ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE
February 4, 2008
3:39 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Lesil McGuire

OTHER LEGISLATORS PRESENT

Senator Joe Thomas
Representative Kurt Olson
Representative Jay Ramras

COMMITTEE CALENDAR

Presentation by Little Susitna Construction & Prime Subcontractor: Sinopec - Dominic Lee, Tammie Smith, Wayne Lewis

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DOMINIC S.F. LEE, P.E., President
Little Susitna Construction Company (LSCC)
Anchorage, AK
POSITION STATEMENT: Gave presentation on behalf of LSCC and answered questions.

TAMMIE SMITH, General Manager
Little Susitna Construction Company
Anchorage, AK
POSITION STATEMENT: Gave overview of gas pipeline proposal with subcontractor Sinopec ZPEB.

WAYNE LEWIS, Vice President
Yukon Pacific Corporation
POSITION STATEMENT: Commented on Sinopec gas pipeline proposal.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Resources Standing Committee meeting to order at 3:39:22 PM. Present at the call to order were Senators Green, Stevens, Stedman, Wielechowski, Wagoner, and Chair Huggins. Senator McGuire was excused. Also in attendance were Senator Joe Thomas and Representatives Kurt Olson and Jay Ramras.

Little Susitna Construction & Prime Subcontractor: Sinopec
Dominic Lee, Tammie Smith, Wayne Lewis

3:40:41 PM
CHAIR HUGGINS announced the presentation by Little Susitna Construction Company (LSCC) and its prime subcontractor, Sinopec ZPEB of China.

DOMINIC S.F. LEE, P.E., President, Little Susitna Construction Company, introduced Tammie Smith of LSCC and Wayne Lewis, Vice President, Yukon Pacific Corp., noting he'd only met Mr. Lewis a month ago.

CHAIR HUGGINS drew attention to a completeness determination dated January 4 from the governor to Mr. Lee with respect to LSCC's application under the Alaska Gasline Inducement Act (AGIA). He remarked on the apparent merit and quality of preparation. He thanked LSCC for submitting an application.

3:42:26 PM
TAMMIE SMITH, General Manager, Little Susitna Construction Company, began a slide overview of LSCC's "Alaskans First Gas Pipeline" proposal submitted November 30 with subcontractor Sinopec ZPEB; a hard copy was provided. She told members the proposal was for an 800-mile, 48-inch gas pipeline from Prudhoe Bay to Valdez along the Trans-Alaska Pipeline System (TAPS) corridor. Designed to deliver 4.5 to 5 billion cubic feet a day (Bcfd), expandable to 7 Bcfd, it would terminate at Anderson Bay, two miles beyond the current Alyeska oil pipeline terminal; there would be a liquefied natural gas (LNG) facility and a natural gas liquids (NGL) plant and LNG storage plant there. It might be possible to do the NGL plant elsewhere in the state.

MS. SMITH said a marine terminal would be built at Anderson Bay for docking and loading of LNG tankers. Sinopec proposed to provide 20 LNG tankers to transport LNG from Valdez to China, a $7 billion value that isn't part of the proposed cost. A 24-inch spur line from Glennallen to Beluga would be built to supply Southcentral Alaska with gas for home heating and electrical generation; most likely, it would be subcontracted to the Alaska Natural Gas Development Authority (ANGDA) to design and build, since ANGDA already has so much of the preliminary engineering and environmental studies completed.

MR. LEE, in response to Chair Huggins, noted that after the proposal was submitted he had talked with ANGDA's Harold Heinze, who'd mentioned working as a team, possibly with the Alaska Gasline Port Authority ("Port Authority") or others in Alaska.

3:45:32 PM
MS. SMITH noted a minimum of five delivery points would be provided at locations such as Fairbanks, North Pole, Delta Junction, Glennallen, and Valdez; those could be changed, depending on supply and demand. Propane and LNG would be shipped from Valdez to over 100 Alaskan communities for heating and electricity generation. This all-Alaska project would provide 20,000 construction jobs over 3-4 years to build the pipeline, and approximately 5,000 good-paying permanent jobs to operate and maintain the infrastructure for 30-50 years. It also would create good permanent jobs in support of associated industries and facilities related to the petrochemical industry, transportation, and distribution.

MS. SMITH showed a slide depicting the pipeline route, with red dots showing places to which the propane would be shipped. She noted the project team would consist of LSCC with the support of its Chinese subcontractor, Sinopec, along with up to 20 other U.S. and Alaskan companies that would be involved in completing this project because of its size.

