

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

February 11, 2008

3:38 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Joe Thomas

COMMITTEE CALENDAR

Presentation: AGIA Applicant Alaska Gasline Port Authority

PREVIOUS COMMITTEE ACTION

No previous action to consider

WITNESS REGISTER

BILL WALKER, General Counsel and Project Manager
Alaska Gasline Port Authority

POSITION STATEMENT: Gave PowerPoint presentation and answered questions.

CRAIG RICHARDS, of Counsel
Walker and Leveque LLC
Anchorage, AK

POSITION STATEMENT: Assisted with PowerPoint presentation and answered questions.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Resources Standing Committee meeting to order at [3:38:05 PM](#). Present at the call to order were Senators Wagoner, Green, McGuire, Stedman, Wielechowski, and Chair Huggins; Senator Stevens arrived shortly thereafter. Also in attendance was Senator Joe Thomas.

Presentation: AGIA Applicant Alaska Gasline Port Authority

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CHAIR HUGGINS announced the presentation by the Alaska Gasline Port Authority ("Port Authority") relating to its application under the Alaska Gasline Inducement Act (AGIA).

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BILL WALKER, General Counsel and Project Manager, Alaska Gasline Port Authority, told members much has happened in the last couple of months relating to the Port Authority's efforts to build a gas pipeline. The Port Authority existed in 1999, before the Stranded Gas Act and AGIA, and will continue until there is a pipeline. Mr. Walker said the Port Authority has a lot of passion for this issue, with a voluntary board of directors stretching from the North Slope Borough to the Fairbanks North Star Borough and the City of Valdez.

MR. WALKER reported that over the years the municipalities have put about \$1.5 million into this effort, with about \$20 million from the private sector. The Port Authority hasn't had to ask the legislature for funding. He surmised since companies have been willing to step up and contribute millions, they are serious about working with the Port Authority. He noted Craig Richards would present some topics today. Radoslav Shipkoff of Greengate LLC, on teleconference today from Washington, D.C., has been the Port Authority's financial advisor since 1999; his company has performed all the financial modeling.

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SENATOR STEVENS joined the meeting.

MR. WALKER began the PowerPoint presentation, duplicated in a 28-page handout. He showed a slide that said the mission of the Port Authority has always been to build - or cause to be built - a gas pipeline from the North Slope to Valdez for the maximum benefit of all Alaskans. Noting this mission has been tested recently, he said it doesn't have to be under the Port Authority's name. He expressed confidence in the AGIA process, saying it has caused mountains of information to come forth that Alaskans didn't have before.

MR. WALKER told members the Port Authority always wanted a complete cost estimate on a turnkey basis, together with a financial market analysis. Now that data is available. He said the results are exciting. Although some companies have withdrawn, they'd specified it wasn't because of the economics, which are strong.

MR. WALKER explained that slide 3, labeled "All Alaska/LNG Project Returns the Highest Wellhead Value," tells the whole story of why the Port Authority continues to push for an all-Alaska project. A netback on a project of 2.7 billion cubic feet a day (Bcfd) has a higher wellhead value than a project of 4.5 Bcfd; it is a market function. While the Port Authority prefers that the gas be consumed within Alaska, realistically it must be exported to Canada, Asia, or another location first.

MR. WALKER said the economic model assumes that shippers will take it to the best market and that gas can be put into six different markets. The Port Authority believes "market optionality" - which other slides will address - is important. Of the projects looked at worldwide, none began with the largest piece; most started with the smallest piece and then added to it, as done for Qatargas 1, 2, 3, and ultimately 4.

MR. WALKER opined that it is highly unusual that Alaska has the opportunity to begin with a smaller project with a higher wellhead price. He attributed this to liquefied natural gas (LNG), which allows taking advantage of world markets, not just a single market where a pipeline hub might be.

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MR. WALKER turned to slide 4, "Bechtel," which showed a breakdown of the cost estimate and had the following two points:

- Bechtel provided approximately \$10 million in engineering work for the Project/Application.
- Bechtel cost estimate: \$23.65 billion.

He noted since 1999 Bechtel spent about \$10 million toward this effort, updating the project model and cost estimate. For the final 2007 cost estimate for the application, the vast majority of work was performed by that company, using approximately 50 engineers in Houston, Texas, where Mr. Walker spent most of the summer. He lauded Bechtel, which he noted has made several presentations to the Alaska State Legislature.

CHAIR HUGGINS referenced Bechtel's total cost estimate. He asked what the effective date was for that.

MR. WALKER answered November 30, 2007, the date of the AGIA bid submittal. Prior work was done in 2000, it was updated in 2005, and there was a complete update in 2007. He'd deleted slides showing every pipe yard and storage location, the number of miles of pipe, construction camps on the route, and the number of bids per camp; he'd felt such detail wasn't necessary for the committee, he said, although a total of 15,000 pages was turned in November 30. The estimate is approximately \$12 billion for the pipeline and \$7 billion for the LNG facilities. A third party is assumed for the gas conditioning plant (GCP), with a toll built into the tariff for gas conditioning.

