ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE
January 26, 2009
1:01 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Craig Johnson, Co-Chair
Representative Bryce Edgmon
Representative Kurt Olson
Representative Paul Seaton
Representative Peggy Wilson
Representative David Guttenberg
Representative Scott Kawasaki
Representative Chris Tuck

COMMITTEE CALENDAR

OVERVIEW(S):

ALASKA GAS PIPELINE PRESENTATION BY TRANSCANADA

- HEARD

ALASKA GAS PIPELINE PRESENTATION BY DENALI - THE ALASKA GAS PIPELINE

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

No previous action to report

WITNESS REGISTER

A. M. (TONY) PALMER, Vice President
Alaska Development
TransCanada
Calgary, Alberta, Canada
POSITION STATEMENT: Presented information on construction of the proposed Alaska Gas Pipeline.

ACTION NARRATIVE

1:01:41 PM

CO-CHAIR MARK NEUMAN called the House Resources Standing Committee meeting to order at 1:01 p.m. Representatives Neuman, Olson, Seaton, Edgmon, Guttenberg, Kawasaki, Tuck, and Wilson were present at the call to order. Co-Chair Neuman said Representative Johnson is excused because his flight was weathered out of Juneau. [Co-Chair Johnson joined the meeting later via teleconference from Sitka].

OVERVIEW(S)

1:02:15 PM

CO-CHAIR NEUMAN announced that the only order of business is an overview on the Alaska Gas Pipeline. He noted that the scheduled speaker for Denali - The Alaska Gas Pipeline ("Denali") is on the same plane as Representative Johnson, so only TransCanada will be making a presentation today. Co-Chair Neuman urged members to meet with TransCanada and Denali representatives for updates since there have been many changes. He requested committee members to limit their questions to construction of the pipeline.

ALASKA GAS PIPELINE PRESENTATION BY TRANSCANADA

1:04:06 PM

A. M. (TONY) PALMER, Vice President, Alaska Development, TransCanada, displayed a map of the pipeline route through Alaska and Canada (slide 2). He drew attention to a photograph beside the map depicting a grass-covered right-of-way through a forest. He explained that unlike the Trans-Alaska Pipeline System (TAPS) for oil, the gas pipeline will be buried so that the top of the pipe is four feet underground, and the right-of-way will be revegetated and delineated by signs.

MR. PALMER, in response to Representative Guttenberg, explained that during construction the right-of-way will be a few hundred feet wide. However, once the pipeline is completed and in operation, the right-of-way will be about 120-150 feet wide. He said the photograph [on slide 2] depicts what will be seen for normal enjoyment of the right-of-way for the 25-50 years following construction.

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MR. PALMER, in response to Co-Chair Neuman, said the gas pipeline will be buried where it follows the TAPS corridor. In certain cases, it will be very close to the TAPS line, although TransCanada is still specifying the precise route. Because it is buried the natural gas pipeline will not be seen, but the compressor stations and any offtakes will be above ground and visible. There will initially be six compressor stations spaced about 120 miles apart, and they will be industrial sites.

CO-CHAIR NEUMAN announced that Co-Chair Johnson has joined the hearing via teleconference.

1:08:09 PM

MR. PALMER moved to slide 3 and began describing the elements of a successful pipeline project. [In relation to attractive project economics], he noted that natural gas prices are volatile and difficult to forecast. Six months ago gas prices were $10 and $12, but this morning they were $4.50, he said. As a pipeline company, TransCanada has no impact or control on natural gas prices, he continued. Prices are set in the marketplace and are often influenced significantly by political and economic events and by the price of oil. He further noted that conventional Lower 48 gas, Western Canadian Sedimentary Basin (WCSB), liquefied natural gas (LNG), shale, and coal bed methane are all competing for market share. This is also beyond TransCanada's control, he said, and while TransCanada remains cognizant of it, it is not something that TransCanada is focused on during project advancement.

