ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY
March 19, 2009
3:09 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Charisse Millett, Co-Chair
Representative Nancy Dahlstrom
Representative Kyle Johansen
Representative Jay Ramras
Representative Pete Petersen
Representative Chris Tuck

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Thomas Wagoner
Senator Gene Therriault

COMMITTEE CALENDAR

HOUSE CONCURRENT RESOLUTION NO. 12
Requesting that the governor and the attorney general review and reevaluate the license issued to TransCanada Alaska Company, LLC, and Foothills Pipe Lines Ltd., jointly as licensee, under the Alaska Gasline Inducement Act to determine whether the project proposed by the licensee sufficiently maximizes the benefits to the people of the state and merits continuing the license, taking into consideration economic changes affecting project financing, the availability of liquefied natural gas and natural gas from nonconventional sources, the state's risk of paying treble damages associated with an in- state gas pipeline, and the expected budget deficit; and requesting that the governor and the attorney general report the outcome of the review and reevaluation within six months.

-HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HCR 12
SHORT TITLE: URGING REEVALUATION OF AGIA LICENSE

SPONSOR(s): REPRESENTATIVE(s) RAMRAS

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WITNESS REGISTER

REPRESENTATIVE CRAIG JOHNSON
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Presented HCR 12 as the co-sponsor.

DON BULLOCK, Attorney
Legislative Legal Counsel
Legislative Legal and Research Services
Legislative Affairs Agency
Juneau, Alaska
POSITION STATEMENT: Speaking as the drafter, answered questions regarding the proposed CS for HCR 12, 26-LS0156\C.

TOM IRWIN, Commissioner
Department of Natural Resources (DNR)
Anchorage, Alaska
POSITION STATEMENT: Testified during the hearing on HCR 12.

PAT GALVIN, Commissioner
Department of Revenue (DOR)
Juneau, Alaska
POSITION STATEMENT: Testified during the hearing on HCR 12.

TONY PALMER, Vice President
Alaska Development
TransCanada; President
TC Alaska; CEO
Foothills Pipelines, Ltd.
Calgary, Alberta
POSITION STATEMENT: Testified during the hearing on HCR 12.

ACTION NARRATIVE

CO-CHAIR BRYCE EDGMON called the House Special Committee on Energy meeting to order at [3:09] p.m. Present at the call to order were Representatives Dahlstrom, Ramras, Petersen, Tuck, Millett, and Edgmon. Representative Johansen arrived as the meeting was in progress. Also in attendance were Senators Therriault and Wagoner.

HCR 12-URGING REEVALUATION OF AGIA LICENSE

CHAIR EDGMON announced that the only order of business would be HOUSE CONCURRENT RESOLUTION NO. 12, Requesting that the governor and the attorney general review and reevaluate the license issued to TransCanada Alaska Company, LLC, and Foothills Pipe Lines Ltd., jointly as licensee, under the Alaska Gasline Inducement Act to determine whether the project proposed by the licensee sufficiently maximizes the benefits to the people of the state and merits continuing the license, taking into consideration economic changes affecting project financing, the availability of liquefied natural gas and natural gas from nonconventional sources, the state's risk of paying treble damages associated with an in- state gas pipeline, and the expected budget deficit; and requesting that the governor and the attorney general report the outcome of the review and reevaluation within six months.

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REPRESENTATIVE TUCK said he was looking forward to learning more about AGIA.

3:11:14 PM

CO-CHAIR MILLETT moved to adopt committee substitute (CS) for HCR 12, 26-LS0156\C, Bullock, 3/18/09, as the working document.

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CO-CHAIR EDGMON objected for the purpose of discussion.

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REPRESENTATIVE CRAIG JOHNSON, Alaska State Legislature, presented the committee substitute for HCR 12 as the co-sponsor with Representative Ramras. Representative Johnson called attention to the difficulties caused when the government hands out large amounts of money without keeping a close eye to prevent unintended consequences. In fact, the administration has authorized the payment of $500 million dollars and "we've heard very little since then." He recalled that during his recent trip to the Energy Council conference, there were discussions of the difficulties of the gas market on a global scale that may have an impact on securing financing for the Alaska gas pipeline. In fact, Alaska's gas may not be needed in a glutted market. He stressed that HCR 12 does not require a rewrite of Alaska's Gasline Inducement Act (AGIA), but requires a report on the progress of the legislation. House Concurrent Resolution 12 is a resolution of the people and it can be changed if the language is too strong or too soft. Representative Johnson expressed his surprise at the minority's protest against this resolution, and asked, "Who can be opposed at getting more information?" He cautioned against authorizing this money and then "walk[ing] away without information." He said he was heartened by the governor who said the resolution asked the administration to make sure its decisions, with regard to the gas pipeline, are truly in Alaska's best interest. Representative Johnson mentioned the testimony that will come, and stressed that all he is asking for is for the parties to show the information that will answer his constituents' questions. This resolution asks for a report on the progress that is being made and he encouraged the committee to move it out to the next committee.

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CO-CHAIR EDGMON asked the sponsors to walk through the changes in the proposed CS.