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MR. WALKER showed slide 5, "The All Alaska Project," surmising members had seen it before, but without the 18 offtake locations depicted on the map. It had the following points:

Gas Conditioning Plant in Prudhoe Bay

- removes impurities
- compresses and chills the gas to pipeline specifications

- Pipeline from Prudhoe Bay to Valdez
- parallel to TAPS
- pre-build to Delta Junction for later tie-in for the Alaska/Canada Highway Project
- tie-in at Glennallen for a spur line to Alaska South Central natural gas grid

LNG Facility in Valdez

- integrated LNG liquefaction and LPG extraction facilities
- includes storage and vessel loading facilities

MR. WALKER provided details. He said this project consists of an 806-mile pipeline from Prudhoe Bay to Valdez, parallel to the Trans-Alaska Pipeline System (TAPS) for oil. It is a 2.7 Bcfd pipeline, with gas chilled to 28 degrees Fahrenheit. The GCP, the first piece on the North Slope, is oversized because the Port Authority realizes 2.7 Bcfd in a 48-inch line is significantly under capacity. Liquefaction in Valdez is at the terminal site approved by the Federal Energy Regulatory Commission (FERC) at Anderson Bay, as obtained by Yukon Pacific Corporation (YPC); a slide addresses that.

MR. WALKER discussed anticipated offtake locations. Although the minimum number for the application was five, he reported that the Port Authority had asked entities between Prudhoe Bay and Valdez - every military base, as well as villages and industrial entities - if they'd be interested in gas coming off this line; without exception, the answer was yes.

MR. WALKER noted the original 22 locations were narrowed to 18. He indicated other applicants have proposed offtake points in Canada at Burwash Landing. The goal is as many offtake points as possible, he told members, to distribute gas through Alaska. Also, gas can be put into the pipe to get it to market.

MR. WALKER suggested one obvious point is at Glennallen, for a spur line into Southcentral Alaska, and provisions are made for a spur line to Canada at a later date. The pipe is oversized to Delta Junction, 48 inches, then becoming 42 inches. It starts at 2.7 Bcfd, but he said there is ample room for additional expansion through compressors. It will start with three compressors. The first is the gas conditioning plant at Prudhoe Bay; it comes out with pressure there. The two additional compressor stations are approximately 100 miles north of Fairbanks and 100 miles north of Glennallen.

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SENATOR WAGONER asked at what pressure the line will operate.

MR. WALKER answered 2200 pounds per square inch (psi).

SENATOR WAGONER asked who'd pay the cost of all these small amounts of gas for the offtake sites listed.

MR. WALKER answered it would be paid for by those taking the gas off. Envisioned is some sort of local distribution system, a necessary piece.

SENATOR WAGONER asked if the people who were contacted by the Port Authority had been told how much it would cost to reduce the pressure of that gas, odorize it, and distribute it.

MR. WALKER replied no. They'd inquired about interest and had found strong interest. He noted the application refers to nine centralized distribution centers because many could use one center. It may be more economical to have fewer offtake points and more of a distribution system. But that calculation hasn't been completed yet.

SENATOR WIELECHOWSKI asked how much it would cost to offtake the gas and the expected charge for in-state use. For example, does this anticipate using distance-sensitive rates? He also asked, with 18 offtake points, how much gas is expected to be available at Valdez.

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MR. WALKER replied the maximum anticipated for in-state use is 0.5 Bcf, the rule of thumb they've used.

SENATOR WIELECHOWSKI asked how they set the rates.

MR. WALKER explained that the application uses a true distance-sensitive rate. The fewer miles of distance in the pipeline, the lower it is. If it goes past a compressor station, the cost of that is included in the rate. In further response, he said the Port Authority wouldn't control the price of the gas, but would provide the facility and infrastructure to move it. All the Port Authority could propose is the rate for the transportation charge, which is a distance-sensitive rate.

CHAIR HUGGINS welcomed Senator Joe Thomas.

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MR. WALKER turned to slide 6, "Gas Conditioning Plant (GCP)," which had the following points:

- (a) 3rd Party Ownership
- (b) Alaska Regional Native Corporation or Consortium

He explained that they'd broken the \$24 billion project into four different pieces, for manageability. First is the GCP at Prudhoe Bay. The Port Authority has looked at the GCP with private entities and believes it can be done in-state, with Alaskan companies. The regional corporations seem to be a natural, and the Port Authority has met with them; he said there seems to be a strong interest.

MR. WALKER highlighted tax benefits for whoever owns and operates the GCP, benefits he believes should remain in Alaska if possible. In response to Senator Wagoner, he recalled that this is through accelerated depreciation in the 2004 federal energy Act. He opined that it is an easy and appropriate piece to do separately.

MR. WALKER said the Port Authority had given thought to having the producers be the owner-operator. While it is a possibility, some suggest it might be better to have someone independent, because of access issues. He said the board feels it should be a local, Alaskan company. He pointed out that much has happened since TAPS was built, with a lot of growth. He emphasized that his entity believes this can truly be all-Alaskan.

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MR. WALKER showed slide 7, "Marine Transportation," noting there has been previous discussion about the transportation of LNG, including Jones Act issues. He said the Port Authority's project allows shippers that put gas into the pipeline at Prudhoe Bay to take it anywhere in the world they wish. As shown on the slide, the Port Authority has a teaming agreement with Mitsui OSK Lines and BGT Ltd., which have eight U.S.-built LNG tankers.