MR. PALMER conveyed TransCanada's view that to be successful, project sponsors and supporters must focus on costs and schedule. In regard to commercial and regulatory risk management, schedule, and cost control, he said that a price difference of just one penny will cause customers to switch pipelines when there are multiple lines going to the same market. For new projects customers swing on several pennies, so it is critical to focus on costs, he explained. A capital cost change of $1 billion changes the pipeline toll by 10 cents per million British Thermal Units (MMBTU), which equates to $160 million a year in tolls. That share comes out of the producer's hide as well as the government's because that is where government gets the value, he said. Over a 25-year contract, $160 million per year adds up to $4 billion, which shows how critical costs are for this project. He noted that the toll estimate in TransCanada's 2007 Alaska Gasline Inducement Act (AGIA) application was for $2.76 per MMBTU in 2018 to the

Alberta Hub. That estimate will be updated as TransCanada prepares for the open season over this next year, he said, but it is critical to keep the toll under $3 per MMBTU.

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MR. PALMER, in response to Co-Chair Neuman, stated that in 2008 TransCanada put forth a couple of proposals to the legislature. One proposal specifies that TransCanada will bear some of the risk of any cost overruns by taking a reduction of up to 2 percent, 200 basis points, in its rate of return. The other proposal, if acceptable to the U.S. government, specifies that the loan guarantee structure will be adapted so that the U.S. government would bear some of the capital cost overrun risk in certain circumstances and some would reside with the shippers.

MR. PALMER, in response to Representative Kawasaki, advised that TransCanada is cognizant of what is currently happening in the world, both with competitors for this project as well as prices for natural gas and oil. However, TransCanada's focus is on cost and schedule for this project because that is how TransCanada thinks it will succeed. He said that when prices were $10 and $12 last year he personally did not think they were sustainable, nor does he think that $4.50 is sustainable going forward. What is critical is what the price of natural gas will be during the 25-50 year timeframe that the pipeline is in service. Forecasts are always centered on the current price. For example, whether the current price is $12 or $4 the forecast will be for a higher price.

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MR. PALMER acknowledged that if parties believe natural gas prices will fall to $2, then this pipeline clearly is not a viable project since the toll estimate is more than that. The low price of gas is the reason this project did not go forward for many decades. However, most parties are predicting that gas prices will rise from here, although no one knows at what point they will turn. On a pipeline project, schedule often drives cost and a delay will most likely cause a cost increase, he said. Therefore, TransCanada will look to regulatory agencies and governments to maintain its schedule. If gas price is sustained at $6-$7, which most parties are forecasting, and if TransCanada can keep the tolls under $3, there remains a substantial margin for producers and for governments. A $6-$7 gas price probably means an oil price of $40-$60 and most parties believe that beyond 2009 that is a sustainable oil

price. He allowed there has been a reaction in the marketplace to these low prices, such as reduction in a number of projects and layoffs in exploration and production. TransCanada takes the long view, he continued, and the price of natural gas has not altered TransCanada's proposal in any way.

CO-CHAIR NEUMAN reminded members that the committee will be looking in depth at price forecasting at a later date.

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MR. PALMER, in response to a further question from Representative Kawasaki, proffered that the potential customers on this project are very sophisticated and TransCanada believes that they take the long view. Shippers will look at the price of gas during the open season in 18 months and will look forward at the future forecast. TransCanada's commercial terms are open and transparent, he emphasized. TransCanada is going into discussion with potential customers with the commercial terms already identified and public, a highly unusual situation. He said TransCanada thinks its commercial terms are competitive and if capital costs can be kept down, TransCanada will be able to keep the tolls under $3. He pointed out that there would still be a positive net-back at today's natural gas price, although it would be small.

CO-CHAIR NEUMAN commented that to bring this all together, look at what has happened in the past year and this is a 25-year project.

1:20:45 PM

REPRESENTATIVE SEATON inquired whether the tariff is solely dependent on the construction costs so that no matter what happens in the future in regard to inflation or deflation, the tariff is fixed for a long time.

MR. PALMER answered that TransCanada's proposal is based on a capital cost estimate as well as an inflation factor that was provided by the state of Alaska. The bulk of the toll is driven off capital cost which would be the construction phase between now and the next nine and one-half years; the lower the inflation, the lower the tolls. Beyond the construction phase the only real inflationary factor is on operating cost which is a really small component of the ultimate tolls. The best scenario is to build in a low cost environment and flow gas in a

high cost environment, and the worst case is the opposite; over time one hopes for some balance.

1:23:06 PM

REPRESENTATIVE OLSON noted that during the AGIA process TransCanada's estimate for pipeline construction was $26 billion, but in November 2008 the administration started using $40 billion. He asked where this [$14] billion increase is coming from given that the prices for steel and labor have dropped.

