there, but it is not quite as explicit as perhaps you might have characterized it in your question." He was not sure that the tax credit was driving behavior or activity.

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SENATOR STEDMAN said if you don't need it, we will be glad to take it back.

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REPRESENTATIVE SAMUELS asked what Chevron thinks about the rolled-in tariffs of 15 percent over the original rate.

MR. HOUSTON replied that different parts of Chevron have different views on how appropriate rolled-in tariffs are compared to incremental. He said the 15 percent is set up as a cap to limit rolled-in rates, so he is not quite sure how incremental rates would work once that cap is reached. If the stakeholders have allocated the risks and there are other benefits to offset the risks, it makes sense. If it is layered on top of an existing arrangement, it may not fit. It has to be approached from an overall alignment perspective, he stated.

REPRESENTATIVE SAMUELS asked about other places that Chevron does business. Canada rolls in its tariffs, so what would be the difference if Alaska did it.

MR. HOUSTON replied that it depends on the allocation of all the other risks and if it meets all the other stakeholders' needs. He said Chevron Canada loves rolled-in rates.

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MR. LEMIEUX said AGIA provides a nice step to get an active conversation going on how to move the project forward. It doesn't change the economic fundamentals, and it is important to know the economic drivers. Some of the areas that will create alignment are covered through AGIA, and other areas need work. Chevron is still assessing the inducements on the economics of the project. It hasn't had the time to do the work on the economics, he concluded.

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CHAIR HUGGINS thanked the witnesses for being candid and forthright. The cost, parameters, and timelines are important and need to be thought through.

The committee took an at-ease from [4:42:17 PM](#) to [4:46:15 PM](#).

DAVID KEANE, Vice President, Policy and Corporate Affairs, BG North America, said Alaska presents a lot of opportunity for BG. He said BG is an integrated gas major, and its primary interest is to find natural gas and monetize it. BG has a long history in natural gas and was once the monopoly provider in Great Britain. It now explores and produces all over the world. It also has income from liquefied natural gas (LNG) and is one of the largest transmitters and distributors of natural gas in Brazil,

India, and Buenos Aires. BG's market cap is about \$45 billion U.S. dollars. As an integrated gas major, BG's strategy is to secure resources, which is why it is in Alaska. North America and Europe is its market focus. It is building markets in Brazil and Bolivia, and Bolivia is a tough place to do business, "so we are happy to be in Alaska."

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MR. KEANE said BG is the largest supplier of LNG to the United States; it supplied nearly 50 percent in 2006. The global gas trade is important to Alaska. Up until just recently there were just three regions for supplying natural gas around the world and they didn't intermix. Producers in North America didn't send to another continent. Australian gas stayed in the Far East. But today the market has evolved considerably. "You have...the beginnings of a global gas trade, and BG is really in the vanguard of that global gas trade," he stated, "and Alaska does have a window of opportunity in order to secure some of the demand in the Lower 48."

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MR. KEANE said BG is heavily involved in Trinidad, Tobago, and Egypt. He emphasized that BG is "a project company and a heavily engineering company." He said Atlantic LNG is one of the largest providers of LNG to the world, and 73 percent of all the LNG coming into the U.S. comes from Trinidad and Tobago. The company took lessons learned there and applied them to projects in Egypt, "and we brought Egyptian LNG train-one on stream a good six months before it was scheduled and it was under budget." BG has 100 percent of the entry capacity at the Lake Charles LNG import terminal, and that was the impetus to move "our center of excellence for our LNG business from the UK to Houston, where today we also manage all of our shipping businesses." After acquiring that capacity, the base-load send-out went from 630 mcf per day to 1.8 bcf per day, primarily because of the projects that BG has sponsored with its partner. He spoke of the Elba Island import terminal and gas supplies to northern Florida. It will be the first time that northeastern Florida will have gas from somewhere other than the Gulf of Mexico. "As we found out during Hurricanes Katrina and Rita, it was absolutely critical because of our ability to divert some of our cargos that were destined for Lake Charles to Elba Island."

