

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 26, 2007

3:36 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)	Heard & Held

03/21/07 (S) MINUTE(RES)
 03/21/07 (S) RES AT 5:30 PM SENATE FINANCE 532
 03/21/07 (S) Heard & Held
 03/21/07 (S) MINUTE(RES)
 03/22/07 (S) RES AT 4:15 PM FAHRENKAMP 203
 03/22/07 (S) Heard & Held
 03/22/07 (S) MINUTE(RES)
 03/23/07 (S) RES AT 1:30 PM BUTROVICH 205
 03/23/07 (S) Heard & Held
 03/23/07 (S) MINUTE(RES)
 03/24/07 (S) RES AT 1:00 PM SENATE FINANCE 532
 03/24/07 (S) Heard & Held
 03/24/07 (S) MINUTE(RES)
 03/24/07 (S) RES AT 3:00 PM SENATE FINANCE 532
 03/24/07 (S) Heard & Held
 03/24/07 (S) MINUTE(RES)
 03/26/07 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

Tony Palmer, Vice President
 Alaska Business Development
 TransCanada Corporation
POSITION STATEMENT: Commented on SB 104

Commissioner Tom Irwin
 Department of Natural Resources
POSITION STATEMENT: Available for questions

Commissioner Patrick Galvin
 Department of Revenue
POSITION STATEMENT: Available for questions

Bill Walker, General Counsel and Project Manager
 Alaska Gasline Port Authority
 Anchorage, Alaska
POSITION STATEMENT:

Paul Fuhs, Government Affairs
 Alaska Gasline Port Authority
 Anchorage, Alaska
POSITION STATEMENT:

Radoslav Shipkoff, Director
 Greengate Capital, LLC
 Financial Advisor, Alaska Gasline Port Authority

POSITION STATEMENT: Available for questions

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Resources Standing Committee meeting to order at [3:36:24 PM](#). All members were present at the call to order.

SB 104-NATURAL GAS PIPELINE PROJECT

CHAIR HUGGINS announced SB 104 to be up for consideration.

TONY PALMER, Vice President, Alaska Business Development, TransCanada Corporation, began with slide presentation showing the company's assets all over North America; it owns 36,500 miles of pipeline. He gave examples of pipelines TransCanada has built that are as big as the proposed project, and said that the company moves 15 billion cubic feet (bcf) per day of gas.

[3:40:33 PM](#)

CHAIR HUGGINS asked what the company would have done differently in retrospect rather than create six different parallel lines.

MR. PALMER explained that it turned out that Alberta produces 200 bcf yearly, not 50 bcf. As gas is developed, it is incremented; that is the best solution over time. No one knew where the gas was or what markets it would go to.

He said that quite often a pipeline is constructed depending on anticipations made in the first two years; it's impossible to build a "perfect" pipeline. It's less expensive to build a pipeline with some basis for increment and ultimately build a second parallel pipeline if necessary.

[3:43:01 PM](#)

CHAIR HUGGINS asked if he could tell his constituents that Alaska would not have six parallel pipelines.

MR. PALMER replied yes. If the pipeline is constructed, he would hope that it would be expanded quickly with compression and looping. The expansion would mean putting a second pipe in the same right-of-way.

[3:44:13 PM](#)

SENATOR WIELECHOWSKI said it looked like they were talking about similarly-sized projects.

MR. PALMER replied that the pipeline would run 1,750 miles in-state and 1,000 miles to Alberta; they are of similar scale. The Alaska pipeline would be an incremental increase of 5 percent over the existing network.

[3:45:44 PM](#)

He explained that TransCanada is the largest gas transmission company in North America. It serves different parts of the US and Canadian markets, and owns significant storage as well.

CHAIR HUGGINS asked for the diameter of the pre-build pipe.

MR. PALMER replied that it is in 36- and 42-inch sections.

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He explained that the company's cash flows are equivalent to or larger than the equity required for the Canadian portion of the project. The debt side of the project would be funded on a non-recourse basis, with equity provided by the sponsors. A single year of cash flow would cover the Canadian portion; a second year would cover the Alaskan portion. It is financeable with sufficient commitments.

SENATOR STEDMAN asked for a definition of TransCanada's cash flow.

MR. PALMER said that it's the net income plus the depreciation available from normal business.