MR. PALMER replied that TransCanada's forecast of capital cost remains at its summer/fall 2007 estimate of $26 billion. TransCanada will be completing a new cost estimate over the next 12 months, and hopes to hold the estimate at $26 billion. While steel prices have fallen, the price of rolled pipe has not fallen much due to the great number of pipeline projects currently underway in North America, he explained. If steel prices remain down after those projects are completed in the next 12-18 months, then the price of rolled pipe will likely fall. This will be examined during the update of TransCanada's estimate which will become public information in the open season proposal in spring 2010.

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REPRESENTATIVE OLSON inquired why TransCanada has asked Congress for an increase in the loan guarantees if it is still using an estimate of $26 billion.

MR. PALMER responded that TransCanada has not asked Congress for an increase in the loan guarantees. The U.S. government loan guarantee is $18 billion plus Consumer Price Index (CPI), but from 2004-2008 the costs of oil and gas projects increased more than the CPI, he explained. During a year-end interview, TransCanada's CEO [Harold Kvisle] was asked what support the U.S. government could provide for this project. Mr. Kvisle suggested that the U.S. government may wish to consider applying an oil and gas inflator rather than a consumer price inflator, Mr. Palmer related. He said he wants to make it clear that TransCanada has not requested Congress or the Obama Administration to increase the $18 billion.

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REPRESENTATIVE WILSON asked how cost overruns would affect the tariff.

MR. PALMER answered that under its AGIA proposal, one component of a capital cost overrun is that TransCanada would get a lower rate of return. If the U.S. government approves the AGIA proposal, another component is that any capital cost overruns would be funded through the U.S. Government Loan Guarantee Program. Those costs would then be separated and collected in a surcharge when gas prices were good. But, if the U.S. government does not accept the proposal there would be a change in TransCanada's rate of return - which will always take place - and the remainder would increase the toll to customers.

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CO-CHAIR NEUMAN remarked that the committee may want to look into this question in more depth.

MR. PALMER stated that the sharing of the risk of this project by the U.S. government is a concept that TransCanada put forward to the legislature last year. At the moment there is legislation for the loan guarantee but there are no regulations, he said. TransCanada has indicated its support of this and will inquire as to whether Congress and the Obama Administration would also be supportive because that would mitigate risk for customers.

REPRESENTATIVE WILSON agreed that the committee needs to talk about this more on another day.

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REPRESENTATIVE SEATON recalled that the reason for asking that the loan guarantee be applied was because then there would be security and the interest rate would be lower on the money that is borrowed for cost overruns.

MR. PALMER recollected that the concept was that the loan guarantee would lower the cost for customers "because you would have debt 100 percent financing for overruns rather than debt and equity." This benefits customers because the cost of debt is lower than the cost of equity, he explained. One hundred percent financing with debt means that TransCanada would not receive one dime extra as a result of cost overruns. Therefore, it is "hogwash" that TransCanada would not be motivated to prevent cost overruns, he said. The loan guarantee would be a

structure that allows the U.S. government to bear some of the risk of recovery instead of recovery from a surcharge by TransCanada if gas prices were higher rather than lower.

1:31:24 PM

MR. PALMER commenced to slide 4 of his presentation and continued discussing the elements of a successful project. Like any commercial party, he said, TransCanada needs the support of governments and communities [listed on slide 4 as the U.S., Canada, Alaska, Yukon, British Columbia, Alberta, Alaska Natives, Canadian First Nations, landowners, and other stakeholders]. Of course TransCanada also needs commercial contracts with shippers, he continued. He said the photograph of prairie land on slide 4 shows that the revegetation makes it hard to tell that this is a pipeline right-of-way.

CO-CHAIR NEUMAN interjected that Mr. Palmer told him earlier that hunters will not have access up and down the right-of-way.

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MR. PALMER said the final element for success is measured and focused project planning, structure, and performance, along with a proven project developer. TransCanada has a 50-year track record of success in multi-jurisdictional pipeline projects, he opined. TransCanada currently has a $12 billion oil pipeline under construction that will move more than a million barrels of oil from western Canada to Illinois and ultimately to Houston. He noted that the photograph on slide 5 depicts the construction phase of the revegetated right-of-way that was shown on slide 4. He explained that the pipeline is first strung alongside the trench and then buried a few days later.