3:46:55 PM
MS. SMITH provided background, noting LSCC is a 28-year Alaskan firm providing architectural, engineering, construction, and construction management throughout Alaska and ten Lower 48 states. It is headed by Dominic Shi Fong Lee, P.E., who has a bachelor of science and master's of science degree in electrical engineering as well as a master's degree in mechanical and aerospace engineering, all from the University of Missouri at Columbia; he also has three years of graduate study in arctic and civil engineering at the University of Alaska Anchorage

(UAA). A professional mechanical engineer and professional electrical engineer since 1974, Mr. Lee holds these dual P.E. licenses in Alaska and 10 other states.

MS. SMITH said LSCC got its start in Alaska by designing North Slope projects for ARCO's Kuparuk oil field for over 10 years. There is an awareness of the harsh conditions and what it takes to operate. Since 1980, LSCC has been providing construction and construction management services for projects all over Alaska for clients such as the U.S. Coast Guard, Army Corps of Engineers, Air Force, Army, General Services Administration (GSA), and U.S. Postal Service; the Alaska Department of Transportation and Public Facilities; and the City of Barrow, City of Valdez, City of Bethel, Fairbanks North Star Borough, Matanuska-Susitna Borough, Municipality of Anchorage, and other local governments and school districts.

3:48:31 PM
MS. SMITH turned to Sinopec, saying it's the second largest oil and gas company in China, comparable in size to ConocoPhillips, with 2006 revenues of $155 billion and profits of $9.2 billion. Traded on the New York Stock Exchange (NYSE), it has more than 500,000 employees in China and overseas.

MS. SMITH said Sinopec doesn't want to own or operate this pipeline. Rather, it wants to purchase LNG from Alaska for the following reasons: 1) Alaskan gas will be a stable and secure energy source, 2) it is prudent to have a diverse supply of energy, 3) the Chinese are eager to purchase Alaskan resources outside what they currently do in the lumber and fishing industries, and 4) there is a desire to purchase LNG to balance trade with the U.S.

MS. SMITH noted three Sinopec divisions would be involved in this project. The first, Sinopec ZYEC, is the design branch of Sinopec Engineering Company, with 400 licensed engineers and technicians that design oil and gas pipelines, pressure pipelines, oil-gas gathering facilities, long-distance pipelines, and LNG plants. It has designed all Sinopec oil and gas projects since 1980, including a 2,200 kilometer gas pipeline from Sichuan to Shanghai.

MS. SMITH said the second division, Sinopec ZPEB, is responsible for construction and operation of Sinopec's oil and gas fields in China and builds and operates gas pipelines, oil pipelines, and LNG facilities. For this project, it would serve as LSCC's

general contractor for the pipeline and LNG facilities, and it would coordinate the purchase of steel and equipment.

MS. SMITH said the third division, Sinopec International, has authority to approve or disapprove any Sinopec international activities. It is the entity that provided authorization for the teaming agreement with LSCC, and it will assist LSCC with financing for this project. Ms. Smith turned the presentation over to Mr. Lee.

3:51:27 PM
MR. LEE noted he'd mostly written the proposal himself, with help from staff and a petroleum engineer. Highlighting globalization, he said an Irish friend sent an e-mail about an English princess with an Egyptian boyfriend who crashed in a French tunnel while driving a German car with a Dutch engine; it was driven by a Belgian drunk on Scotch whiskey who was followed by Italian paparazzi on a Japanese motorcycle and was treated by an American doctor. People may read this using a computer that has Taiwanese chips and a Korean monitor, assembled by Bangladesh workers in Singapore, handled by an Indian hired by an Indonesian, unloaded by Sicilian longshoremen, and trucked by a Mexican. That's globalization.

3:54:00 PM
CHAIR HUGGINS welcomed Representative Kurt Olson and Senator Joe Thomas.

MR. LEE showed slides on why LSCC's project is best for Alaska, Alaskans, and the U.S. The first had the following points:

> 1. The "Alaskans First Gas Pipeline" proposal has brought to the table what no other entity has been able to produce for the past 30 years: a commitment to purchase North Slope gas in sufficient quantities to enable a project to be built that is economically viable.
>
> Sinopec's commitment:
> - 4 Bcf of natural gas per day or
> - 30 million tons of LNG per year
> - A $500 to $800 billion trade surplus to U.S. in the next 30 years

MR. LEE mentioned a $200 billion deficit every year to China. He'd studied three routes from Prudhoe Bay: to Chicago, to the Beluga field, and to Valdez. He recalled that the governor had

spoken for an all-Alaska pipeline during her campaign. He'd compared the three routes. The one to Chicago is 3,600 miles to bring the gas to the Lower 48. It would require more than 70 compressor stations, each using a lot of energy; the price would be the Chicago or Henry Hub price, about $7 or $8 maximum.