He explained the company's experience in natural gas pipelines, including regulatory, social, environmental, and First Nations experience, and described the structure of the pipeline system within Alberta.

[3:50:17 PM](#)

SENATOR WIELECHOWSKI asked Mr. Palmer to talk about rolled-in rates in Canada and if they discouraged bids in open seasons.

MR. PALMER replied that Canada has used such rates for a long time and they have contributed to expansion; they have not dampened enthusiasm for bidding. As regards an initial pipeline

of 4.5 bcf per day, one needs to make assumptions about the timing for expansions.

[3:52:30 PM](#)

He continued to explain in further detail the amounts of gas TransCanada ships and how the tolls, compression, and looping factors are calculated.

[3:54:45 PM](#)

SENATOR WIELECHOWSKI asked why a bigger pipe wouldn't be built initially if there were expectations for expansion.

MR. PALMER replied that it is cheaper to expand a project when the gas becomes available if it isn't going to happen within the first two to five years.

[3:56:42 PM](#)

He then explained the Canadian portion of the Trans-Alaska Pipeline project where the pipeline is in the ground and has been expanded five times since 1981; the last increment was added in 1998. TransCanada built it under the Canadian Northern Pipeline Act and it met environmental standards.

He said that TransCanada's interest in the Alaskan natural gas project totals over \$2 billion and 30 years invested in bringing Alaskan gas to market. TransCanada holds valid and exclusive certificates issued under the Northern Pipeline Act (NPA) for the Canadian section of the project. These certificates do not have a sunset or expiry date, and a treaty was executed for the project.

He mentioned that questions about taxes and Canadian access are answered in the treaty. TransCanada has legal access to the land all the way through the Yukon in terms of easements, and has paid the fees for them through the years. It holds key environmental permits in Alaska and federal rights-of-way. TransCanada has offered to vend those assets to another partner if they finish a project subject to one condition: that they connect the line at the border.

SENATOR WIELECHOWSKI asked if Mr. Palmer was saying that there are no First Nations problems.

MR. PALMER said they have legal access to the Canadian land and have held it for 25 years, and that access has been recognized by the government of Canada and the First Nations.

[4:03:08 PM](#)

MR. PALMER described the Mackenzie project in Canada, which was subject to benefits negotiation and access agreements with First Nations. He said that TransCanada has commenced discussions regarding benefits, but they are not required for the project.

SENATOR WIELECHOWSKI said he was concerned with Canadian tariffs and the process that will need to be gone through in Canada.

MR. PALMER replied that the treaty between the US and Canada sets out the terms for the project. They will charge the Alaska gas pipeline similar property tax rates as their owners, so it won't be discriminated against. The Canadian government has committed to equal rates for Alaskan and domestic gas shipping.

[4:06:21 PM](#)

He said that with regards to the National Environmental Policy Act, Canada has an environmental review process and the project was approved nearly 30 years ago; the pre-build also met the environmental requirements. There will be issues, but the "go/no-go" decision won't have to be revisited.

He explained how the National Energy Board held competitive hearings and selected Foothills as the project sponsor; TransCanada was actually initially rejected. In the last decade, TransCanada has acquired an interest in Foothills to position itself for the natural gas project. The opportunity has been available to all competitors in the marketplace.

[4:09:00 PM](#)

He explained that transporting gas out of one country through another and back into the same one is not common. Canada will not be following the negative example of Russia and Tajikistan in doing so; the arrangements between Canada and the U.S. are fair, and Canada has honored that treaty for 25 years.

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He said that once National Energy Board approval is received, the project could proceed normally. There likely wouldn't be

subsequent legislation for the project; both countries have interest in expediting the project. The Northern Pipeline Act is not out-dated; the pre-build has been, and the remainder of the pipeline in Canada will be, constructed under the act. The act also established a single-window regulator, which will be disbanded once the construction is complete; that contrasts with the multiple agencies constructing the MacKenzie project.

[4:12:49 PM](#)

CHAIR HUGGINS asked Mr. Palmer to describe the hurdles the MacKenzie project had to clear that Alaska may have to address for its pipeline.

MR. PALMER replied that TransCanada is a minor sponsor of the MacKenzie project. It went through the traditional NEB process seeking environmental approval; the process should be completed later in 2007 and the project is seeking gubernatorial approval by 2008. As regards the Alaska project, TransCanada holds the certificate already; it has a single-window regulatory agency to provide oversight for the project, which is a significantly simpler process.