MR. WALKER told members time was spent in Washington, D.C., to determine the process and difficulty of reflagging those ships out of the U.S.; the owners of the vessels have retained a D.C. law firm to look at it. He indicated staff to the congressional delegation advised that it isn't a lot to ask to reflag a U.S.-built vessel, because it puts U.S. workers to work on the ship. Those vessels would be available to ship LNG from Valdez to other Pacific Coast points.

MR. WALKER noted for those who want to ship LNG to Asia, Mitsui OSK Lines is the largest in the world, with about 645 ships, 80 of which are LNG tankers. It is the largest owner of LNG tankers in the world, and the Port Authority is comfortable with its technology. He indicated Mitsui OSK Lines has been to Alaska, is familiar with shipping requirements, and has looked at the Port Authority's information on the terminal site including water depth. Thus the Port Authority has no issues on the shipping.

CHAIR HUGGINS asked whether this assumes an export permit.

MR. WALKER replied the assumption is that the export permit obtained by YPC would remain in existence. Saying he'd spoken with the attorney in Washington, D.C., who obtained the permit for YPC, Mr. Walker recalled that it expires 25 years after the first shipment of LNG. Every year the fee is paid for the state right-of-way, and the federal right-of-way was renewed this year. With FERC, the LNG license at Anderson Bay at Valdez must

be renewed every three years, so that was renewed in May. He said the export license seems as good as the day the ink dried.

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SENATOR WAGONER inquired whether anyone has asked the federal Department of Energy (DOE) about the validity of the export license today, especially based upon a project that uses the \$18 billion federal loan guarantee. He also asked if a response has been put in writing.

MR. WALKER relayed the assumption that someone couldn't do both, based on meetings they've had with the DOE about the loan guarantee. Thus the assumption for the AGIA application and model is that there'll be no federal loan guarantee.

CHAIR HUGGINS asked whether the Port Authority has a declared affiliation with a pipeline company to do the pipeline piece.

MR. WALKER replied no, not at this time.

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MR. WALKER showed slide 8 and began a lengthy discussion of the Port Authority's experience under AGIA, noting they'd testified last year in favor of the Act. He opined that a good job was done by the media in explaining the circumstances relating to the Port Authority. However, he wanted to restate it directly and answer any questions.

MR. WALKER recalled after AGIA passed, the Port Authority immediately went to the Lower 48 to put together a consortium. The process began in June. The Port Authority was pleased with the response, particularly from one pipeline company that came to Alaska several times and wanted to do it all, working closely with the Port Authority on a pipeline to Valdez and worrying about the LNG later. The Port Authority said no, wanting LNG along with the pipeline, and ultimately put together a significant pipeline company and a significant LNG company.

MR. WALKER said that company very much liked the data and work from Bechtel and had wanted to update it itself. That's when the Port Authority's board made that tough decision of "build or cause to be built." There was one condition: If the company didn't bid, it would give the updated data back so the Port Authority could submit a bid.

MR. WALKER recalled about that time, August 12, 2007, a Petroleum News article quoted David Sokol, talking about Mid-

America's bid, as saying he couldn't believe the kind of pressure he was under to not submit a bid; Mr. Sokol didn't divulge the partners, saying he didn't want them to be under the same kind of pressure. Mr. Walker told members he hadn't fully appreciated what Mr. Sokol was saying at the time and had to read between the lines.

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MR. WALKER said the Port Authority continued with this consortium, providing data and making everything it had available. The others came up with the YPC permits, he indicated, and all was fine until mid-October, when he was informed that the pipeline entity was withdrawing. He said that was the company's choice, but it declined to give back the Port Authority's data, which was needed to put a bid together.

MR. WALKER explained that, at first, the LNG company said it was unsure about bidding, but then said it would bid. Thus the Port Authority put in a bid November 30 referencing that bid. However, the LNG company didn't actually submit a bid, which was discovered the next day. Then the Port Authority became more aggressive and finally received the data.

MR. WALKER said when the Port Authority received the state's letter requesting additional information, areas of deficiency were pointed out that they were well aware of, since they'd only been able to provide the little data available at the time. In responding, they could have 1) submitted the minimum information that complied with its original bid or 2) submitted the best information they had. Since the goal was to build or have built a gas pipeline - and wasn't necessarily to be successful under AGIA - he said the Port Authority chose the latter.

MR. WALKER told members he takes responsibility for that decision. It was the first time in ten years the Port Authority had all the cost estimates and market data, put together by leading companies around the world. Access to the data was gained Friday night, December 15, in Houston; it was due December 18 at 2 o'clock. Noting they'd worked around the clock, he expressed pride in the application submitted December 18, before it became public. Mr. Walker said the Port Authority had no advantage by submitting it with a supplemental request from the administration.

MR. WALKER explained that the Port Authority had believed it was best for the State of Alaska to have those companies use the Port Authority's data to submit a bid. When he'd asked the

pipeline company why it was withdrawing, the answer was that the economics were fine and it was just a business decision. Also, the LNG company had indicated the economics were getting better and better. While he didn't know what was meant at the time, Mr. Walker said now that the data is available and put together, he sees that a smaller project can have about a \$1 advantage with respect to the wellhead, compared with a larger project.

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SENATOR WIELECHOWSKI asked if the Port Authority has a confidentiality agreement with the LNG and pipeline companies that prohibits disclosing their names.