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REPRESENTATIVE RAMRAS recalled advice from former Governor Hickel to freshman legislators and opined Governor Palin would agree that the debate of AGIA was whether it was for "the maximum benefit of the people for the state to induce a competitive environment for two gas pipelines, which is what has materialized ...." Furthermore, any company in America, after investing $500 million, needs regular benchmarks and written reports in order to glean a sense of whether a project remains economic or is losing its commercial footing. After attending the Energy Council, he said, "I came away excited for America and frightened for the prospects for Alaska." The U.S. is reinventing its cornerstone energy source; in fact, the Federal Energy Regulatory Commission (FERC) is permitting three pipelines and two liquefied natural gas facilities (LNG) in Oregon, over the objections of many of the residents. This is happening in an effort to build a natural gas infrastructure even though the capacity for the importation of LNG was six bcf per day last year, and will be twenty bcf per day next year. In addition, he noted the increase of nonconventional sources of gas, such as shale, that are being developed by smaller, up and coming producers. Shale is available in increasingly larger quantities and the cost of tariff transportation is low.

Sources at the Energy Council stated Congress and Americans want energy independence, although what they really want is energy security, and that is possible with the amount of natural gas available in the Lower 48. Moreover, with 4.3 trillion cubic feet (tcf) of storage in natural geologic formations, America has the ability to store more gas than is possible in Europe or Asia. America uses the most energy, has the ability to store the most, will have the most receiver ports for imported LNG, and is now developing vast shale resources at lower prices than before. Representative Ramras pointed out the North Slope is a brand new "brown field", that must be explored for gas; however, in the Lower 48 there are "green fields" where the gas has already been located and the infrastructure is in place. All of these factors are putting the Alaska pipeline somewhat at risk. He asked, "They certainly want Alaska gas in the Lower 48, but are they willing to pay for it, once you deduct the cost of lifting it, the capital cost, and the cost of transporting it and the embedded construction risk that comes in it?" Further, he questioned whether the state's inducement of $500 million enhances the market, or if the market will be created naturally when "the marketplace is ready." He opined the governor and the sponsors of HCR 12 are in agreement, and all of the parties want regular information such as written benchmarks, that are part of routine business practice. Representation Ramras stressed that HCR 12 asks for a written report, within 180 days, from the administration on how AGIA is doing, the effects of a changing marketplace on economics, and whether the inducement is still worthwhile. This report is the orderly dissemination of information analyzing the greater marketplace and the advancement of AGIA.

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CO-CHAIR EDGMON asked the sponsors to present the changes to the resolution reflected in the proposed CS.

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REPRESENTATIVE RAMRAS advised the changes in the "whereas" clauses are very straightforward. He then referred to HCR 12, 26-LS0156\S, page 4, lines 25-26, that read:

> [Alaska] Gasline Inducement Act) to determine whether the project proposed by the licensee sufficiently maximizes the benefits to the people of the state and merits continuing the license,

REPRESENTATIVE RAMRAS explained the above language is replaced by the language in the proposed CSHCR 12, 26-LS0156\C, page 5, lines 2-6 that read:

> [Alaska] Gasline Inducement Act) to determine whether the project proposed by the licensee fails to maximize the benefits to the people of the state, or is uneconomic, taking into consideration economic changes affecting project financing, the availability of liquefied natural gas and natural gas from nonconventional sources, the state's risk of paying treble damages associated with an in-state gas pipeline, and the expected budget deficit;

REPRESENTATIVE RAMRAS further explained the material change is from "sufficiently maximizes the benefits to the people of the state and merits continuing the license" to "fails to maximize the benefits to the people of the state or is uneconomic." He assured the committee the intent of the resolution is to get a lot of information at regular intervals, but not to rewrite AGIA. In response to Representative Tuck, he noted that treble damages are the same as triple damages.

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DON BULLOCK, Attorney, Legislative Legal Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, informed the committee he was also the drafter of AGIA. He explained the key change in the proposed CS is the question of whether the project is uneconomic. The process of AGIA was to offer $500 million, and the benefits of a pipeline coordinator, to any entity that would propose a project and agreed to what is commonly known as the "must-haves." The proposal from TransCanada was determined as the best project to maximize the benefits to the people of the state. This led to confusion as the original language in the resolution asked for consideration as to whether the project does maximize the benefit to the people of the state and if the license should be continued; however, at this point AGIA is a contract and he opined the intent of the original resolution was not to undue the award of the contract. Therefore, he said he looked at AGIA as a contract and searched for provisions within the contract that allow the evaluation of the project as it is underway. He cited AS 43.90.210, Amendment for Modifications of the Project Plan, and said this amendment allows the licensee to propose modifications if circumstances have changed. Also, AS 43.90.240 Abandonment of the Project, addresses the economic issues related to the pipeline. The first provision allows the licensee and the state to agree that if the project can not be built with value at "the wellhead," the parties can walk away from the contract. However, if there is disagreement, for example, the state feels the project is not viable, but TransCanada does, the parties can go to arbitration. Mr. Bullock then described the evidence that would prove the economics of the project. He concluded the economics can, and should, be constantly monitored and that the point of the resolution, by asking for economic status, is consistent with AGIA.

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REPRESENTATIVE PETERSEN referred to Mr. Bullock's legal opinion included in the committee packet. He asked if he correctly interpreted Mr. Bullock's opinion that if Alaska backs out of "this deal," the state would be liable for treble damages.