SENATOR WIELECHOWSKI replied that it seems there is a lot of gas in the MacKenzie project and he thought that Canadians would have more interest in getting its gas to market. He asked what kind of assurances there are that Canada would support this line or that one.

MR. PALMER replied that he can't speak for the Canadian government, which clearly seeks to move its gas to market; however it's not an either/or proposal for Canada. Both sources of gas are needed in the North American market, and the government of Canada signed the treaty with the U.S. 25 years ago. Canada has honored it since then.

[4:16:48 PM](#)

He explained that Foothills was granted exclusive rights, and the project was in the national interest of the US and of Canada. The commitments were not given with the expectation that the plan was only one of many ways to do the project. Financing would have been impossible if a second party held the rights.

[4:18:05 PM](#)

He showed a map of the Alberta system, and explained that the Nova Inventory Transfer (NIT) is the largest hub in North America. NIT has a capacity of 11 bcf per day; it has peaked at 60 bcf per day. The physical flows are 11 bcf; the financial flows are 50 to 60 bcf a day. It is the most liquid hub in North America. TransCanada's projection of spare capacity on the systems leaving Alberta means there will be sufficient room in ten years' time to move the entirety of Alaskan gas with no incremental expansions. This means there are two benefits for Alaskans: the gas could be sold in Alberta, or could be traded for diversification.

[4:22:11 PM](#)

CHAIR HUGGINS asked if taking gas in kind is common in Canada.

MR. PALMER answered that Alberta takes it in value principally.

[4:22:46 PM](#)

MR. PALMER showed a slide to explain how in 1990 TransCanada constructed 7,000 miles of pipeline under budget. He showed slides citing statistics on operating costs, the complexity of pipelines, compression maintenance, and the company's reliability in comparison to other parties.

[4:27:20 PM](#)

He then showed another slide regarding safety performance.

[4:27:41 PM](#)

CHAIR HUGGINS asked a question about a figure on the slide.

MR. PALMER answered that the figure was a question mark, and said that the final slide showed statistics for inspections of lines; TransCanada pioneered hydrostatic testing and it will become a standard.

[4:30:27 PM](#)

SENATOR STEDMAN asked Mr. Palmer to talk about risk to pipelines in different stages.

MR. PALMER replied that it's normal that a pipeline company would take cost risks. If a project is successfully certificated, the risk is shifted to the customer. The pipeline

company takes just a portion of the capital risk; if there was zero risk, they would fund with 100 percent debt.

[4:34:52 PM](#)

SENATOR STEDMAN asked if most of the risk faced before a successful open season could be diversified.

MR. PALMER replied that during the open season the company has the bulk of the risk. Once the project is in service, the risk is smaller because most of it has been spent on the project already. He added that pipeline companies always seek long-term contracts with credit-worthy parties. Some parties can pay the bills, and some can't; financial circumstances often change over time.

He then explained a FERC rule changing credit-party access which made parties no longer able to pay the bills; everyone had to recalibrate. Some parties now only provide a one-year letter of credit. In the event that gas wouldn't be flowing at the end of that one-year period, the risk would be borne by other parties.

[4:38:55 PM](#)

SENATOR STEDMAN asked for an estimate of what it would cost to get from the current date to open season.

MR. PALMER answered that analysis has not been completed. In terms of ball-park numbers, if gas were to be committed in an open season and necessary engineering would be completed, the cost would be tens of millions, but not hundreds of millions.

[4:40:26 PM](#)

CHAIR HUGGINS asked him to restate his comments on open season.

[4:40:36 PM](#)

MR. PALMER replied in explaining that if TransCanada is picked under AGIA, it would quickly develop costs so it could put forward the appropriate charges from the pipeline to the customer to allow them to make a decision as to whether they are ready to commit they gas to the pipelines. This would be done in a period of months, not weeks or years.

[4:42:00 PM](#)

CHAIR HUGGINS mentioned the \$500 million in incentives in AGIA, and asked if TransCanada wouldn't be able to do the project without them.

MR. PALMER replied no. The company would prefer to risk-share with Alaska through the open season process. To date, parties have been unwilling to commit gas, so there is significant uncertainty going into an open season. TransCanada's proposal would share the risk before open season; in the event the project is successful the \$500 million would not be included in the tolls.