MR. LEE said the second route studied, to the Beluga oil field, peels off from Fairbanks, going through state, federal, Native, private, and borough land. The required environmental studies and permitting would take a long time, and it would require a lot of gravel for the foundation and so on. Furthermore, it isn't suitable for 150,000-ton tankers because of wintertime ice, and it isn't that deep.

3:57:55 PM
MR. LEE explained the chosen route, to Valdez. The TAPS corridor already exists, two miles wide. A natural gas pipeline should be able to be put alongside. The permits are there because they've been done three times already for environmental impact statements. The land is mostly rock and would resist earthquakes. There is a deepwater port, ice-free all year. And there is a possibility of sharing security, maintenance, and so forth, which would lower the tariff rates. Thus he'd chosen an all-Alaska route to Valdez for economic and other reasons.

CHAIR HUGGINS asked about compressor stations if the southern route is used through Canada.

MR. LEE said it takes about 32 to Calgary, as confirmed by the winning proposal. It takes 71 to Chicago.

CHAIR HUGGINS asked how much gas is consumed by those stations.

MR. LEE indicated a solar-turbine compressor manufacturer, a unit of United Technology, estimated 11.5 million cubic feet a day per station to run the compressors and chiller. To Chicago it's about 20 percent of the gas; to Calgary, about 8.3 percent. His calculations were close to those numbers from the factory. Some compressors are more efficient than others, within about a 5 percent range.

MR. LEE said the 19.5 percent to Chicago that he'd estimated would be subsidized by the State of Alaska to push the gas from Prudhoe Bay, $1.1 billion a year at an $8 price. If the price rose to $16 in the future, it would be $2.2 billion. Over a 30-year lifetime, it would be $33 billion to $66 billion subsidized by the state to move the gas to the Lower 48.

4:02:41 PM
MR. LEE, in response to Senator Wagoner, said the 71 compressor stations are for 4.5 Bcfd. To his understanding, that is the same number of stations in TransCanada's proposal.

SENATOR WAGONER said he hadn't read that in TransCanada's proposal last week.

MR. LEE cited 60,000 horsepower per station and then mentioned "55 or 60" horsepower per station.

4:03:38 PM
MR. LEE showed slides depicting the teaming agreement between LSCC and ZPEB International, signed by him and the acting general manager of ZPEB International, dated October 24, 2007. He said it was approved by the board of directors and had a government approval "chop" or seal - highly important in China - on a binding document. He mentioned an oil field he'd gone to 500 miles southwest of Beijing where 400,000 people work for one company, Sinopec. He said this shows the genuine contract, arrived at after five days of talking; the original signature was submitted with the proposal.

MR. LEE, in response to Chair Huggins, said that paper means the division has 400 engineers right away to work on it. Half the work would be done in Alaska, but they have the expertise to design the necessary facilities.

4:07:11 PM
CHAIR HUGGINS asked about Sinopec's experience with LNG.

MR. LEE replied Sinopec designed all the LNG work for China and now is working on LNG for the Middle East, with offices in Saudi Arabia, Dubai, Qatar, and so on. In response to Senator Wielechowski, he explained that LNG tankers hold 150,000 to 185,000 cubic meters.

SENATOR WIELECHOWSKI asked how many days' supply that would be from a 4.5 Bcfd line.

MR. LEE said when the gas becomes liquid, it goes by the ton. This project would require 30 tankers running between Valdez and China year-round, with eight day's traveling time, two days loading, and two days unloading, to deliver 30 million tons of LNG to China.

4:08:58 PM
MR. LEWIS remarked on all the conversions necessary to get natural gas from its vapor state to a delivered liquid in Asia.

MR. LEE, in further response as to the number of tankers for 4.5 Bcfd, said he knows the conversion, but in a metric system using liters, not gallons.

4:09:52 PM
MR. LEE continued with the slides, showing a letter of intent, estimating it's worth $500 billion to $800 billion, depending on the future LNG price. It says Sinopec agrees to buy about 4 Bcfd of LNG, about 30 million tons a year, for the next 30 years. Price isn't locked in. The current selling price in Asia will be paid. For example, they just bought 100 million tons of crude oil from Iraq last week on a long-term contract that uses the previous four days' average price for any particular day's price. It will be a good current market price, he emphasized.

SENATOR WIELECHOWSKI asked how the price in China compares with Henry Hub in the U.S., where it's about $7 or $8 per thousand cubic feet (Mcf).