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MR. BULLOCK said, "Not entirely." If the state offers inducements of money and the benefits of a pipeline coordinator to a competing gas pipeline with the capacity of more than 500,000 cubic feet per day, the damages provision is triggered. Damages would equal three times the amount of the expenses up to that point.

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REPRESENTATIVE RAMRAS opined discussion of this opinion is not relevant due to the changes in the proposed CS.

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MR. BULLOCK clarified his memo addressed the issue of the state arbitrarily canceling the contract. He pointed out that a business will sometimes pay damages to get out of a contract that carries a risk of costing them more; however, the AGIA contract is different in that the state is subsidizing the development of an independent business. He concluded without speculating on what the damages of unilateral termination of the contract would be.

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REPRESENTATIVE PETERSEN asked whether the amount would be higher or lower than "half a billion dollars."

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MR. BULLOCK surmised TransCanada's first billings will be received soon and the commissioners of the Departments of Revenue (DOR) and Natural Resources (DNR) are in a better position to know. He reminded the committee that another factor to determine damages is TransCanada's reliance on the state's backing.

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TOM IRWIN, Commissioner, Department of Natural Resources, informed the committee HCR 12 requests the governor and the attorney general review and reevaluate the AGIA license issued to TransCanada Alaska and Foothills Pipe Lines Ltd. He opined the purpose of this request is a belief that there are changed conditions that may affect whether the AGIA project still sufficiently maximizes the benefits to the people of Alaska, and merits the AGIA license. He described the elements of analysis within AGIA and said the following testimony will discuss why the review and reevaluation is unnecessary. Commissioner Irwin recalled that, prior to this administration, there was no work being done on the Alaska natural gas pipeline such as field work and regulatory preparation for an open season or a FERC certificate; in fact, all of the gas reserves in the state were the result of the search for oil, and proposed contracts under the Stranded Gas Development Act (SGDA) failed to pass. However; today there are two entities working toward open season, there are multiple companies exploring for gas on the North Slope, and there is a proven pipeline company committed to build the project. Also, the following critical open access provisions are assured: a low, reasonable tariff structure; expansion commitments; and rational expansion tariffs. Commissioner Irwin stated the AGIA project has the assurances to support Alaska's economic future.

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COMMISSIONER IRWIN continued to explain that during negotiations under the Stranded Gas Development Act, there was no interest from the oil producing companies to assure open access protections. This situation led the administration to the development of AGIA and its elements remain essential to Alaska today. The AGIA process included: soliciting of applications;

analysis of the applications; findings of the project proposal; and public and legislative review. TransCanada met all of the requirements of the legislation and, as the licensee, must abide by all of the commercial terms that protect Alaska's future economic interests. Commissioner Irwin turned attention to the analysis of AGIA that is required of the administration. He reviewed the requirements of the legislation and the process followed by the commissioners of the DOR and the DNR to issue the license. Outside experts such as Wood Mackenzie, Goldman Sachs, Black & Veatch, Greenberg-Tarig, Gaffney, Cline & Assoc., and others, were consulted to contribute to the associated finding; in fact, the cost of this extremely rigorous analysis and finding was $13 million. He also described the modeling employed to generate the net present value (NPV) to the state and to assess risks to the state including price uncertainties, changing project capital costs, timing, interest rates, the cost of capital financing, operation and maintenance costs, and escalation rates. Commissioner Irwin concluded that the AGIA analysis identified the risks referred to in HCR 12, and the results are reflected in the AGIA finding.

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CO-CHAIR MILLETT asked whether the project was currently under review by the DOR.

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PAT GALVIN, Commissioner, Department of Revenue (DOR), answered yes. He clarified that the type of analysis underway may not be meeting the expectation of HCR 12. The ongoing analysis is basically two-fold: evaluating new information as it is known in terms of price expectation and cost; and comparing proposed changes to the state fiscal system that will affect the project's economics. In addition, there are studies currently taking place associated with the project and the project's impact on North American natural gas prices, labor, industry, and environmental concerns. Secondly, there is a separate analysis regarding the potential role of the state and federal government in the financing of the project.

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CO-CHAIR MILLETT surmised the DOR is currently analyzing everything required by the proposed resolution. She asked whether the department can share this information with the legislature.

3:55:02 PM

COMMISSIONER GALVIN advised the department is not doing the comprehensive review required by the resolution. This would require that all of the consultants "re-do all of their numbers" and would divert resources from the project's budget. "The premise that we're currently underdoing the scope of analysis contemplated in the resolution is, I would say, not an accurate premise, but as far as sharing the information ... we're very happy to do that," he said.

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CO-CHAIR MILLETT asked whether the department still has consultants under contract.

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COMMISSIONER GALVIN indicated Goldman Sachs is under contract for the evaluation of the potential roles of the state and federal government. Similarly, Black & Veatch is under contract for the evaluation of the project's effect on the national economy. Neither of the contracts include a review of the contractor's previous work.

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CO-CHAIR MILLETT asked whether Commissioner Galvin was confident that the project is economical.

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COMMISSIONER GALVIN said yes.

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COMMISSIONER IRWIN concurred.

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REPRESENTATIVE RAMRAS quoted Dr. Antony Scott and opined that with the pressure of shale, LNG, a recession, and a changed marketplace, at today's prevailing price, this project would be "underwater."