[4:43:54 PM](#)

CHAIR HUGGINS remarked that Mr. Palmer's prediction for costs leading up to an open season was less than the incentives offered, and asked if the company would not need that much money to become involved.

MR. PALMER replied that that was correct. He continued on to explain TransCanada's efforts to work on the pipeline project, and how it owns certain assets. He said that the company had responded to requests from the previous administration to come up with alternatives under the Stranded Gas Act framework.

[4:47:25 PM](#)

SENATOR WIELECHOWSKI asked if TransCanada is not selected it will turn over its rights to the winner.

MR. PALMER replied that TransCanada is prepared to vend its assets in Alaska, but not through Canada; it wants to construct the pipeline in Canada itself.

[4:49:18 PM](#)

SENATOR WIELECHOWSKI asked what it would take for another company to get similar rights in Canada.

MR. PALMER replied that that would be assuming TransCanada didn't try to defend its rights, because they are exclusive. A company would have to seek to obtain a right-of-way from the National Energy Board and the Canadian Environmental Agency, obtain access from First Nations, decide if it would connect with the existing system or build another line, and go through a MacKenzie-type review process.

[4:51:10 PM](#)

He stated that to date the state and the producers have not reached an acceptable agreement on the pipeline project; TransCanada supports moving the project forward immediately. He reaffirmed TransCanada's position that all stakeholders are best served by having a large-scale pipeline project proceed expeditiously; a compromise is required from all sides. He then said he would be discussing concerns about AGIA, which establishes specific application requirements.

[4:54:25 PM](#)

He said that TransCanada accepts the necessity of Alaska's need to implement a new process. However it is concerned as regards the proposed obligation for the licensee to proceed to obtain FERC certification regardless of open-season outcome; if the requirement isn't amended independent companies may not participate.

He said that AGIA proposes cost-sharing on a 50/50 basis through the initial open season, and up to 80/20 after certification; TransCanada is supportive of the 50/50 sharing but is concerned that a private developer would be reluctant to commit money if the initial open season hasn't attracted enough commitments to make the project viable. The time and money costs of pursuing the FERC certificate are substantial. TransCanada recommends the removal of the requirement of licensee continuing towards FERC certification in the event of an open season that doesn't attract sufficient gas commitments. At present, TransCanada will continue to work towards an arrangement between the three producers, Alaska, and Canada.

[4:57:22 PM](#)

SENATOR STEDMAN asked if TransCanada is not interested in going beyond a failed open season without firm shipping commitments.

MR. PALMER replied that TransCanada is interested in pursuing commitments, but it is not appropriate to require pursuit of a FERC certificate; there has been a certificate for the project for 30 years. TransCanada wants to focus on getting customers as opposed to doing the engineering, regulatory, and legal work needed to capture the certificate, costing maybe hundreds of millions of dollars with no assurance at the end that the company would get customers.

SENATOR STEADMAN said that getting to open season would cost tens of millions, and going beyond a failed open season would cost hundreds of millions with no insurance of customers.

MR. PALMER said that was correct; TransCanada would prefer to continue to pursue customers and not spend FERC certification dollars.

SENATOR STEADMAN said that AGIA proposes a significant split in cost sharing which could put a company in an uncomfortable position.

MR. PALMER agreed; appropriate expenditures beyond a failed open season would be for capturing gas, as opposed to pursuing certification.

[5:01:09 PM](#)

CHAIR HUGGINS opined that a successful open season is a critical event.

MR. PALMER said as the project proceeds, there are a number of important tests such as how AGIA ends up and what the actual request for application and the costs will be. During the open season process, TransCanada would put forth the best proposal possible to try and attract customers. Until that time, barring a pre-arranged collaborative agreement, open season will be the most significant factor.

[5:04:03 PM](#)

CHAIR HUGGINS mentioned that Enbridge had said that if producers didn't participate there would be no pipeline.

MR. PALMER answered that he didn't hear that testimony; he said that if there are no customers and no credit there will be no pipeline.

CHAIR HUGGINS asked a member of the administration to come forward to address questions.

[5:05:23 PM](#)

SENATOR WAGONER referenced prior discussion regarding the length of a pipeline and the placement of gas treatment plants, and asked Mr. Palmer for comment.