MR. WALKER replied yes. While not convinced the agreement is as strong as previously, he hasn't publicly shared the names. The goal is to advance a pipeline project. He added that the Port Authority benefited from the relationship to the tune of about \$2 million of work to have the data updated, and there is a complete project, down to the nuts and bolts. In further response about the withdrawal, Mr. Walker declined to speculate and said he'd rather focus on the path forward.

CHAIR HUGGINS noted the Port Authority's AGIA application was deemed noncompliant, which the Port Authority then contested. He asked about specific points of disagreement.

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MR. WALKER opined that the Port Authority's application submitted December 18 was fully compliant, answering every question raised and having every piece necessary. Provisions under AGIA disallow filing an appeal, he said, which the Port Authority agreed to in testimony last year. However, the Port Authority believes the Alaska Statutes and Alaska Administrative Code allow the commissioner to choose to reconsider.

MR. WALKER added that the administration didn't misread the Port Authority's first application. But he believes there had been efforts to prevent its bidding; thus the Port Authority had provided the administration with copies of correspondence with the withdrawn partners and a copy of the draft complaint he'd prepared and had ready to file in order to obtain that data.

MR. WALKER told members the Port Authority had shown what it could under a confidential arrangement. While knowing the first application had significant problems, the Port Authority complied before anything became public and thus believes no advantage was gained by its submittal December 18; nor was there

was any disadvantage to another bidder, since the Port Authority hadn't seen anyone else's bid. However, the Port Authority was told the second filing couldn't be considered because the questions couldn't be answered from within the original application.

CHAIR HUGGINS recalled the Port Authority received notification January 3 that the reconsideration request was disallowed.

MR. WALKER affirmed that.

CHAIR HUGGINS recalled a briefing related to a commitment to look at an LNG course of action. He asked what sort of commitment was made to the Port Authority then.

MR. WALKER replied there wasn't one at that point, though it was communicated that there would be an independent look at LNG. Clarifying it isn't an aspersion against this administration, he said the Port Authority has lived and breathed the all-Alaska LNG project for ten years. An in-house analysis doesn't provide comfort that the analysis will be aggressive. It is likely that the administration will interpret some things differently; for example, the specific market makes a lot of difference. He also recalled a \$200,000 analysis by the former administration with a somewhat negative slant, done by an East Coast consultant that never even contacted the Port Authority.

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CHAIR HUGGINS asked whether an analysis is being done of a Canadian route and also LNG, for a baseline.

MR. WALKER replied he believes so. Now that the Port Authority is outside of AGIA, it can do things it couldn't under AGIA, although its offer to work with the administration, making consultants such as Mr. Shipkoff available, was declined. He said it's confusing. The Port Authority isn't allowed to remain in the process, having been told reconsideration isn't allowed under AGIA. But the side-by-side analysis being done isn't allowed either. He noted later he would discuss solutions.

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MR. WALKER turned to slide 9, "Alaska's Successful Fight to Keep TAPS in Alaska," with the following point:

In the early 1970's Alaska successfully fought to keep the Trans-Alaska Oil Pipeline from going through

Canada for the very same reasons the gasline should remain in Alaska.

He gave personal recollections and mentioned jobs, value added, and refineries, pointing out that if TAPS had turned at Delta Junction and headed through Canada, much of the infrastructure in Alaska wouldn't exist, or the jobs. Mr. Walker said this is one of the forces that keep the Port Authority going.

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MR. WALKER showed slide 10, "Significant Advantages of All Alaska Line," with the following points:

- Substantial permitting already in place (YPC) results in the earliest gas to Alaska.
- Lower energy cost and clean burning fuel to Alaskan communities.
- All jobs remain in Alaska -
 - Construction
 - Operations
 - Maintenance

MR. WALKER gave details. He said companies are impressed with the amount of permitting done by YPC; Wayne Lewis and Jeff Lowenfels have a 16-year history with YPC. Noting he spent time at YPC's Anchorage warehouse, where he marveled at the \$100 million of effort in gathering permits, environmental data, and so on, he indicated there have been five "due diligence" reviews on that data and not one company has said there is no value. He highlighted the importance of clean-burning fuel in Fairbanks and elsewhere. Turning to jobs, he said this provides not only a higher wellhead price, but also the jobs.

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CHAIR HUGGINS recalled that Dr. Pedro van Meurs, talking to the legislature last October, opined that it wasn't economically viable to go through Canada at the time and that if there was a viable project, he'd recommend LNG.

MR. WALKER agreed. Recalling that David Keane said the LNG project would enable a "highway" project, starting with the smallest and then adding on, Mr. Walker opined that an LNG project would later cause a highway project to become economic.

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MR. WALKER showed slide 11, "Reasons Why All Alaska Project is Superior," with the following points:

- Value added industry/jobs in Alaska.
- Alaska controls its own destiny.
- Earliest construction date.
- Smaller project requires only STATE plus ONE Producer to commit gas, reducing risk of failed open season.
- Market optionality.
- Superior economics - higher wellhead value.

MR. WALKER elaborated. He lauded Alberta's access to liquids; surmised that what happened on the Kenai Peninsula is the tip of the iceberg for Alaskan value-added opportunities; and said it's important for Alaska to control its own destiny. Noting there has been much analysis of how many years the YPC permits will cut from the process, Mr. Walker said he's heard one to five. The Port Authority application was put in as if those permits didn't exist, he added, a worst-case scenario of the last quarter of 2017. He emphasized there are existing rights-of-way, with the all-Alaska line pre-staked 55 percent of the way.