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COMMISSIONER GALVIN questioned the accuracy of the quote.

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REPRESENTATIVE RAMRAS asked whether, if today's price of natural gas - $3.60 to $3.80 - is the same in 2018, the project would be underwater.

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COMMISSIONER GALVIN said the answer depends on the tariff. TransCanada has a tariff of below $3. The department's risk assessment factor estimates a tariff of around $4; thus the department's analysis is that the project is still economic.

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REPRESENTATIVE RAMRAS re-stated his question.

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CO-CHAIR EDGMON asked Commissioner Galvin to proceed with the presentation.

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COMMISSIONER GALVIN presented PowerPoint slide 2, "Revisiting the AGIA Decisions." He opined the resolution raises the questions of whether it is timely to revisit the AGIA decisions and whether anything has happened since the AGIA decisions were initially made to justify revisiting them. He broke the questions down into two pieces: The commissioners' findings and conclusions, and the passage of AGIA. Commissioner Galvin first addressed changes in the world since the legislature approved the license, such as the global economic downturn, the continued development of shale gas supplies, and the expansion of LNG import capacity. Not recognized in the resolution is the increased likelihood of carbon regulation and the decrease in project cost indices. He elaborated that both of these factors favor the project; in fact, the carbon regulation will improve the relative economics of natural gas. Further, the global economic downturn has resulted in lower costs for energy projects that require large amounts of steel.

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COMMISSIONER GALVIN reminded the committee another change is that prior to the passage of AGIA, there were no active major gasline projects, and now there are two. Before returning to the first question, he reviewed the basic premise of AGIA that issuing the license to TransCanada would sufficiently maximize the benefit to Alaskans. This decision was based on two factors: a ranking of the net present value (NPV) of the anticipated cash flows to the state from the project, and the project's likelihood of success. There are three primary factors to determine NPV: the expectation of natural gas prices in the years from 2018 - 2043, the cost of transportation, and the project schedule. Commissioner Galvin stressed the evaluation can not reflect the natural gas price, supply, or demand of today, but the expectation ten years from now. The primary factors to determine the likelihood of success are project economics, the technical development plan, and the financing plan.

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COMMISSIONER GALVIN began to put the aforementioned changes in context. For example, the global economic downturn means the price and demand for natural gas is going down and is expected to stay down for the next six to twenty-four months. In addition, the financial markets have "tightened up significantly." He related he has no indication from experts that this situation will extend into the five year timeframe of the project. Thus, the global economic downturn does not affect the project. He stated the continued development of shale gas was anticipated, as was the continued increase in LNG import capacity. However, unseen was the introduction of carbon regulation, and the subsequent increased demand for natural gas. Also not included in the analysis last spring was the decrease in project cost indices. He restated that both of these are changes "in the opposite direction." To illustrate the fall in steel costs, Commissioner Galvin presented slide 9, "Global Steel Price Index" that indicated the price of steel has gone from $180 May 2007, to $250 in July 2008, and back down to $140 in March 2009. The fact that the price of steel is one-half what was anticipated is going to have a positive effect on the economics of the project. He then summarized the changes that are new and relevant and concluded that the overall effect of the changes is just as likely to be positive as negative.

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COMMISSIONER GALVIN presented several excerpts from the commissioners' AGIA Finding and Determination; AGIA NPV report. These excerpts were a variety of consultants' testimony regarding shale gas production rates, technological innovation, technical advancement, LNG import capacity expansion, and LNG import volumes.

4:19:25 PM

REPRESENTATIVE RAMRAS remarked:

> I just want to point out to the committee that what we're getting is the information we requested in HCR 12, and not discussing whether we should be pursuing HCR 12. I mean, this is what we've all been waiting for, is this kind of detailed information, not the answer to each of the whereas [clauses] .... We're not discussing the resolution, we're meticulously dissecting each of the whereas [clauses] which is precisely why we're frustrated.

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CO-CHAIR EDGMON appreciated Representative Ramras' comments; however, he said the subject matter is not simple and listening to detailed background information is appropriate.

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COMMISSIONER GALVIN observed that Representative Ramras raised a question: In the relationship between the legislature and the administration, what is necessary in order to get this information? "Frankly, we were never asked to present this information," he said. He assured the committee there is no need to pass a resolution, but the committee could ask him to come to a committee and present "where things are in relation to the current market." He stated that this presentation is for members who did not participate in the AGIA hearings, and also so the committee will understand that a reevaluation of the AGIA decision is "plumbing the depths of a tremendous amount of analysis that has already been done." The department needs to clarify what the sponsors are looking for in order to respond.

4:22:19 PM

REPRESENTATIVE JOHNSON observed there was not a very large percentage of the legislature present. The sponsors seek to educate every member of the legislature on this subject; however, they would like to avoid calling a joint session. What the sponsors would like to see is a concise report that legislators can read, not a presentation at a meeting. Representative Johnson stressed that this presentation needs to be in a format that is accessible to everyone, not just members of the House Special Committee on Energy or the House Resources Standing Committee.

4:23:39 PM

COMMISSIONER GALVIN acknowledged Representative Johnson's suggestion was very helpful, and assured the committee the department is happy to provide the information required to keep members fully informed.