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MR. KEANE showed a slide of the U.S. LNG imports, and said BG has been its largest supplier in the last four years. That might change in a few years with all the big projects coming on stream

from the Gulf of Mexico. BG's pipelines include five ships that it owns. He said BG is partnering with Anadarko and PetroCanada in the foothills of the North Slope. There are 2.1 million acres, and exploration is expected to begin next year. The partners are building a rig to move there to do the drilling, where there are good prospects for finding gas. "It is a new frontier for BG." It hopes to be able to participate in the pipeline. "We are a leading player in the natural gas chain throughout the world. We support the pipeline contract, and as my colleagues from Chevron said, I think that we have to insure, as a new explorer, that we have access to pipeline capacity." That is critical when looking at North Slope investments, he stated. He said there are real opportunities.

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MR. KEANE said he is an optimist and nothing has changed in the supply picture since last year, and "if everybody was going to show up last year, why wouldn't they show up this year?" He believes Alaska will get to an open season and there will be participants to sign up for capacity. He said BG supports AGIA as the vehicle to start the ball rolling.

SENATOR WIELECHOWSKI referred to the prior testifiers and asked if AGIA gets the players in alignment or if changes need to be made.

MR. KEANE agreed that alignment is important. "You have the water trough and it is full, and I'm not sure what you can do to lead all horses to water." He thinks AGIA is a good opportunity and "once we see what the applicants provide, and BG is not going to be an applicant, I think there are opportunities for everybody to sit down and discuss what the real issues or concerns are." It is a good way to begin discussions, he said.

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REPRESENTATIVE SAMUELS noted that BG owns pipelines around the world. "Would you be willing to put your \$500 million up?"

MR. KEANE said he can't answer that question. BG will not be an applicant, but he believes AGIA is an inducement to get the serious pipeline companies involved and an opportunity to demonstrate that Alaska is serious about bringing this project forward. When independent pipeline companies come in, this mega-project will require a tremendous effort on a number of fronts. An independent pipeline company will need to spend \$1 billion to get the \$500 million, he surmised. There is a lot of regulatory, permitting, and environmental work "that will have to go into

developing what we're all going to be sitting down and talking about at the end of the day, which are the tariffs and what the project will look like." It is a good inducement.

REPRESENTATIVE SAMUELS said, "But you're not going to come and play."

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MR. KEANE said BG will sign up for capacity once it finds out it has gas supply.

SENATOR STEDMAN said \$500 million shows a commitment by the state. He asked if there are other ways of showing commitment.

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MR. KEANE said the bill is a show of commitment, including the speed with which it came to the legislature. The governor's staff talking to the players is also a show of commitment.

SENATOR STEDMAN noted that BG does projects all over the world, including Kazakhstan and Bolivia. Many feel that Alaska is very stable, and there have been comments that don't quite line up with that. He asked Mr. Keane's opinion of Alaska's fiscal stability.

MR. KEANE said Alaska has a lot to offer in terms of fiscal stability. "That doesn't mean that I wouldn't want to see some fiscal certainty in bringing gas to the surface and getting gas to markets." He believes Alaska offers a great deal of political and fiscal certainty for new explorers.

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CHAIR HUGGINS noted that BG was drilling for oil and looking for gas in Alaska. He surmised that BG would like a successful pipeline, an expansion to accommodate the gas BG discovers, and a low tariff. Mr. Keane said he agreed. Chair Huggins asked, "As a company with an international presence, what can you do to help us out on the front end of this process to get that pipeline that you can put your gas in at that low rate?"

MR. KEANE said BG is very interested in participating in the discussions. Once the applicant is chosen, BG wants to have numerous opportunities to interact with the state and federal authorities in terms of pipeline design and rate structure. AGIA is a good vehicle for beginning that process. He doesn't know what the economics will look like, but he would like low tariffs

in order to get the gas to market in a competitive manner. It will require tremendous effort by all participants, he said.

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CHAIR HUGGINS said he assumes that his company has made an estimate of the costs of this project.

MR. KEANE said it will cost a lot.

SENATOR WAGONER said BG is encouraging the state to enter into discussion with independent pipeline companies. He asked about working with the producers instead.

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MR. KEANE said BG prefers an independent pipeline company to develop and manage the pipeline. As a new explorer, it gives BG a great deal of comfort for getting access to the pipe once BG finds gas. He has heard concerns that an independent pipeline company won't be monitoring the costs, "but we're a producer as well and we will be a shipper on the pipeline, and we will not allow a pipeline company to gold plate a system." He believes FERC will do a good job determining what will be allowed in the rate base. Everyone will be able to provide comments to FERC, he explained.