MR. WALKER told members the smaller project only requires one of the three producers. With a 2.7 Bcfd project, viable at 2 Bcfd, it could be the state and one producer. He recalled Dr. van Meurs saying if a project can be "bite size," it can go. The previous processes have required concurrence of all three producers, he noted.

MR. WALKER turned to market optionality. He opined that it is imperative to have the most markets possible. The Port Authority project has six available within the confines of the export license. The market that the Port Authority is looking at is whatever gets gas to Alaskans first. He said Alaska's gas shouldn't be restricted except by the laws in place. Alaska should be able to take its product to the market that pays the highest price. Once this resource is gone, it's gone. He noted that the final bullet, superior economics and higher wellhead value, was discussed already.

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MR. WALKER showed slide 12, "Value Added," with the following points:

- Alaska should have full access to liquids for value added industry.
- Agrium
- ANGDA study.

He cited the Kenai Peninsula's Agrium plant as the state's biggest success story, though not operating now because of lack of gas in Cook Inlet. Mr. Walker expressed concern that if additional incentives are given to the three producers, with the hope that eventually all three will agree to something, more facilities will close, weakening an incredible position of strength now.

MR. WALKER thanked Scott Heyworth of the Alaska Natural Gas Development Authority (ANGDA), who'd told him ANGDA is doing a value-added study. Mr. Walker predicted the ANGDA study would show significant benefits to the state as a result of being able to utilize the liquids in Alaska.

CHAIR HUGGINS inquired about the advantage of an in-state gas provision with respect to holding down the price of gas, which he indicated was in the 2007 legislation known as Alaska's Clear and Equitable Share (ACES).

MR. WALKER recalled legislative testimony about constituents who are paying double this year for gas; he opined that this is causing the whole economy to grind to a halt, since people who spend a lot to heat their homes won't do other things. He said in Fairbanks gas is \$25 per thousand cubic feet (Mcf), heading to \$28. Henry Hub is perhaps \$8, and in Alberta it around \$7; that would be a huge help. Much of Alaska is tied to diesel, even No. 1 diesel when it's cold enough. Expressing hope that the ANGDA study would show that value, he said it's actually value added if a household's expenses are so much lower.

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MR. WALKER showed slide 13, "Alaskan Autonomy," a map of Alaska with the following wording: "Decisions regarding permits/negotiations for the All Alaska line would be made in Alaska." Reiterating that much was learned from TAPS, he said the more that can be kept under Alaskan control, the better.

MR. WALKER turned to slide 14, "YPC Permits Available to an All Alaska Project," with the following points:

- Anderson Bay LNG/MT facility Air Quality (PSD) permit (8 years)
- FERC authorization for siting LNG/MT facility (7 years, 3 months)
- Anderson Bay (LNG terminal) Final EIS (7 years, 3 months)

- Federal Pipeline Right-of-way Grants (4 years, 5 months)
- TAGS Project-wide Final EIS (4 years, 5 months)
- Presidential finding approving export of Alaska natural gas (3 years, 8 months)
- DOE/OFE Authorization for export of natural gas (Order 350) (23 months)
- State of Alaska Conditional ROW Lease (21 months)
- Coastal Zone Consistency Determination (10 months)
- DOE/OFE Confirmation of Order 350 (March 8, 1990)
- Ahtna Corp. Right-of-way Agreement

MR. WALKER emphasized the time it took to obtain some of these, noting that the longest was 8 years; that the siting permit was renewed last year; and that another right-of-way doesn't need to be obtained from the federal or state government, although what exists might need to be updated. He likened it to a lease or rental, paid for.

MR. WALKER, surmising this pipeline goes down the right-of-way of the most studied piece of earth, said there have been three environmental impact statements for this route - one by Alyeska, one renewal, and one by YPC - and there are few surprises at this point, which is desirable when doing such a project.

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CRAIG RICHARDS, of Counsel, Walker and Leveque LLC, presented slide 15, "All Alaska LNG is viable with Gas Committed by State and One Producer," which consisted of three tables. He began with a table showing required gas reserves to a pipeline, depicting projects at 2.0, 2.7, and 4.5 Bcfd and showing totals over 30 years.

MR. RICHARDS noted a 4.5 Bcfd project requires about 50 trillion cubic feet (Tcf) of gas; a 2.7 Bcfd project, the Port Authority's base case in its AGIA application, requires about 30 Tcf; and the smaller yet still economically project - shown as 2.0 Bcfd - requires a little over 20 Tcf. He recalled that TransCanada's application said it could go as low as 3.5 Bcfd and still have a viable project - about 40 Tcf of gas.

MR. RICHARDS explained that the table on proven gas reserves by shipper demonstrates that Alaska has about 33.5 Tcf of proven reserves at Prudhoe Bay and Point Thomson; Kuparuk adds maybe 1.0, so it totals about 35 Tcf. Noting financial advisors have said about 30 years of proven reserves are needed to finance a pipeline, he said for TransCanada it's still short about 5 Tcf,

even at the lowest viable flow-through rate; even if that can be proven up in time for the project, there needs to be full participation by the State of Alaska and all three producers.