MR. LEE replied he thinks it's about $10 to $12 now. But according to a U.S. Energy Information Administration (EIA) projection, by the time the project is finished it may average $20 over the 30 years. That translates to some $800 billion. He indicated at the end of the proposal there is a comparison spreadsheet.

4:12:53 PM
MR. LEE showed another slide on why LSCC's project is best for Alaska, Alaskans, and the U.S., with the following points:

> 2. "Alaskans First Gas Pipeline" will have easier access to X70 steel required for pipeline.
>
> - Subcontractor and project financier, Sinopec, will coordinate steel purchases.
> - China's Bo On Steel is one of two companies in the world able to provide 2.2 million tons of X70 steel.
> - Shorter 800 mile route from Prudhoe Bay to Valdez will be a favorable factor in procuring steel as compared to a Canadian route to Chicago ....

MR. LEE opined that only China can do the pipeline swiftly because it has the steel. Since steel deregulation, the U.S. is losing its steel industry because it cannot compete; he mentioned a steel mill in St. Louis and a small one in Utah that use scrap metal to make steel on a small scale. Building a pipeline from Prudhoe Bay to Valdez would require 800 miles of 4-foot pipe weighing almost 1,000 pounds a foot. At 5,280 feet a mile, times 800 miles, this is about 200 million tons of steel. Whereas TAPS used pipe 5/8ths of an inch thick, this would use pipe 1 inch thick, nearly double.

4:14:46 PM
Representative Jay Ramras arrived.

MR. LEE said China now makes about 60 percent of the steel, with the other 40 percent made by Poland, India, Japan, and South Korea. Sinopec is a Chinese company whose majority stockholder is the government, at 76 percent. Bo On Steel is 100 percent owned by the Chinese government, as is another company there. A quota will be provided, acknowledging this urgent allocation of the steel. He mentioned ensuring that the delivery time and quality meet specifications, suggesting one advantage over other companies is having the manufacturer on their side.

CHAIR HUGGINS recalled Mr. Lee had once said this would require Bo On Steel and potentially Nippon's production.

MR. LEE said Nippon can make some of the steel, but not all. Some might be bought from Nippon to make up the difference. China is an industrialized country and is using a lot of steel now, for the upcoming Olympics, for example. "We are lucky to get steel from them," he added.

4:17:09 PM
CHAIR HUGGINS asked whether "X70" is an international standard for steel.

MR. LEE affirmed that, saying it means the steel has a strength of 65,000-70,000 pounds before it buckles. The pressure for the gas pipeline will be only 2,500 pounds. He indicated there was a Canadian suggestion to use X100 steel, but he said the demand doesn't exist and so isn't made. While X100 steel is extremely strong, people would laugh if 1,700 miles were ordered today, saying they couldn't even obtain 100 feet; it is that rare. Normal pipe is X60 to X70, which is used for gas pipelines worldwide and can stand up to 7 Bcfd already. He indicated the

X70 was recommended by Sinopec's steel engineer as a good steel that they use all over the world.

SENATOR WAGONER asked about the pounds per square inch (psi) for a 48-inch pipeline transporting 7 Bcfd.

MR. LEE answered 2,500. He said to get to Chicago requires 10 million tons of steel because it is 3,600 miles, 4.5 times longer than LSCC's proposed pipeline. He surmised someone might have to wait 20 years to get that much steel.

4:20:13 PM
MR. LEE showed the third slide on why LSCC's proposal is best for Alaska, Alaskans, and the U.S., with the following points:

> 3. The "Alaskans First Gas Pipeline" calls on the buyer to provide the shipping.
>
> - This cost is absorbed by purchaser, Sinopec
> - Non-Jones Act ships will transport LNG to China and other Pacific Basin countries
> - Jones Act ships will transport LNG to Alaskan Coastal cities

MR. LEE elaborated, saying the buyer would provide the shipping, bringing a boat to Valdez to pick it up. The pipeline itself wouldn't be burdened by the cost of the boat. A large LNG boat costs about $300 million, and they take a long time to build, sometimes requiring a wait of four or five years. Shipping LNG around Alaska, to Kodiak, for example, requires a Jones Act boat; the hull and engine must be built in the U.S. and then it goes to China or Korea to add refrigeration. Those are smaller boats, perhaps 75,000 cubic meters, half the size, but still cost $250 million each because American labor costs more.

MR. LEE said every city and village in Alaska should have cheap gas to heat homes and generate electricity. There is no reason Alaska, as an energy-producing state, should have such high heating costs. He has traveled in Alaska for 28 years, visiting over 100 villages, where people may pay half or a third of their incomes to heat their homes. In Iran and Iraq, people pay 30 cents a gallon for gas.