4:24:07 PM

REPRESENTATIVE RAMRAS remarked:

> How about Black & Veatch, their number was a tariff of $4.73, including the conditioning plant, and the fact that gas is at $3.70, what's our strategy going to be if gas is at $3.70 ten years from now? I mean, that's the whole notion of what HCR 12 gets to ....

REPRESENTATIVE RAMRAS further noted the discussion was focused on whereas clauses and not the "Be it resolved" of HCR 12.

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CO-CHAIR EDGMON said in order to fully understand the "problem statement" brought by the bill sponsors, the committee must backtrack and thoroughly examine "how we got here today, especially with some new members around the table."

4:25:37 PM

CO-CHAIR MILLETT asked whether Commissioner Galvin was opposed to HCR 12.

4:25:52 PM

COMMISSIONER GALVIN said he was opposed to the resolution because it does not provide for what is being requested, which is simply an update on the project. He opined the resolution requires the governor and the attorney general to determine whether the project fails to maximize benefits and to take into consideration all of the subjects begin discussed. He disagreed that the department is discussing the whereas clauses; in fact, he suggested that the committee look at the question, "Is now the time to revisit a full evaluation of these things, our answer is 'no'."

4:26:55 PM

REPRESENTATIVE JOHNSON expressed the need for a report from the administration that he can take to his constituents at a town hall meeting. This information needs to be available to the public, not just to the legislature.

4:27:54 PM

COMMISSIONER GALVIN said the department is available to answer questions at constituent meetings. He presented slide 18, "Which of These Changes are Truly New and Relevant?" that indicated additional shale and LNG supplies were factored into the price assumptions for the project. In fact, the findings incorporated a significant increase in LNG imports from two bcf per day in 2007, to seventeen bcf per day in 2025. He noted the actual import volumes of LNG have gone done since AGIA was passed.

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CO-CHAIR MILLETT asked why bigger LNG tankers are being constructed.

4:29:44 PM

COMMISSIONER GALVIN explained that LNG is the primary method of gas transportation in the rest of the world. The growth in LNG is driven by demand growth in the markets of Asia and Europe. He concluded the analysis that was done provided tremendous insight into the global LNG market, as well as the North American market.

4:31:04 PM

REPRESENTATIVE JOHNSON asked whether the new ships that gasify on-board were "figured into this."

4:31:33 PM

COMMISSIONER GALVIN said yes. Again, the issue with LNG imports is not a matter of import capacity or the amount of gasification available, but of the supply of gas to justify that capacity created by the construction of new facilities. The expansion of re-gas facilities is not the limiting factor on import volumes, but the limited factor will be the price differential between the North American price and elsewhere.

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REPRESENTATIVE JOHNSON surmised this new technology was included in the original assessment completed last spring.

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COMMISSIONER GALVIN confirmed that gas capacity expansion and the fact there will be technological advancements in gas import capacity were factored in. He then explained what the continued development of shale gas means to the Alaska gas pipeline project. When the price of Alaska gas is compared to shale, the Alaska gas will most likely come in at a lower cost. Therefore, shale gas is not a primary threat to the Alaska gasline project, but the inverse: The advent of Alaska gas coming into the North American market is a primary risk factor for the economics of shale gas plays. He reported that at a recent investment conference, analysis was provided by an investment company with holdings in shale gas, that the Alaska gas project is the "game changer" for the economics of shale gas. Commissioner Galvin concluded that on the questions concerning the relevance of additional shale gas and LNG supplies, the overall effect is just as likely to be positive as negative. In addition, short term demand slow-down and tightened financial markets are currently not viewed as long-term effects. He then provided a quote from Jim Mulva, Chairman and CEO of ConocoPhillips, published on March 13, 2009 in Petroleumworld.com., regarding costs and prices. His conclusion was that nothing has happened since the AGIA decisions to justify revisiting the commissioners' Findings and Conclusions.

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COMMISSIONER GALVIN divided the next issue about whether recent changes justify revisiting the AGIA legislation into two questions: "Does AGIA restrict the state's ability to meet in-state gas needs?" and "Are the underlying purposes of AGIA still valid?" On the matter of an in-state gas line, he assured the committee the obligation of treble damages only applies to a gas pipeline project capable of shipping over 500 million cubic feet per day (cf/d). The demand expectation for the state over the next ten years does not exceed 250 million cf/d, thus a bullet line meeting in-state needs does not reach this limit, does not compete with the AGIA project, and does not expose the state to the risk of treble damages. This is also the case for a pipeline from the North Slope, or a pipeline bringing gas from Cook Inlet to Fairbanks. Finally, he addressed the validity of the underlying purposes of AGIA. Commissioner Galvin recalled the purposes of AGIA were to move the pipeline forward with an enforceable timeline. The circumstances of today reinforce this goal because a long-term project of this importance to the state can not be driven by the vagaries of the daily market. Also, the dual goals of a lower tariff and open access provisions remain critical to the state's long-term economic future. Commissioner Galvin urged the committee to not overlook that one of the key purposes of AGIA is the leverage provided to the state in its discussions with producers relating to the project; in fact, without AGIA, if the state wants a pipeline it must capitulate to producers' demands. His final conclusion was that the purposes of AGIA are valid and its passage is still relevant.