MR. RICHARDS told members the 2.0 Bcfd project, however, is viable at 20 Tcf. Highlighting what has happened at Point Thomson in the last year, he noted this table shows the major gas holders in Alaska. That 9 Tcf reverted back to the state from ExxonMobil, BP, Chevron, and ConocoPhillips to a small extent, he said; the title will be clear in 2009. Hence the state has gone from being the smallest gas controller in Alaska to the largest.

MR. RICHARDS said the State of Alaska now owns outright 36 percent of the gas produced at the wellhead, a third of the gas to commit to a pipeline to bring to market. This is 12 Tcf, or 60 percent of a viable project. Thus it only requires adding one producer to get to 20 Tcf. It could be ExxonMobil, shown with 7.8 Tcf for 23.3 percent; or ConocoPhillips, shown with 7.7 Tcf for 23.1 percent; or perhaps BP, shown with 5.7 Tcf for 16.9 percent, plus a little extra from somewhere else.

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MR. WALKER showed slide 16, "Market Optionality," with the following points:

- Alaska consumers
- Lower 48
- Other premium worldwide markets

He said the Port Authority believes the first market is Alaskan consumers. Gas can go the Lower 48 three ways: 1) by having an enabling pipeline for a later "highway" project, assuming that gas goes into the Lower 48; 2) as LNG to the West Coast; and 3) since both LNG and oil are swapped regularly and because of Alaska's location in relation to the world market, swaps could be done that send LNG to both U.S. coasts. It depends on who ships gas.

MR. WALKER emphasized having the greatest number of market options. He said all this comes down to a successful open season, which means a smaller project that doesn't require all three producers and that has market optionality - the ability to go anywhere in the world someone wants to take the product.

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MR. WALKER turned to slide 17, "All Alaska Project returns the Highest Wellhead Value"; identical to slide 3, it had a table of projected 20-year average netback prices for the All-Alaska Gasline and Alcan Highway Projects. He said the higher wellhead value relates to the market looked at, the one the Port Authority believes will get gas to Alaskans first. The average price is Henry Hub plus \$3; it ranges from \$2 to \$4. The Alberta market is Henry Hub minus 75 cents. This runs out to 20 years past construction.

MR. WALKER reported this figure was obtained from a number of sources, including entities the Port Authority is working with in that market, some Japanese public energy companies that are forecasting 20 years past the construction completion date, and various trade journals. He said there are four ways the Port Authority has vetted that number.

MR. WALKER showed slide 18, with the following points:

- All Alaska/LNG Project DOES NOT Require:
- Federal government as "bridge shipper".
 - Federal loan guarantees.
 - All 3 Producers. No single producer, such as Exxon, can cause open season to fail.
 - Additional North Slope gas discoveries prior to open season.
 - Resolution of Canadian aboriginal land issues.
 - Additional Federal or State ROW's (already obtained by YPC).
 - A Federal export license (already obtained by YPC).

MR. WALKER explained that no bridge shipper is required at the open season. And the Port Authority doesn't believe there will be a failed open season because the volume is 2.7, within the current offtake at Prudhoe Bay under Rule 9 of the Alaska Oil and Gas Conservation Commission (AOGCC); it doesn't require an oil mitigation plan.

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SENATOR MCGUIRE noted it wouldn't total 2.7 without one of the producers. She asked: Thinking about an open season, have you looked at the unit agreements and do you feel confident that the way those are structured, one producer could break out of the pack and bid to be part of that 2.7 Bcfd?

MR. RICHARDS replied he'd looked at that a year ago and might not recall all the details. The Prudhoe Bay operating agreement

is typically where one would find the gas-balancing provision among operators, allowing one operator to remove its gas while the others maintain their gas in the reservoir. He opined, however, that Prudhoe Bay doesn't have a viable gas-balancing provision, which he said is unacceptable; it should have one, and the state should require that.

MR. RICHARDS added that federal law is clear: It is an antitrust violation for one producer to keep another producer from getting its gas to market by not agreeing to a gas-balancing provision. Additionally, in a number of cases in Louisiana and Texas, those have been held to be a breach of lease terms with respect to the implied duty to get gas to market. The State of Alaska, in his opinion, has the legal right - through AOGCC or the Department of Natural Resources (DNR), with the adoption of regulations - to create a default gas-balancing provision, which he believes it should do. He surmised doing so would motivate the producers to come up with their own provision.

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MR. WALKER continued with slide 18, saying the Port Authority hasn't put in for the federal loan guarantee because it's an uphill battle that would cause delay. Mentioning that no single producer can veto it, he cited interplay seen over the years with regard to routes.

MR. WALKER stressed not needing additional gas discoveries prior to an open season; he cited advice that the financial market wants to ensure reserves are proven. He recalled that Commissioner Irwin said there is plenty of gas for all the projects; while agreeing with that, Mr. Walker indicated the term proven reserves means something different when financing a \$20 billion project. He highlighted sufficient proven reserves for a 2.0 or 2.7 Bcfd project, surmising there'll be additional gas someday, but not necessarily enough for a 4.5 Bcfd open season within 18 months.