5:10:09 PM

SENATOR WIELECHOWSKI asked the difference between having an independently-owned pipeline or a producer-owned pipeline.

MR. KEANE said the big difference is that the independent will increase revenue by increasing throughput and will want to see companies like BG get capacity on the pipeline and ship it to market. It may not be an advantage to a producer to give others access to the pipeline. BG would rather have an owner with an incentive to increase throughput rather than an owner whose incentive for increasing revenues would be by decreasing it.

SENATOR STEDMAN said FERC testified that it didn't matter who owned the pipe as far as "how they're going to rank folks that are going to have access to it." He asked Mr. Keane if he is saying that the rate base will be structured and managed different from FERC standards.

MR. KEANE said it will be regulated and the rates set by the FERC, so it won't, now, be managed any differently. "In terms of whether it should be a producer or not goes back to really our concerns that we had with the contract from last year."

SENATOR STEDMAN asked who owns the other large pipelines around the world. Is it common for major producers to be involved in the construction of a pipeline and then divest themselves of it?

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MR. KEANE said it varies. In the U.S. it is predominantly independent pipeline companies transporting natural gas. In the early 1980s, FERC forced those companies to allow open access and mandated access to available capacity for companies that had their own gas supply. In the 1990s, Order 636 forced the pipelines to unbundle. There is a long history of having independent third-party pipelines that do a very good job of developing, managing and operating pipelines. In other parts of the world, it depends. Some pipelines are government operated. The producers will get involved in building pipelines when and where it is necessary to get the product to market.

SENATOR STEDMAN asked if Mr. Keane has the impression that FERC is not interested in the Arctic basin opening up.

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MR. KEANE said FERC is absolutely committed to Alaska gas coming into the lower 48. He said he is not sure what the basin is.

SENATOR STEDMAN asked if FERC is interested in having more exploration and development of the Arctic area.

MR. KEANE said he didn't know. "I do know that they are extremely interested in and focused on the Alaska gas pipeline getting built and supplying natural gas to the Lower 48.

CHAIR HUGGINS said his interpretation is that AGIA makes it irrelevant in the evaluation process because it will be based on the capitalistic approach in who brings the best plan. "So what the person or persons bring forward would be irrelevant." One of the beauties of AGIA is guaranteed access for BG; is that true?

[5:16:26 PM](#)

MR. KEANE said yes; it guarantees that whoever submits the application will have to provide access to the new explorers.

CHAIR HUGGINS asked if AGIA provides enough access to ship BG gas in the future or if it could use modifications.

MR. KEANE said it does provide sufficient access. AGIA is the mechanism to encourage applicants to submit an application to

build the pipeline, and once the applications come in everyone will have a better feel for it. He is much more comfortable today than he was 12 months ago on getting access to pipeline capacity if BG finds gas on the North Slope.

[5:17:31 PM](#)

CHAIR HUGGINS surmised that it is irrelevant who builds the pipeline under AGIA because BG will get the access.

MR. KEANE said technically it is irrelevant. But looking at this mega-project, clearly anybody can submit an application. He expects some of the "big players" will apply. If the applications meet BG's requirements, then it wouldn't oppose it, but his company needs certainty on access.

CHAIR HUGGINS asked if he would have a higher level of comfort if there was a requirement to divest if the producers built it.

MR. KEANE said yes; he would be quite happy with that.

CHAIR HUGGINS said he is excited that BG is excited. BG has a performance record and is the type of partner the state wants.

SENATOR WAGONER asked if the producers will pass up the open season if they don't own the pipeline.

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MR. KEANE said he can't speak for the producers.

SENATOR WAGONER asked if BG would do that if it were a producer.

MR. KEANE replied no. "If I'm involved in the process going forward and we have a seat at the table discussing what the design of the pipeline will be, what the tariff structure will be. ... I don't see what's changed between this year and last year and in terms of how much gas supply I have available and whether or not I want to get that supply to market. So for BG...if we hit the mother lode and find 10 tcf of reserves, you can bet that we will be bidding on putting 10 tcf of reserves in the pipeline."

CHAIR HUGGINS thanked them on behalf of Alaskans and particularly the legislature for their comments. He recessed the meeting at [5:21:38 PM](#).