MR. PALMER, in response to Co-Chair Neuman, stated that TransCanada's current proposal is for a 48-inch diameter steel pipeline with just over one inch of wall thickness. Since it is X80 it will withstand 80,000 pounds of pressure per square inch (PSI), he explained. The pipeline will be at 2500 PSI in Alaska and 2600 PSI in Canada. Stringing of the pipeline along the right-of-way will occur in one year and actual construction will occur for two years following. Thus, the pipeline will look like the photograph on slide 5 for a period of 6-12 months in each location.

1:35:16 PM

CO-CHAIR NEUMAN inquired how TransCanada plans to deal with the social pressures that could occur during the construction phase of the gas pipeline.

MR. PALMER replied that TransCanada expects to locate construction staff in enclosed camps. He said there will be 6,000-8,000 workers on the construction teams in Alaska during the two-year construction phase, a more modest amount during the pre-construction phase, and a very small number of people at post-construction which is also the case right now. The teams will be moving and located in different spreads. He acknowledged that socio-economic impacts could happen because this is industrial development. However, TransCanada is well experienced in managing this and will work with the appropriate state and federal agencies to manage those to the best of everyone's ability. Once completed, there will be a massive financial benefit as well as access to gas off and on for Alaskans. That is the trade-off with any industrial development, he opined, although natural gas pipelines are relatively benign.

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MR. PALMER, in response to Representative Wilson, said he does not yet know specifically how far apart the staging areas will be along the pipeline because that is still in development. The pipeline is approximately 750 miles from Prudhoe Bay, whether measured to the Canadian border or to Valdez, and four to six locations of workers could be expected. Pipeline would be strung the year before all along the right-of-way in central locations that are accessible so pipe does not have to be hauled for hundreds of miles. If the pipeline goes to the Lower 48 through Alberta, TransCanada contemplates six compressor stations spaced about 120 miles apart along the 750 mile distance, and each of these would be an industrial site.

1:39:11 PM

REPRESENTATIVE KAWASAKI commented that one of the biggest elements for a successful project has to be the commercial contracts. How far has TransCanada gotten with potential shippers at this time, he inquired.

CO-CHAIR NEUMAN interjected that the committee will be getting into this in a lot more depth and requested that Mr. Palmer keep his response brief.

MR. PALMER advised that discussions between a pipeline company and potential customers are confidential until a deal is struck. Results of negotiations are normally seen at the end of an open season and at this point one would see who the potential customers are and what their volumes are. He said he can share with the committee that TransCanada has had discussions with potential customers that want delivery within Alaska, that want delivery on the way to the Lower 48 through Alberta, and that want delivery to Asia.

1:40:55 PM

CO-CHAIR NEUMAN asked what TransCanada is doing to ensure that Alaska's small construction companies have an opportunity to participate in the project.

MR. PALMER responded that some small contractors have already participated in the project. He said there will be a general contractor that may or may not be a party as described by Co-Chair Neuman, but there will be subcontracting opportunities that TransCanada will be enforcing to allow parties to participate. TransCanada is committed to that on all of its projects, he added.

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MR. PALMER resumed his presentation, noting that most members are familiar with the project schedule depicted on slide 6. He said the only exception to the schedule is that the AGIA license was issued on December 5, 2008, rather than the assumed date of August 2008. Despite this four-month delay, July 2010 remains TransCanada's target date for concluding the open season. At that point TransCanada will know who the potential customers are, whether they have committed their gas, and for what volumes.

CO-CHAIR NEUMAN recalled that last year TransCanada testified the project could be delayed up to a year if the license was not received by the end of July or summer working season. What has changed to make it possible for TransCanada to still meet its completion date, he asked.

MR. PALMER replied, "Note that I was careful to say our 'target date' is July of 2010." Following legislative approval, he continued, TransCanada advanced the project in August [2008] using its own monies that will not be reimbursed under AGIA

because they were expended prior to December 5, [2008]. This was done to try to maintain the targets in that schedule.

1:44:25 PM

MR. PALMER commenced to slide 7 and outlined TransCanada's key objectives for the next 18 months: develop a Class IV cost estimate to support the open season; identify the pipeline routing within a corridor to be more specific and provide the ability to respond to questions; execute the preliminary environmental work to prepare for pre-filing; and conduct a successful open season.