MR. PALMER said that TransCanada is prepared to construct the Alaska section alone or in part. Sometimes producers own treatment plants, and TransCanada is open to that. It may be the most logical solution for the builder of the pipeline to own the gas treatment facilities. However, TransCanada would be willing to own the treatment facilities.

[5:07:20 PM](#)

CHAIR HUGGINS noted that Commissioners Galvin and Irwin had joined the hearing, and asked them to comment on the possibility of a failed open season and TransCanada's reluctance to continue towards FERC certification.

[5:07:46 PM](#)

COMMISSIONER GALVIN, with the Department of Revenue, replied that different positions have been staked out over the years, and the state has an interest in protecting those positions. AGIA is trying to open the process up to as many participants as possible; the bill was not crafted with any particular party in mind.

[5:10:56 PM](#)

COMMISSIONER IRWIN, with the Department of Natural Resources, commented that AGIA is focusing on the pipeline issue; the process is high-centered. The state doesn't want to be held at the mercy of something undefined. It's a credit to TransCanada that the company is participating in the process, and it must have a lot of faith in the Canadian side.

[5:12:58 PM](#)

SENATOR WIELECHOWSKI said he was concerned about a gap in AGIA regarding communication between various parties.

COMMISSIONER IRWIN said that question has been asked for years, and that communication is a two-way street. The state is listening, but has to be told what people need.

SENATOR WIELECHOWSKI said he was worried that parties are not communicating enough, and asked if AGIA sufficiently addresses the issue.

[5:15:05 PM](#)

COMMISSIONER GALVIN replied that the state has experience with the Stranded Gas Act model. There is not a shortage of

opportunity to communicate, but an imperative is needed to reach an agreement on moving the project forward. AGIA is not a hindrance to communication; it sets up the opportunity and imperative to keep a high level of communication.

5:17:34 PM

CHAIR HUGGINS said he didn't recognize those qualities in AGIA, and he is concerned about an unsuccessful open season and resulting certificate requirements. There should be meetings with key players to go over the importance of successful open seasons.

5:18:21 PM

COMMISSIONER IRWIN said the state needs to hear other players frame the issue and discuss what they need or don't need. Until then, the state is in a precarious situation.

5:19:35 PM

CHAIR HUGGINS said that if the open season is unsuccessful Alaska will be leveraged.

5:19:58 PM

SENATOR GREEN agreed with the chair, and said that a response to Mr. Palmer's comments was needed.

5:21:01 PM

COMMISSIONER IRWIN replied he was paying TransCanada a compliment by pointing out how much money and time the company had invested.

SENATOR GREEN said that didn't answer the comments.

COMMISSIONER IRWIN replied that the state needs framing from the other side; it is more than willing to spend the time necessary to solve the communication problems.

SENATOR GREEN replied that the response was unhelpful.

5:22:20 PM

SENATOR MCGUIRE said that it would be giving away the state's negotiating position to respond directly to the question and

imply that the state would be willing to finance without required FERC certificate application.

COMMISSIONER IRWIN concurred.

SENATOR STEDMAN said he didn't agree with that explanation. Different companies have come forward and said they want to see state commitment besides cutting a check.

[5:25:19 PM](#)

MR. PALMER said that TransCanada recognizes the necessity for the state to change the dynamics, and parties do need to compromise.

The committee took an at-ease from [5:28:06 PM](#) to [5:37:07 PM](#).

[5:37:11 PM](#)

MR. PALMER said that TransCanada accepts the necessity of changing the dynamics of the project. The key issue is obtaining customers, and AGIA is an initiative to try and do that. TransCanada does believe that there are other initiatives beyond the open season that can capture sufficient customers, and the company would clearly try to do so. The state proposal has changed the dynamic and the matter is in the hands of the legislature. All parties are looking to advance the project, and TransCanada has offered a compromise. It is for the state and the three producers to decide if they will do the same.

[5:40:37 PM](#)

SENATOR STEDMAN said several years ago there was a lower gas price and a diversion and substantial price increases that led to a whole new set of financial considerations; one could now make an argument that the gas is not stranded at current prices. He asked if Mr. Palmer has seen a move to drive the project forward regardless of political issues.

[5:41:41 PM](#)

MR. PALMER replied that it is true that price forecasts are significantly higher than five years ago. The cost increase in the oil and gas business been partially caused by the high price of gas and oil; this has happened before and can happen again. It is a cyclical business. The price of gas is better today and

it makes the project more economically feasible, but to date stakeholders haven't been able to advance it.