MR. LEE suggested that the State of Alaska would have so much money from his project that it could subsidize such costs, ensuring Alaskans pay $50 a month for heating and the same for electricity, saving some families $5,000 a year. He pays $400

or $500 a month in Anchorage; in 1977, he paid $100 for both electricity and gas. He asked: Since Alaska owns the gas, why shouldn't it benefit Alaskans, rather than other people? He said LSCC's plan does this.

4:24:18 PM
MR. LEE showed another slide on why LSCC's project is best, with these points:

> 4. The "Alaskans First Gas Pipeline" keeps the project within Alaska to create the following value added benefits for Alaskans:
>
> - A Spur Line to Anchorage/Mat-Su area
> - Propane distribution for rural Alaska;
> - Permanent jobs for Alaskans for 20 to 50 years;
> - Potential new jobs with natural gas byproducts;
> - Availability of natural gasoline as cheap substitute fuel;
> - Opportunity for Alaskans to invest in the pipeline service company as a publicly traded corporation

MR. LEE explained that the plan includes 190 miles of 2-foot-diameter X70 gas pipeline to the Beluga field to give energy to ENSTAR so it can feed Southcentral Alaska, including Palmer, Wasilla, Anchorage, Eagle River, and the Kenai and Homer areas. This would take care of perhaps half of the state's energy needs. The rest of the gas would feed Chugach Electric and Municipal Light & Power (ML&P) to provide cheap electricity. He noted Harold Heinze, when asked about subcontracting on this project because he'd done so much work already, had said he'd be happy to help Mr. Lee out.

4:25:15 PM
MR. LEE discussed distribution to rural Alaska. This 4.5 Bcfd of natural gas comes with a lot of liquid. A big part is propane, which is portable. The plan is to separate the propane in Valdez; put it into 5,000 and 10,000 gallon propane tanks; transport it by barge or boat to Seward; take it by train to Nenana, south of Fairbanks; and then barge it down the Yukon River to all communities along the river like Tanana, Galena, and so on.

MR. LEE said the propane would go to distribution centers from which bottles can be trucked to every family's home, where 1,000 gallon tanks can be filled for a year's supply. A tank at the electrical power plant would be filled as well. Converting the

burner for the power plant from diesel is simple, he said, and every community would benefit.

MR. LEE noted that for towns not on the river, it can be transported. Propane is cheap. It's also one of the most versatile fuels. It can be gotten to folks for around a dollar a gallon. For bigger towns like Ketchikan, Sitka, Juneau, Seward, Kodiak, Dillingham, Bethel, Nome, and Kotzebue, his proposal suggests that the state do a program whereby those places have an LNG receiving station and storage facility in order to evaporate the liquid LNG and distribute it through gas pipes, as done in Fairbanks now. But it would be $1 a gallon or less. People could heat homes for $100, and electric bills would be $50. This would benefit every Alaskan family, he said.

4:31:57 PM
MR. LEE turned to jobs for Alaskans, saying the plan creates jobs in a variety of areas during construction. It also creates permanent jobs for 20 to 50 years, when people will be needed to maintain facilities, run the 10-14 compression stations in this line, do deliveries, and so on. The plant that converts the 4.5 Bcfd of gas to LNG will be the biggest in the U.S. Another plant will separate liquids, which can be shipped to places like Fairbanks, Kenai, or Wasilla to make petrochemical products, rather than having it go to Canada. Thus Alaskans could have more job opportunities and monetary benefits.

MR. LEE highlighted pentane, explaining it is a natural gasoline that can be used in a car. Like it or not, it comes with the gas, up to 10-20 million tons a year. The plan proposes to distribute it at cost to Alaskan gas stations where it could be sold for 30 cents a gallon. While not enough for Alaska's entire use, this resource belongs to Alaskans who could benefit from it.

MR. LEE addressed the opportunity to invest in the pipeline service as a publicly traded corporation. He reiterated that Sinopec isn't interested in owning or operating the company. Thus a new legal entity would be created, Alaskans First Gas Pipeline Service Company. Modeled after the Alyeska Pipeline Service Company ("Alyeska"), it would service the gas pipeline, LNG plant, marine terminal, and liquids plant. But it would be publicly traded, unlike Alyeska, which is owned by oil companies. Any Alaskan could buy stock, as could any oil company or the State of Alaska. The profit would provide a dividend to stockholders. This would give an opportunity to invest in something that benefits Alaska.