MR. PALMER, in response to Co-Chair Neuman, explained that at this phase in an open season the engineering standard is to have a Class IV cost estimate. For the AGIA application, TransCanada provided a Class V estimate. At the time of filing with the Federal Energy Regulatory Commission (FERC) in 2014, TransCanada will have a Class III cost estimate. A Class I estimate only occurs when the pipeline project is complete and ready to go into service. This engineering standard provides a high quality estimate at certain stages of a project.

1:46:49 PM

CO-CHAIR NEUMAN offered his belief that Denali wanted to have a Class II proposal at open season.

MR. PALMER said he can only speak to TransCanada's standard. He reiterated that the industry standard at this stage for open season is a Class IV estimate and a Class III estimate when going to FERC.

MR. PALMER, in response to Representative Wilson, further explained that accuracy is gradually increased as one goes forward. Any cost estimate prepared today cannot be completely accurate for costs that will not be incurred for another five years, he said. No one can get an accurate price today without pre-committing or pre-ordering. Pre-committing for steel today means prepaying today. He assured members that TransCanada has been very focused on spending money on things that will improve the accuracy.

1:49:06 PM

MR. PALMER returned to his presentation and reviewed the engineering work completed by TransCanada to date (slide 8):

aerial photography [for Alaska], plans, logistics, commencement of terrain mapping [in Alaska], completion of 360 degree video in Canada, and collection of frost heave research. In the first two quarters of 2009, he continued, TransCanada expects to: complete the terrain mapping and winter geotechnical field program in Alaska, continue route reconnaissance and corridor selection [in Alaska], and begin the pre-front-end engineering and design (Pre-FEED) for the gas treatment plant (GTP). He said the picture on slide 8 shows a two-man team at work drilling bore holes for the winter geotechnical program to provide a good understanding of the soil in Alaska. This information has already been obtained for Canada, he added.

MR. PALMER, in response to Representative Seaton, explained that a camera is put on the bottom of a helicopter and a 360 degree video is shot as the helicopter flies the length of the right-of-way. This video can be played on a computer and stopped at any location for a 360 degree look. As the engineers develop the design, they can then play the video to view the elevation, terrain, and structures at any location without having to go back into the field.

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MR. PALMER, in response to Representative Wilson, said that TransCanada's proposal is for a chilled natural gas system. The gas will be kept near the freezing point and the pipeline will be set on a bed of gravel to minimize potential movement from permafrost.

MR. PALMER, in response to Co-Chair Neuman, defined some acronyms: GTP is the gas treatment plant at Prudhoe Bay where carbon dioxide and other impurities will be removed to make the gas into pipeline quality; and FEED is front-end engineering and design, so Pre-FEED is the preliminary work on the gas treatment plant. That contract will be let before the end of second quarter 2009, he added.

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REPRESENTATIVE SEATON recalled that the preferred scenario would have had the producers owning the GTP instead of the pipeline owner.

MR. PALMER answered that it remains TransCanada's wish for producers to own the gas treatment plant. Because TransCanada has an obligation to meet a timeframe for the open season it

must advance the project without an arrangement for the plant with producers. TransCanada will transition if successful in arranging for other parties to take over the GTP prior to the open season.

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MR. PALMER, in response to Co-Chair Neuman, specified that the $26 billion project cost estimate includes the gas treatment plant. He recalled that about $6 billion of the $26 billion is for this massive gas treatment plant. Since TransCanada has no ownership of any existing facilities at Prudhoe Bay, the GTP will be a stand-alone facility. The GTP could probably be built at less cost if it was constructed and owned by the parties already at Prudhoe Bay, he said, which is one reason why TransCanada's proposal included ownership of the GTP by third parties such as those producers. TransCanada plans to construct the GTP on a similar schedule as the gas pipeline and is examining whether this will require a two-year or a three-year sealift.

CO-CHAIR NEUMAN surmised that TransCanada is prepared to go forward with anything it needs to do to get a gas pipeline flowing.

MR. PALMER replied, "Yes, we clearly believe that our particular skill set is focused on the gas pipeline, but ... we have owned very large gas plants before and in the event that we have to again we will do so."

1:57:04 PM

MR. PALMER resumed his presentation and outlined the status of TransCanada's environmental work (slide 9). To date, the Global Information System (GIS) needs have been established to support environmental planning and permitting, he said. The preliminary environmental constraints report [for Alaska routing] has been completed and so has the initial route update review in Canada. During the first two quarters of 2009, he continued, TransCanada will complete the environmental information needs analysis with regulatory agencies and commence development of a request for proposals (RFP) for the environmental contractor which will be issued in third quarter 2009. He noted that the two photographs on slide 9 show a pipeline right-of-way at a river crossing. The photograph on the left was taken during construction and the one on the right was taken after reclamation and revegetation.