4:42:17 PM

REPRESENTATIVE JOHANSEN read from the working document, page 1, line 1, "Requesting that the governor and the attorney general review and reevaluate the project." He then asked Commissioner Galvin to whom in the executive branch that task would be assigned.

4:43:46 PM

COMMISSIONER GALVIN surmised the most cost effective assignment would be to the gasline team, although the resolution also tasks the attorney general.

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REPRESENTATIVE JOHANSEN assumed Commissioner Galvin, Commissioner Irwin, and Deputy Commissioner Rutherford would "be the lead on this review."

4:44:41 PM

COMMISSIONER GALVIN said yes; however, there may be an interpretation of the resolution that precludes the commissioners from doing the review.

REPRESENTATIVE JOHANSEN then asked whether the appointed attorney general relies on departments and divisions for technical back-up information on projects, and if there is interaction between departments.

COMMISSIONER GALVIN said yes.

4:44:45 PM

CO-CHAIR MILLETT observed the department has not received billings from TransCanada Alaska (TC), thus it is unaware of any work TransCanada Alaska has completed up to this point.

4:45:05 PM

COMMISSIONER GALVIN stated the department has regular status discussions with TC and has a general idea of the work done; however, TC has not formally submitted [billings for reimbursement.]

4:45:16 PM

CO-CHAIR MILLETT asked for an estimate on the amount of money TC has invested up to this point.

4:45:40 PM

COMMISSIONER GALVIN deferred the question to Mr. Palmer. In further response to Co-Chair Millett, he said his personal knowledge is a clear understanding of what they have done, but the department does not have a "dollar value" of what TC has expended. He asked her to clarify the question.

4:46:28 PM

CO-CHAIR MILLETT said she was curious about Commissioner Galvin's comfort level. She assumed there is a close relationship between the department and TC, and asked when the first reimbursement billing would be submitted.

4:46:57 PM

COMMISSIONER GALVIN answered the billings are due at the end of [March, 2009]; however, the billings for the work done thus far will not shed any light on the economics of the project. The billings will show whether TC is keeping on task with the project development schedule.

4:47:29 PM

CO-CHAIR MILLETT remarked:

> Doesn't that parlay into costs and if they're keeping on project schedule ... a delay could cost the project quite a bit of money.... I think it does interpret into a cost.

4:47:44 PM

COMMISSIONER GALVIN explained that information gleaned from the billing that the project may cost a different amount is possible, but that is unlikely. The billing is more likely to be a reflection on the costs of design, engineering, and the steps toward permitting. The status reports received by the department indicate TC is on schedule and there is no current information indicating the project is in any difficulty.

4:48:33 PM

REPRESENTATIVE RAMRAS acknowledged the commissioners are opposed to HCR 12. He provided the example of a corporation in America that looks at progress reports every quarter. He then asked whether the commissioners could recommend changes to HCR 12 so that the commissioners would report to the legislature quarterly. These reports could include statements from those working closely with the gasline team and "an occasional expert now and then." Commissioners may also provide modifications so that the quarterly report would benchmark certain items, such as market changes. A redraft could make HCR 12 a document useful to the DNR, the administration, legislators, and the public.

4:50:26 PM

COMMISSIONER IRWIN suggested that the committee hear Mr. Palmer's testimony. He then said, "We will discuss everything, but to me [whereas clauses] are issues leading up to a conclusion. We address the [whereas clauses] ... I don't want any misunderstanding, TC Alaska is working aggressively and [is] very communicative with us on issues."

COMMISSIONER GALVIN answered yes to Representative Ramras.

4:52:50 PM

TONY PALMER, Vice President, Alaska Development, TransCanada, informed the committee he would comment on the resolution regarding the capacity to finance the project and changed circumstances in the natural gas market. Mr. Palmer began his PowerPoint presentation with a slide that listed 2008 pipeline accomplishments. He called attention to the Alberta Pipeline System and noted that it was approved to be regulated by the National Energy Board [Canada] rather than the Province of Alberta. He explained that this change could save Alaskan customers $1.3 billion to $1.8 billion. Secondly, he pointed out TransCanada is actively pursuing shale gas in western Canada and has secured customers through 2014 for 1.5 bcf per day of new shale gas. On the other hand, conventional gas in western Canada is continuing to decline by 1 bcf per day and is expected to continue to decline for the next two years; in fact, this decline will offset the gain from shale. Mr. Palmer reminded the committee that the AGIA license allows two options for Alaskan gas; at the initial open season service will be offered to customers who want to deliver within Alaska, that want to deliver to Alberta, and that want to deliver into the LNG market via the Lower 48 or to Asian markets. He encouraged parties to consider these options before deciding whether there are changed circumstances on the project. Mr. Palmer spoke about the progress on the project and pointed out TC has no control over natural gas prices or what its competitors will do; however, TC is focused on the control of its costs and scheduling. He noted that the current toll estimate of $2.76 million Btus was forecast in 2007. In answer to Representative Ramras' question about whether this project would be competitive in today's marketplace, he said "it depends, because, not only have gas prices changed, but costs have changed as well." In fact, there is a strong correlation in the oil and gas business between oil and gas prices and the cost of projects. He stressed it is not fair to compare today's prices with costs calculated in a "high price environment." TransCanada Alaska is also participating in ongoing discussions with potential shippers. He presented slide 7, "TransCanada's access to Capital Markets" and said in the last four months, during a turbulent credit market, TransCanada has raised C$5.5 billion in capital. In addition, the Alaska Pipeline Project will have access to a US$18 billion federal loan guarantee and financing will commence at the "decision to proceed" scheduled for 2014-2015; thus, the status of the capital markets in five years, not today, is relevant. Mr. Palmer said he did not have a new capital cost estimate at this time, but that one is underway and will be complete in one year's time; however, he provided a slide that showed changes in "bare pipe" prices from 2007 to 2009. The graph indicated that first quarter 2009 pipe prices have returned to the same level as they were at the time of TransCanada's AGIA application.