4:37:37 PM
MR. LEE showed the next slide on why the project is best, with the following points:

> 5. The "Alaskans First Gas Pipeline" makes a commitment to work with Alaska's unions to provide skilled and non-skilled labor for the construction of the pipeline.
>
> - Plans will be developed to provide incentives and assistance to train Alaskans to work on the pipeline construction project.

MR. LEE elaborated, saying LSCC has committed to using 100 percent union labor, whether skilled or unskilled. Alaskans will have first preference and will make excellent money. This job will last three to four years, building a gas pipeline, a world-class LNG plant, and a petrochemical industry for Alaska. Besides construction jobs, there will be a need for engineers, surveyors, scientists for environmental studies, and folks involved in shipping, supplies, and so on.

MR. LEE said this is the biggest construction project in the U.S., perhaps the world. Whereas China's Three-Gorge Dam project cost $25 billion, this will be $32 billion. Noting his four children grew up in Alaska's school system, he said they now have advanced degrees but couldn't find good jobs in Alaska and thus live elsewhere. He emphasized providing good jobs so Alaska's young people will stay, either blue-collar jobs that pay Davis-Bacon wages or professional jobs.

4:43:03 PM
MR. LEE showed the next slide on why the project is best, with the following points:

> 6. The "Alaskans First Gas Pipeline" proposal met the AGIA requirements for financing with no less than 70% debt. Sinopec will help to provide the 30% capital financing required by AGIA.

He referred to the teaming agreement and letter of intent discussed earlier, saying China agreed to help with capital financing that isn't guaranteed by the federal government, 70 percent. "They will have no problem raising money for you," he added, saying the new pipeline company would take over the loan and (indisc.) the debt to the tariff and the profit they

make. In the meantime, there is no need to go to Wall Street to raise money; it's already there.

4:44:13 PM
MR. LEE showed the next two slides on why the project is best, with the following points:

7. The "Alaskans First Gas Pipeline" is the best deal for the U.S. because it will help solve our critical trade imbalance with China.

- Selling 4 Bcf of natural gas a day to China will reduce the U.S. trade imbalance with China by nearly $500 billion to $800 billion over 30 years based on today's dollars at sales of $10 to $12 per mmbtu.
- Actual trade numbers will exceed $500 billion when rates exceed the current $10 per mmbtu.
- China has the same trade status in Japan.
- For over 35 years Alaska has been exporting Liquefied Natural Gas (LNG) from Kenai to the two largest LNG importers on the planet - Tokyo Electric Power and Tokyo Gas of Japan. Between these two importers, they have a combined customer base of 30 million customers.
- Presidential authorization for export of North Slope gas is currently in place.

MR. LEE pointed out how much this country buys from China and outsources to there. Noting he is a 33-year U.S. citizen, he expressed concern that every year there is a $200 billion deficit; already $1.4 trillion is owed. This cannot continue, he said. Eventually, there will be nothing to sell. There is little trade. The LSCC project wouldn't just benefit Alaska; it would also benefit the U.S. He expressed concern about the declining value of U.S. currency, noting whereas it used to be worth more than Canada's, now it is even. He cited other examples.

MR. LEE said he wants to see America strong, which requires trade. Trade is a two-way street. There must be something to sell. He said his plan is good for the U.S. because it would bring in about $30 billion a year for 30 years, $800-900 billion, a big sum. He suggested there is no benefit to shipping it to the Lower 48 because of the cost compared with shipping it to China.

4:48:59 PM
MR. LEE said shipping natural gas to the Far East has been done in the past 40 year from Kenai to Japan, so exporting LNG in this respect isn't new.

SENATOR WAGONER asked whether this is based on the assumption of Yukon Pacific Corporation (YPC) holding an export permit from the U.S. Department of Energy (USDOE).

MR. LEE replied he'd just learned from them that they already have an export license from the USDOE. His company would have to get that agency to submit a revision.

4:50:48 PM
MR. LEWIS added that the current export license is held by YPC through its parent company, CSX. It speaks in terms of a million metric tons a year for an aggregate of 350 million metric tons authorized for export, with an annual average of 14 million tons. That's a 2 Bcfd project, in essence. There's no ceiling. It calls for an average. Theoretically, more could be exported in a given year, but overall it works out to 14 million metric tons a year.

SENATOR WAGONER asked how valid that license is. He said ConocoPhillips just went through a process to extend its export license, hopefully for up to two years; even with concurrence of the administration, that extension still hasn't occurred. He asked how long this export license is supposedly good for, as well as what it would take to get USDOE to provide a letter saying that export license is still valid and is renewable.