[5:43:53 PM](#)

SENATOR STEDMAN said there has been discussion of window of opportunity and of first gas coming in 10 years. He asked for the company view on LNG and the impact relative to getting the project on-line.

[5:44:25 PM](#)

MR. PALMER said he had some analysis of projections of natural gas demand, and as prices rise, demand falls. Customers reduce the demand for gas and there is also an expected increase in supplies. The traditional basins have not been very responsive to the higher price; the expectation is that higher prices would drive increases in the expectation of supply, but that has not happened. The opportunity for the Alaska project remains, because the traditional basins in North America have not responded. In the event that LNG continues to come ashore, the potential remains that this project will compete against a brown field; this is more difficult to predict than competition against a green field. LNG and natural gas are both needed in the marketplace, but it serves no project for competitors to succeed.

[5:47:10 PM](#)

He said that a project needs to be in place to capture rolled-in toll investment opportunities. Most LNG projects would have the opportunity to reduce those costs over time. The Alaska project would be well-served to advance when it is a green field competing against a green field.

[5:48:00 PM](#)

COMMISSIONER GALVIN said that, regarding Senator Green's question about FERC certification, the state is trying to set up a sense of competition. It is not trying to shape the demand towards any particular applicant, so the legislature should wait until hearing from all testifiers before expecting an answer. The AGIA deadline for an application is a sort of impetus, meant to have the companies take the opportunities to participate individually or jointly. The state wants to get the project to an open season and ask to the producers if they will accept a certain tariff rate and sell at a particular price. The state is

trying to create the best project to get to that point. If a producer says no, one of the reasons is because the uncertainty makes them uncomfortable. The next phase of the project is FERC certification, which will mean different questions, parameters, and risk components than initial open season. That is the point at which whatever is wrong or missing needs to be acknowledged. That's TransCanada's argument; they don't see value in the FERC certificate requirement, and the state does.

[5:52:52 PM](#)

He said in the end everyone is trying to get to a successful open season. If commitments aren't procured, the state must try something else, but it isn't ready to agree to that now.

CHAIR HUGGINS said of the two pipeline companies he has talked to, both have said the risk brought by an unsuccessful open season is scary; his gut feeling is that he doesn't want to deal with an unsuccessful open season. It is less risky to deal with the issue now. The legislature owes Mr. Palmer an answer, and he shares his concerns.

[5:55:00 PM](#)

He added that he has heard multiple positive comments on the candor of Mr. Palmer's presentation; he looks forward to a possible partnership with TransCanada.

The committee took an at-ease from [5:56:05 PM](#) to [6:00:41 PM](#).

BILL WALKER, General Counsel and Project Manager, Alaska Gasline Port Authority (AGPA), said he wouldn't go through the details of the project at the time but would instead address concerns with AGIA. He related the history of the AGPA and said that it has an IRS ruling stating it is tax-exempt; the Yukon Pacific Corporation (YPC) has a similar story. It is a huge advantage for the APGA to have a warehouse full of data on the project. In addition to acquiring YPC's rights and data, AGPA has worked with an array of other entities and has the ability to put together a viable project.

[6:04:22 PM](#)

He explained that the APGA has seen the economic model for and benefits of the project; no companies have walked away from the economics of the project. AGPA has the same goal as the legislature, to maximize the benefits of the resources for the

people. He then described AGPA's proposal for the project, including capacity and location. Supply to south-central Alaska would be an important factor and gas would be made available along the route to Fairbanks as well. AGPA views itself as a facilitator for the project; many of the pieces have been gathered together already and it is pleased to hear about the producers being willing to sell gas to a third party project.

CHAIR HUGGINS asked Mr. Walker to elaborate on his concerns about open season.

MR. WALKER said he is hoping for a successful open season, and based on the testimony, he believes there will be one. The initial project is small enough that it's within the limits of what's allowed to be taken off of Prudhoe Bay. There's no additional discovery required.

[6:08:32 PM](#)

CHAIR HUGGINS asked what Mr. Walker's thought process would be in case of a failed open season.

MR. WALKER replied that certification would depend on how the project was structured. AGPA wouldn't leave the project just because of a failed open season.

CHAIR HUGGINS commented that Mr. Palmer prefers to spend money towards guaranteed success.