5:01:06 PM

MR. PALMER explained that he would not have complete economics on the LNG project because TransCanada is not preparing the liquefaction facility or constructing the ships, or looking at the ultimate markets. Instead, he presented a chart of crude oil price forecasts from four reputable consultants. The projections were that oil prices would be between $80 and $100 per barrel in 2018. Slide 10 was a chart of natural gas price forecasts from five consultants. Mr. Palmer advised that when consultants prepare forecasts they look at all of the sources of supply and demand, alternative fuels, and prices for competitive fuels. The forecasts were all prepared between November 2008, and March 2009, and all of the consultants anticipated a sharp decline lasting for as long as two years. However, by 2018, the forecasts indicate a price for natural gas of over $8 per million Btu. Slide 11 "U.S. EIA Alberta Hub Gas Price Forecasts" showed that the current U.S. Energy Information Administration (EIA) forecasts natural gas prices from 2009 to 2029, to be approximately $2 per million Btu above its December, 2006 forecast. Slide 12 "Impact on Project Economics" was a comparison of the projected revenue utilizing the December 2006, forecast and the March 2009, forecast. The calculations showed the current U. S. EIA forecast would result in an extra $125 billion earned by the producers and government entities above what was forecast at the time of the AGIA application. Mr. Palmer then summarized the following points: the AGIA bill has been approved and the license issued; TC is aggressively advancing the project; a contract was awarded to URS; the project schedule has been unaffected by the turbulent financial market; TC has solid access to capital markets; current gas prices result in an increase of $125 billion revenue to producers/governments as compared to projections in TC's AGIA application; major projects succeed or fail based on long-term plans, not on short-term swings in natural gas prices; and TC will continue to focus on costs, schedule, and attracting customers. Mr. Palmer concluded by saying that he has not seen a forecast from major consultants that have natural gas prices at $3 ten years in the future.

5:06:44 PM

REPRESENTATIVE RAMRAS asked Mr. Palmer to describe the breadth of TC's work force in Alaska.

5:07:20 PM

MR. PALMER recalled his previous testimony before the House and Senate Resources Committees during which he identified direct employees of TC, and consultants who have been retained. He emphasized that this is not a "make work" project for TC or for Alaska; in fact, the focus is on keeping costs low for a successful project. "We don't think the measure [of success] is how many people we have in an office and how big our office is," he said. In further response to Representative Ramras, Mr. Palmer said there are two TC employees who work out of the office and a number of consultants working out of their own offices. Both the employees and the employees of the consulting firms are Alaskans.

5:09:06 PM

CO-CHAIR MILLETT opined the $500 million investment the state is making "weighs heavy on all of us." She said during the Energy Council she met with FERC, and noted the competing project has gone through the pre-file process and is spending a lot of capital. Representative Millet asked why TC has not pre-filed, and whether TC is "parallel" to Denali-The Pipeline Project (Denali) in preparatory work.

5:10:34 PM

MR. PALMER responded that TC is on schedule to conclude an open season by July, 2010. That is earlier than Denali's schedule "towards the end of 2010." He explained that TC has not pre-filed because it is the norm in the industry that pre-filing is made after the open season. However, FERC has requested a pre-file, and TC is only "cautious" because of the additional costs involved. He reminded the committee that after filing in the normal manner, FERC retains a third party contractor at the applicant's expense. His understanding is that Denali received a number of waivers; that is not the normal situation and TC is participating in discussions with FERC at this time. If negotiations with FERC are successful TC may pre-file; however, he assured the committee that the fact TC has not pre-filed has not affected its schedule, its ability to advance the project, or its ability to hold the open season. On the other hand, FERC will be a regulator for the project and TC understands its desire for pre-filing, thus discussions will continue.

5:12:48 PM

CO-CHAIR MILLETT asked whether the state created a disincentive to pre-file by the [AGIA provision that TC pays 90 percent of costs after open season.] She also asked whether TC has previously completed a $40 billion project, or if the Alaska pipeline project was unique.

5:13:20 PM

MR. PALMER explained TC has not done a $40 billion project, but has built pipelines that are longer and more technologically challenging; in fact, it has a $26 billion project under construction. TransCanada does want to be aligned with FERC and is working to resolve the issue with them. He acknowledged there is a 50/50 sharing of costs with the state in advance of the open season, and a 90/10 split after; furthermore, based on TC's cost estimates, it can "prepare all of the work and go through FERC for $611 million." This would expend 100 percent of the state's investment and more, thus there is no impact on TC by advancing the application or not. There will be an impact if the regulation process is started early and the total expenditure is more. He assured the committee TC will continue to work with FERC "to accommodate their needs, as well as ours.”