MR. WALKER said land issues for this project have been resolved, but not for a line through Canada; he recalled telling companies that are considering going through Canada that perhaps an all-Alaska line would be best for them, too, since it would give more options and a reason to resolve issues. As for state and federal rights-of-way (ROWS), he said those were obtained through the YPC permits and don't need to be applied for again; nor does an export license need to be requested.

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MR. WALKER showed slide 19, "History of Gasline Incentives," which stated, "20+ years of incentives have not resulted in the building of a gas line in Alaska." Noting he'd made a study of this back to 1985, Mr. Walker expressed frustration about the incentive process. He highlighted the cycle: talking about building a gas pipeline, forming teams, doing studies, making concessions, putting together legislative incentive packages, having nothing happen, having a change of administrations, and then starting over.

MR. WALKER suggested because Alaska now is in the number-one position with respect to controlling gas, the state should say enough is enough. The incentive process hasn't worked. Even the Stranded Gas Act and the \$13.25 billion offered didn't result in a commitment to actually build a pipeline; rather, there was a commitment to work towards it.

MR. WALKER also mentioned the federal energy bill. He recalled that Lower 48 natural gas trade associations had said they wouldn't have their tax dollars used to subsidize a gas line from Alaska and wouldn't accept the price floor, and so that was taken out. As for issues associated with so-called bridge shipping, Mr. Walker said he hasn't received indications that will happen either.

MR. WALKER told members the Port Authority project doesn't need such incentives. When it applied under the Stranded Gas Act, it didn't ask for incentives, and it isn't applying under AGIA because of wanting the incentives and \$0.5 billion in funds. The Port Authority is in this for the long haul - it's just a little longer haul than originally believed. He opined that this project is the closest project to being built and has the fewest hurdles. Highlighting the skyrocketing cost of utilities, he said something must be done. The Port Authority believes it has figured out a solution.

4:54:37 PM

MR. WALKER showed slide 20, "Benefits of State Participation in Gas Pipeline Ownership," with the following points:

1. Pipeline will finally be built.
2. Earliest gas to Alaskans.
3. Complies with voter mandate for an All Alaska gasline.
4. Lowest pipeline tariff.

5. Tax exempt financing through the Alaska Railroad Transfer Act (up to \$17 billion).
6. Significantly reduces risk of failed Open Season.

MR. WALKER recalled meetings in Houston last summer with large companies in the LNG or exploration business on the North Slope. The pipeline partner had slipped away for some reason, and he'd asked what people would think if the State of Alaska participated in just the pipeline piece. The response had been that it would be a big step forward, the most significant statement that a project would happen.

MR. WALKER opined that there'd be a true alignment of interests in that case. Both the state and the shippers would want a lower tariff, for instance, since the state would make more money on a lower tariff and higher wellhead price.

MR. WALKER reported being told that when a host government says it will be involved and have an open season, companies show up. When others hold an open season, by contrast, companies may or may not show up; there is concern about potential gaming with respect to the pipeline piece, for example, when a company doesn't own part of the pipeline. He also recalled being asked in Calgary whether Alaska has learned nothing in 30 years about how the pipeline piece should work; he indicated he was told the state should have at least 51 percent ownership in the pipeline in order to have a lower tariff.

MR. WALKER indicated pipeline companies have said they don't want to be involved in just the pipeline piece, which has a regulated return. Thus it's a tough piece. If there were a goldmine and a market, he said, a road would be built. He likened this pipeline to a third lane of the Richardson and Dalton Highways.

MR. WALKER proposed that the state take a significant role in the pipeline piece. He recalled being advised there'd be high interest in a liquefaction piece in that case. He emphasized that it doesn't have to be done through the Port Authority. He opined that the legislature is the best entity to jumpstart it, to say the "incentive parade" is over and there will be an all-Alaska pipeline, starting now.

SENATOR McGUIRE voiced concern that the state doesn't have the expertise; because of its procurement code and being in the U.S., it can't get things done as international sovereigns do.

She said no disrespect is meant to the state or its employees, but she sees it as a terribly inefficient business model.

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MR. WALKER replied he understands the concern but doesn't envision a state employee's involvement. Experts would be retained. Other states have been involved in projects; he cited California's involvement in building an aqueduct in the 1960s to take water from north to south, noting Alaska's gas is also in the north, away from its more southern population and markets. And many things in Alaska are sophisticated, he pointed out, including the successful permanent fund and the railroad.

MR. WALKER agreed with Senator McGuire that Alaska doesn't have the expertise today, but said it is there. He has been told it's a piece of pipe with two compressor stations. Yes, there is detail, and obviously there has to be the right pipeline company as the builder and operator. Everything wouldn't be done in-house. He turned the presentation back to Mr. Richards.

5:03:18 PM

MR. RICHARDS showed slides 21 and 22, "State Participation in the All Alaska Gasline," which had the following points:

1. The State should form a consortium of investors to own, finance and construct the pipeline to Valdez, with the State holding a controlling interest (e.g., 51%).
2. Private development and financing of the liquefaction, GCP, and shipping would follow easily.
3. Typical pipeline project finance could be limited recourse whereby equity holders would provide credit support to the debt lenders during construction. After completion, the recourse to the equity participants would fall away.
4. With a controlling interest in the \$12 billion pipeline, assuming 25% equity and 75% debt, the State would contribute approximately \$1.5 billion in equity and would have a risk exposure of up to \$6 billion during the construction period.
5. Customary mitigants that reduce lender pre-completion risk would lessen the State's \$6 billion

risk exposure (e.g., lump sum turnkey price provisions, liquidated damages in the event of performance shortfalls, cost overrun standby debt facilities from financial investors, credit enhancement from outside parties).