[6:09:58 PM](#)

MR. WALKER said he doesn't disagree with Mr. Palmer's testimony. AGPA has participated in the Pt. Thompson issue and is pleased with that approach. Attracting investors after a failed open season would be difficult; having gas is important for the project.

He then read a prepared statement regarding AGPA's approval of the AGIA approach and how rolled-in rates will work well for the project. The initial shippers have the advantage of getting their product to market earlier. AGPA is also supportive of gas off-take points to allow for use by Alaskans. They're not a prohibitive expense.

[6:13:43 PM](#)

He said that said AGPA did not request the \$500 million in inducements, but it believes it is appropriate; it is not an

outright grant, and the provision will help advance the project. The previous proposed contract offered inducements only to producers.

Industry representatives have approached the state to say they want fiscal certainty before they will proceed with the project. To protect the interest of Alaska, the legislature should always retain the authority to make decisions on the tax rates. While the APGA would be willing to submit an application under AGIA, the bill can be improved. He then made a list of suggestions for improvement, including adding provisions for a project in Canada; it should include a detailed description of how gas will get from Alberta to the Midwest.

[6:16:40 PM](#)

MR. WALKER said that applicants require an initial off-take from the Prudhoe Bay unit greater than what's presently allowed by the Alaska Oil and Gas Conservation Commission (AOGCC). An increase should be considered to allow for larger projects.

SENATOR WAGONER said that AOGCC is revisiting the issue to see if the model is correct; it may be high. During the prior administration the AOGCC was relying on Point Thompson numbers.

[6:18:30 PM](#)

MR. WALKER said the normal way to re-examine the numbers would be through an application; Point Thompson has a tremendous amount of liquids and gas, so it is an important question.

CHAIR HUGGINS said that 2 to 2.5 bcf was APGA's target.

PAUL FUHS, Government Affairs, Alaska Gasline Port Authority, said that the goal is an economy of scale. He referenced a Canadian pipeline to show the risks of different output volumes.

[6:20:15 PM](#)

MR. WALKER said that AGIA should include a timeline for the discovery of additional gas; the applicant should be required to do so. An additional criterion is value-added processing, and it would be helpful to know if the liquids would be staying in Alaska. Timeliness of construction should be a high priority as well; previous net present values show that an earlier project brings more value to the state.

He added that there has been much testimony about risk, especially regarding a line through Canada. There is a significant risk of cost overruns and volatility in the market.

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He said that said the most important decision is choosing the right-sized project. Some think a large project would be better, but the size holds inherent risks; it requires participation from all producers, who can compromise one another. AGPA would be willing to build through Delta Junction as long as there was no serious delay for the Canadian portion.

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He explained that a shorter pipe has a distinct advantage in terms of cost overrun risks. LNG tanker will have smaller degrees of uncertainty. A partner shipping company with AGPA has eight tankers that will be available. A Canadian highway project has the risk of unresolved First Nation claims and right-of-way agreements; an LNG project must identify and recognize the challenges. An all-Alaska project would be more able to move ahead in a timely fashion. One main concern of APGA is that Alaska might miss the market.

[6:28:03 PM](#)

He said that if Alaska misses its window of opportunity the gas could become stranded, which it is not now. It's not the biggest project out there, but it's viable and it'll bring tremendous benefit to the state.

[6:28:58 PM](#)

SENATOR WIELECHOWSKI said his concern is the fear that there will not be a successful open season; he asked what the likelihood for a successful season for this project would be, and what kind of revenue the project would bring to the state.

MR. WALKER said there is not enough information available to compare to other projects.

RADOSLAV SHIPKOFF, Financial Advisor to the AGPA, said it is difficult to compare AGPA's economics with other projects. The lower volume is not a disadvantage; it will allow a project to proceed and expand. As long as the economics are sustainable it is a positive thing. AGPA deals with the first phase of the

project and uses the existing resource base, which may require larger reserves to go forward.

6:33:04 PM

SENATOR WIELECHOWSKI said this project is less expensive, and asked if that would result in lower tariffs and thus more money to the state.

MR. SHIPKOFF replied that there are costs associated with moving gas to Valdez, marine transportation, and tolls. There's no additional strain put on the capital market, and regarding the cost of the project AGPA can compete with any other proposed project.