5:15:52 PM

CO-CHAIR MILLETT asked whether the difference between TC's and Denali's commitments will influence the producers' decision at open season.

5:16:25 PM

MR. PALMER advised the normal process is for filing after open season; therefore, he did not expect any impact. He restated TC will pre-file if the issues with FERC are resolved. In addition, a pre-file now or in 201l, will not affect the date of the actual FERC application that is scheduled for 2012. In response to an earlier question, he explained that TransCanada will be submitting its first billing for reimbursement under

AGIA early [in April.] A billing was not submitted for 25 days in December, thus this billing will be for three months plus the 25 days in December. He estimated that the qualifying expenditures through the end of March are approximately $2 million, and TC is seeking reimbursement for one-half of that.

5:17:33 PM

CO-CHAIR MILLETT asked whether TransCanada supports the resolution.

5:17:43 PM

MR. PALMER said he did not support the premise that there has been a change in the gas market or in the financial market that is a detriment to the project. If the resolution requests an update, he said, "I have no opposition to the State of Alaska keeping itself updated as to how the project is proceeding ...."

5:18:39 PM

CO-CHAIR MILLETT observed that the U. S. public perceives there is a credit problem that may threaten the project, and that in fact, "everything has changed."

5:19:31 PM

MR. PALMER expressed his hope that his presentation indicated that when this project is in service, and for the 25 to 50 years after, that is not the case. He reviewed his previous points.

5:21:12 PM

CO-CHAIR EDGMON recalled statements heard at the [Energy Council] that the Denali project appears to be on a faster track. The main goal is to get the gas, and he noted there was skepticism as to whether TC was going to get the gas.

5:22:23 PM

MR. PALMER stressed TC has constructed 36,000 miles of pipeline and continues to ship gas that it does not own. Furthermore, his company has attracted producers for customers on the same basis in the past. The rationale of AGIA was to hold an open season and also require an applicant to continue through to FERC certification; on the other hand, the normal procedure in the industry is that a company would not proceed after a failed initial open season.

5:23:45 PM

CO-CHAIR EDGMON stated he also heard that the supply picture has fundamentally changed, or is changing, since the AGIA bill passed.

5:24:38 PM

MR. PALMER reminded the committee TC's estimate for the cost of the project is $26 billion, not $40 billion, and of the importance of keeping the costs down. Secondly, the estimates for new gas supplies were forecast by reputable consultants and the EIA. Forecasts for the supply of gas will go up and down over time, but a long-term project can not halt based on a short-term basis.

5:26:28 PM

REPRESENTATIVE PETERSEN stated he saw the projections of gas prices and for increases in the supply of gas at the Energy [Council]. He expressed his concern that a message was given to allow an advantage to competitors of the Alaska gas pipeline project. In fact, he believed the participants at the conference may have been given a "low-ball estimate."

5:28:08 PM

MR. PALMER reviewed his comments on the projected price of gas. He reminded the committee that during the initial open season, customers can nominate Valdez if they believe the North American market is overwhelmed by shale gas. This would allow parties to move Alaskan gas to the global LNG market.

CO-CHAIR EDGMON handed the gavel to Co-Chair Millett.

REPRESENTATIVE RAMRAS expressed his respect for Mr. Palmer. He then noted that in Canada the banking system is intact, there is no housing debacle, employment is high, and there is prosperity even during this economic downturn. However, Alaskans will be "fatigued" when they have to choose between funding capital projects and sharing costs with TransCanada. Furthermore, he questioned whether the $500 million is moving the project forward or if the project is advancing because the underlying economics do, or do not, support it. Representative Ramras explained his extreme concern about TC's decision "[to] not go through the process in the way that the FERC told me ... they would prefer ... which is with a pre-file."

5:32:32 PM

MR. PALMER reminded the committee that the potential pay-off to Alaskans for their $500 million investment is $100 billion.

5:33:27 PM

REPRESENTATIVE RAMRAS opined the forecasts provided by Mr. Palmer were unrealistic.

5:33:45 PM

MR. PALMER stated the forecasts were from reputable sources.

5:34:02 PM

CO-CHAIR MILLETT suggested that the committee recess to a call of the chair as there is further testimony to be heard on the resolution.

REPRESENTATIVE DAHLSTROM recalled testimony that TransCanada is working on three pipelines, and the Alaska pipeline was "number three, in the order of priority." She asked whether this meant that after the Mackenzie [Gas Project] is built, there will be no need to build other [pipelines].

5:36:32 PM

MR. PALMER advised the exact quote was "sequencing," which is very different than "priority." TransCanada is constructing a $12 billion oil pipeline and the first portion is scheduled to be completed next year. In addition, the Mackenzie project is currently on schedule to be completed by 2014. The Alaska pipeline is scheduled for completion in 2018. In terms of sequencing, the Alaska project is third; however, both the Mackenzie and the Alaska gas pipelines are needed in the marketplace and TC supports both.

5:37:34 PM

[HCR 12 was held over.]

ADJOURNMENT

The House Special Committee on Energy meeting was recessed at 5:37 p.m. to a call of the chair. [The meeting was reconvened March 20, 2009 at 11:02 a.m. HCR 12 was scheduled but not heard.]