6. With the State as lead consortium member, it will be able to control the development phase process and timeline which, when combined with the State's 12+ tcf of gas, creates the best chance for a timely and successful open season.

MR. RICHARDS highlighted the effort to find the weak points that prevent a gas pipeline and strengthen those. He said the pipeline portion is where help is needed, where there's the most difficulty in getting investors interested. The desire is for the state to have a 51 percent equity interest in a \$12 billion pipeline. After 75 percent is paid for by debt, the state would have about a \$1.5 billion investment in the pipeline, giving it majority control.

MR. RICHARDS noted risk exposure comes with that, up to about \$6 billion because of being on the hook for debt payments during construction. Typically during pipeline construction, equity investors cover debt payments if they're not made. The exposure in this case is up to half of the debt costs of the pipeline. After construction, when gas flows, equity holders are no longer on the hook for that debt.

MR. RICHARDS emphasized for \$1.5 billion the State of Alaska could move a pipeline forward; be a majority owner; and, during construction only, have risk exposure of about \$6 billion. As shown in point 5, there is an excellent chance that the risk exposure could be mitigated significantly through various financing mitigation provisions.

5:04:52 PM

MR. RICHARDS turned to slide 23, "Examples of State Participation in Economic Development/Infrastructure," which listed various Alaska public corporations, with columns for total assets, assets less liabilities, and unrestricted net assets. He said it shows that the \$1.5 billion which the state needs to move the pipeline forward isn't significant in light of other public corporations in operation.

MR. RICHARDS recalled when the permanent fund was created, it was debated whether it should be a development bank or run as an

independent endowment like a pension fund; the latter won out. However, the Alaska Industrial Development & Export Authority (AIDEA), the Alaska Municipal Bond Bank Authority, and the Alaska Housing Finance Corporation (AHFC) were created to fulfill that development role; AHFC was capitalized at almost \$1 billion in the 1980s, about the amount needed to move a pipeline forward. He opined that it isn't out of keeping with state history or reasonable risk exposure for the state to put up \$1.5 billion to get this pipeline going.

[5:05:58 PM](#)

MR. WALKER concluded the presentation with three slides labeled "The Way Forward." The first, slide 24, had the following points:

Option 1

- Continue current process with applicant (TCPL) with Administration internally constructing a strawman LNG project for comparison.

- Legislature approves recommendation of AGIA license to the Canadian project without the independent analysis to provide proper checks and balances.

MR. WALKER explained that under Option 1, things could be left as is, with the legislature given the opportunity to vote the Canadian project up or down. If the contract were voted down, it would lead to Option 2, shown on slide 25 as follows:

Option 2 - AGIA II

- Legislature does not approve AGIA license for Canadian line.

- Administration undertakes AGIA II this summer
Cost = 1 year delay

MR. WALKER told members in this instance the administration would reassess, come back with additional requests for proposal (RFPs), and start the process again. Recommending against it, he surmised it could cost a year's time or more and might result in fewer bidders the second time around.

[5:07:52 PM](#)

MR. WALKER recommended Option 3, a parallel process shown on slide 26 as follows:

Option 3 - Parallel Process:

- Legislature retains its own experts now to evaluate ALL Alaska LNG Project.
- Allows Legislature to be fully informed regarding the All Alaska gas line option at time of Administrative recommendation of an AGIA license award.
- In Special Session Legislature either:
 1. Awards TransCanada AGIA license, or
 2. Adopts legislation to enable construction of All Alaska LNG project.

MR. WALKER told members this isn't unprecedented. In the past, the legislature retained its own experts to analyze the Stranded Gas Act and other things. The recommendation is to retain experts now, to evaluate what isn't in AGIA. Mr. Walker also said the legislature's hands aren't tied because of AGIA; this wouldn't affect AGIA. He expressed hope that legislators would want to be as independently informed as possible about all options, rather than just vote up or down on one application.

MR. WALKER clarified that he wasn't being critical of the administration or the process, but was saying that the purpose of AGIA was to do what's best for Alaska. He opined that this can be accomplished, even with the limitations of AGIA.

MR. WALKER said assuming a special session, the legislature could award it to a Canadian project or adopt legislation for an all-Alaska project. The Port Authority isn't asking for legislative action or amendment of AGIA at this point. Rather, the request is to retain independent experts to do a full and robust analysis of the all-Alaska line. He opined that Alaskans are anxious for that to be done. While wanting the state, as the majority controlling interest on the North Slope, to step forward and say it is doing a project, he also encouraged a full analysis by experts to verify what was presented.

[5:09:58 PM](#)

CHAIR HUGGINS asked whether the Port Authority would allow the legislature to have the benefit of its research.

MR. WALKER affirmed that, saying everything the Port Authority had would be available.

CHAIR HUGGINS thanked the presenters, indicating the committee had held off hearing from them until the reconsideration request was taken up by the administration.

There being no further business to come before the committee, Chair Huggins adjourned the Senate Resources Standing Committee meeting at [5:10:37 PM](#).