MR. LEWIS said he'd have to do some research; he'd hoped to call on Jeff Lowenfels, who'd been involved in that to an even greater degree. Mr. Lewis said he wasn't aware of any expiration date on that export license, but he would check.

4:52:47 PM
MR. LEE showed the final slides on why the LSCC project is best, with the following points:

8. The "Alaskans First Gas Pipeline" will not be controlled by China.

- The pipeline will be an ALASKAN owned company.
- Chinese workers will not be imported to build the pipeline, but will be used in the design phase only for 5.5% of the work.
- China will not own or control any of the gas fields in Alaska.
- China only seeks to have a reliable source of energy for its exploding economy.

- China is willing to sign agreements to buy LNG from Alaska for years to come.
- Alaskan LNG will help make China's coal-heavy energy industry greener, a benefit for all the world.

MR. LEE spoke to the concern that "the Chinese are coming, the Chinese are coming." He said they're not coming. There will be no Chinese skilled or unskilled labor allowed on this job.

4:54:23 PM
MR. LEE showed a slide of the people signing the teaming agreement with Sinopec. He then showed a spreadsheet of income comparisons for LSCC's project without PPT, Alaska's tax known as both the petroleum production tax and the petroleum profits tax. At a $12 price, for example, annual revenue would be $18 billion; the U.S. government would get $3.76 billion; the state would get $3 billion, the North Slope producers would get $6 billion; and the pipeline operator, LSCC, would get $0.59 billion.

MR. LEE discussed the lower part of the spreadsheet, which compares LSCC's project versus TransCanada's in terms of lifetime pipeline income, with a 25 percent PPT tax. He said if one goes by the real costs, using federal EIA figures of $20 per Mcf, revenue would be almost $30 billion a year, with the U.S. government getting $7.3 billion, the state getting $10.47 billion, the North Slope producers getting $6.8 billion, and LSCC getting $0.59 billion as the operator. In 30 years, the total revenue would be $896 billion, with the U.S. share at $290 billion, the state share at $314 billion, the North Slope producers at $204 billion, and LSCC at $17.7 billion.

MR. LEE referred to TransCanada's proposal at page 2.10-10. He noted the U.S. share would be $52 billion with a PPT tax, far less; that would be over 25 years, to his understanding. The State of Alaska would get $131 billion, compared with $314 billion under the LSCC plan for 30 years.

4:57:59 PM
SENATOR WIELECHOWSKI asked whether Mr. Lee had talked with the North Slope producers to see if they'd sell gas to LSCC.

MR. LEE explained that he was so confident about passing the first cut in the AGIA process, he'd asked to go to Beijing and meet with Sinopec as well as the China representatives for ConocoPhillips, ExxonMobil, and BP. Sinopec had said it could set up a meeting. ConocoPhillips is doing a 50-50 joint venture

with China Oil in a field where they get about 300,000 gallons of oil a day; there are other joint ventures too. ExxonMobil has a $5 billion refinery and petrochemical project, teaming with Sinopec. And noting BP bought out ARCO, he mentioned ARCO-China joint ventures in the Yellow Sea and South China Sea oil fields; he said they are working there. They talk to each other, as BP talks to ExxonMobil in Alaska. However, his project hadn't made the short list and so he'd requested that all meetings be canceled.

MR. LEE added that the oil companies make lots of money but are good to Alaska. Their businesses provide 80 to 90 percent of the state budget. They sponsor symphonies and charities. They hire lots of Alaskans. They've done their part, as far as he's concerned. Mr. Lee said his company worked for ARCO ten years, helping to develop the Kuparuk oil field. He characterized them as nice people, cautious and honest and paying him on time.

MR. LEE suggested everyone can work together. Sinopec is a big company and has joint ventures in other countries. It isn't the enemy. Natural gas is everywhere. China is buying gas and oil from all over the world because it needs the energy to make things and ship them to America. He highlighted globalization and figuring out how to make money so it benefits everyone.

5:03:59 PM
MR. LEE said he would work with any of the other interested companies, inviting them to bid to do work on LSCC's project and saying it's an open process. He would hire a big American management firm during construction, a company like CH2M Hill or Bechtel to run the project so everything is done correctly, on time, and within the budget. He emphasized that Sinopec would provide the funding and wants the gas. He surmised with Sinopec they'd be able to work out any disagreement among parties.

MR. LEE, in response to Chair Huggins, said his proposal asks for a federal guarantee. He referred to the AGIA guidelines and mentioned the open season. He said he'd recently been told if gas is transported from Prudhoe Bay to Valdez, there is no need for an open season or the Federal Energy Regulatory Commission (FERC). If his proposal is selected, he'd buy the gas at the wellhead; he has a customer to buy it.