He said that he was not sure the project would make more money for the state, but the project can fit within the existing reserve base and it can proceed sooner rather than later.

6:35:21 PM

CHAIR HUGGINS asked for numbers regarding revenue to the state at certain capacities.

MR. SHIPKOFF replied that he didn't have the numbers available but could provide them later. AGPA is in the process of updating its analysis in preparation for an application.

CHAIR HUGGINS asked about the company's relationship with Harold Heinz [CEO of the Alaska Natural Gas Development Authority (ANGDA)].

MR. WALKER replied that AGPA operates independently. ANGDA has a right of way to Palmer, and AGPA has one to Valdez. It makes sense to work together in some capacities; there is confidential information the companies share with one another, and the boards have talked about having joint meetings. However they are separate entities with distinct missions.

6:37:57 PM

CHAIR HUGGINS asked for comment on possible expansion of a portion of pipeline going to Valdez.

MR. WALKER replied that AGPA has not proposed anything like that; their project has always been a 48-inch line. Adding compression is cheaper than adding pipe.

MR. SHIPKOFF said the pipe is expandable to 6 bcf without any need for looping; the 48-inch pipeline is the optimal starting point, and the pre-build needs to account for expansion.

[6:39:52 PM](#)

CHAIR HUGGINS asked who would build the pipeline, and if there would be an affiliation with a pipeline company.

MR. SHIPKOFF said that AGPA may or may not be owner and that answer has not been determined. AGPA will use its role as a catalyst to bring in reputable participants. AGPA doesn't have the technical ability to build the pipeline, and would have to get a contractor; it couldn't get financing without a good contractor.

CHAIR HUGGINS asked what companies were in partnership with AGPA.

MR. WALKER said the company has a number of partners including a law firm in New York. The relationship with Sempra Energy is ongoing; that company was concerned about the past administration and thus changed its relationship with AGPA. Some entities have looked at the project and seen a very low risk.

SENATOR WIELECHOWSKI asked if APGA needs fiscal certainty including locking in tax rates.

[6:43:57 PM](#)

MR. WALKER said AGPA is comfortable with the statutes as they are.

MR. SHIPKOFF said there is a distinction between needing and wanting fiscal certainty. Companies don't want to pay higher taxes. Many places around the world don't provide fiscal certainty; countries with political uncertainty offer some degree of fiscal certainty. The UK, for example, increased taxes from the North Sea but companies still do business there. The AGPA discussion has been tied to taxes at the upstream, where impact variation is significantly less. AGPA could participate without certainty where another entity would want it.

[6:47:44 PM](#)

SENATOR STEVENS asked why AGPA has an advantage.

MR. WALKER replied that the Yukon Pacific Corporation has already spent money to bring the project together, and has a right of way and permits that will need to be updated; the company is starting from a more advanced position. AGPA possesses significant data as well; it is at least a three-year advantage.

CHAIR HUGGINS referenced a document regarding a provision that extends the pipeline timeline, depending on financing, and asked for Mr. Walker's comments.

[6:50:42 PM](#)

MR. WALKER said the five-year provision could be shortened to four years.

CHAIR HUGGINS referenced a provision for project insurance, and asked if that was important to AGPA.

MR. WALKER said that provision would not be a deal-maker or deal-breaker. The language is helpful but AGPA will proceed regardless.

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CHAIR HUGGINS commented that the all-Alaska gas pipeline is popular, but critics are against Fairbanks and Valdez controlling the pipeline.

MR. WALKER said that the North Slope, Fairbanks, and Valdez would be the three entities controlling the line; the structure is such that 60 percent of gas would go to the state and 40 percent would go to each municipality on a per capita basis. AGPA would not regulate who gets the gas.

He added that AGPA is an infrastructure that allows the movement of commodities; its rate of return is less than one percent. The return comes in the form of using the resources in the state.

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CHAIR HUGGINS said that people have complained that Wasilla isn't being fairly represented on the issue.

MR. WALKER said he appreciates the opportunity to clarify the issue.

CHAIR HUGGINS said the more competitors in the process the better.

MR. FUHS said that a smaller project will be more successful because everyone is not required to participate and the situation won't be compromised. Holding out for the biggest project may mean it would never happen.

CHAIR HUGGINS said the concept of risk to the state is critical. There being no further business to come before the committee, he adjourned the meeting at [6:59:37 PM](#).