MR. LEE referred to the spreadsheet, which shows that over 30 years the producers would receive $204 billion. He said that is without having to invest any money in his project or take any

risk. For stockholders' benefit, the producers should take this deal. He added, "We are the one taking all the risk."

5:07:35 PM
SENATOR WIELECHOWSKI said another organization had claimed it was pressured not to apply under AGIA. He asked whether Mr. Lee had experienced anything like that.

MR. LEE replied no. He'd only had three weeks to write the proposal, and he hadn't contacted anyone.

5:08:44 PM
MR. LEWIS added that although he hadn't been involved, it strikes him that the AGIA application requirements weren't written for an LNG project. It presupposes things like open seasons. Saying he didn't mean it in a pejorative way, he characterized it as a tortured fit and remarked of Mr. Lee, "I don't know how he got it in as well as he did."

MR. LEWIS said he's been around LNG for 15 years. One great benefit of an LNG project is that it isn't a commodity market. He suggested thinking of an LNG project as a regional shopping center where the strength of a company like Sinopec as an anchor tenant is something that never has been available before, for an LNG project or any other. Sinopec brings so much heft to a project that it doesn't require any federal or state help. It is a stand-alone deal.

MR. LEWIS said he knew why Mr. Lee had submitted an AGIA proposal, although they hadn't known each other. Mr. Lewis noted he and his partner, Jeff Lowenfels, are volunteering their time because they see the synergies between 15 years of work already in place by YPC and what is in front of legislators, "a greatest hits version of that work."

MR. LEWIS alluded to YPC's handouts about its permits. He emphasized that this work dramatically diminishes the risk in the project and the time to build it. Calling it a royal flush of permits, authorizations, export licenses, right-of-way agreements, and so on, he surmised there has been a misunderstanding.

MR. LEWIS said while there has been no marriage yet between LSCC's proposal and the holders of these permits, it is so logical; the permits have no value without a project, but they have tremendous value, to all the players, with a project. He offered to bring Jeff Lowenfels into the discussion by phone and

said they're always available to expand on what has been provided here. Mr. Lewis said this portfolio of permits and so on streamlines the project in a way that is unmatched in any other way. The anchor tenant exists, as well as the design; a lot of engineering work is already in place in support of these permits and authorizations.

5:12:20 PM
CHAIR HUGGINS referred to a message to the committee from former Governor Hickel that he interpreted as follows: There is a need to look at potentially restarting the process, and he supports AGIA but it may need to be amended. He asked Mr. Lewis to suggest potential amendments, after giving it some thought, that might be appropriate with respect to LNG. He added that former Governor Hickel got the State of Alaska to buy into a baseline comparison between the Canadian course of action and LNG, which some folks had been pushing for unsuccessfully. He asked whether anything besides the open season came to mind immediately with regard to how AGIA isn't crafted for LNG.

MR. LEWIS said that's the one that comes to mind, although there likely are others. The AGIA process seems to contemplate a standard pipeline transmission system that charges a tariff to shippers. He added, "Whatever you buy at the wellhead, you're your own shipper." Mr. Lewis said thinking in terms of tariffs and so on doesn't work, because at the end of the pipeline is an LNG plant, not a market.

CHAIR HUGGINS thanked Mr. Lewis for pointing that out. He told Mr. Lee he'd brought a lot to the table and it wasn't over yet.

5:14:57 PM
MR. LEWIS remarked that this project is one of the most astonishing things he has ever heard of. An entrepreneurial citizen has brought in a serious overture that deserves a lot of attention because of the weight of this buyer.

CHAIR HUGGINS said it clearly is out of the box as far as planning. He asked whether Mr. Lee had any closing comments.

MR. LEE noted LSCC had submitted a letter to the Governor Palin and the commissioners, asking for reconsideration of the AGIA application. He pointed out that nothing could be added to the application with respect to the commitment. But page 12 mentions giving the state extra commitments, which LSCC did, giving them the buyer and financing. He surmised his additional

commitment had been confused with the original commitment and thus the application was denied because of a misunderstanding.

MR. LEE offered to provide a copy of LSCC's letter, submitted last Friday. He opined that if the Department of Law reviews it, it will find merit. He closed by giving some personal history in Alaska and emphasizing his desire for children who grow up in Alaska to be able to remain.

CHAIR HUGGINS thanked participants and closed the hearing.

There being no further business to come before the committee, Chair Huggins adjourned the Senate Resources Standing Committee meeting at 5:18:52 PM.