River crossings in Alaska will be directional drilled when it is economical and open cut when it is not.

MR. PALMER, in response to Co-Chair Neuman, stated that TransCanada's current contractor for the current stage of the project is an Alaska Anchorage-based contractor. He said TransCanada expects that Alaskans will also be competitive in third quarter 2009 for the longer term.

1:59:51 PM

MR. PALMER continued his presentation. Regarding the status of regulatory and permitting work (slide 10), he said TransCanada has completed the preliminary environmental permitting strategy for Alaska and Canada and has submitted all permit applications to the appropriate agencies for the winter geotechnical program. During first and second quarters 2009, TransCanada will complete the permitting for the winter geotechnical field program, will continue discussions with FERC, and will commence discussions with individual agencies to update the Environmental Information Needs Analysis. He said slide 11 lists the U.S. multi-agency meetings that TransCanada has already kicked off this month in Alaska and Washington, D.C.

MR. PALMER, in response to Representative Guttenberg, advised that TransCanada has to date been able to move the project forward and stay on schedule without a State of Alaska gas pipeline coordinator in place. He said TransCanada is pleased to see that the position is now filled and looks forward to working with Mr. [Mike] Myers. In further response to Representative Guttenberg, Mr. Palmer said he has not yet met with Mr. Myers.

2:02:30 PM

MR. PALMER, in response to Representative Seaton, said that he, too, recalls that FERC requested TransCanada to prefile earlier than the currently scheduled date [of April 2011]. And FERC continues to keep this position, he added. TransCanada is continuing discussions with the agency to see if the objectives for both FERC and TransCanada can be met by having an earlier prefiling. TransCanada's focus is cost and schedule, something that at this stage it has control over; once there is a prefiling some of that control shifts to FERC. He said he cannot tell the committee that TransCanada is ready to change its prefiling date at this point, but TransCanada hopes a solution can be found that works for both parties. In further

response to Representative Seaton, Mr. Palmer explained that TransCanada is currently directly involved in stakeholder engagement. Once prefiled that is something that FERC would have a greater involvement with and FERC would normally retain a third party contractor which the applicant, TransCanada, would pay for. Also, FERC would coordinate federal agencies and work with the federal coordinator. There are a number of matters that TransCanada is open to discussing with FERC, he said, and discussions to date have been positive.

2:06:00 PM

REPRESENTATIVE SEATON surmised that the responsibilities of the federal coordinator and FERC are not yet resolved in Mr. Palmer's mind.

MR. PALMER answered that he did not mean to imply that. TransCanada has met with both agencies and they should speak for themselves as to how they would coordinate with each other once TransCanada prefiles, he said. At the moment FERC's role is less specific than it would be after TransCanada has prefiled. To date that has not affected TransCanada's schedule and there have been no negative implications for the schedule. TransCanada is very pleased with the relations it has with both entities.

2:08:11 PM

MR. PALMER, in response to Representative Wilson, said TransCanada has 12,000 miles of pipeline in the United States, so it is very familiar with dealing with the U.S. government and regulatory agencies, including FERC. It has been TransCanada's experience that prefiles for gas pipeline projects occur post open season which is the norm, he continued. So that is the basis on which TransCanada developed this schedule. In further response to Representative Wilson, Mr. Palmer said he is unaware of FERC asking for a prefiling before the open season on any of TransCanada's other gas pipelines under construction in the U.S., but FERC is asking for that on the Alaska gas pipeline.

MR. PALMER, in response to Representative Seaton, stated that the third-party contractor would generally be FERC's party for overseeing the Environmental Impact Statement (EIS). That would be a substantial contract and it would be in FERC's control once there is a prefiling by TransCanada. That is something TransCanada will be discussing with FERC, he said.

2:12:01 PM

MR. PALMER, in response to Representative Olson, confirmed that the volume for the pipeline proposed by TransCanada to go through Alaska and Alberta would be 4.5 billion cubic feet (BCF) per day. The ultimate volume will be determined by what TransCanada receives in the open season, either volumes to the Lower 48 or volumes to LNG.

REPRESENTATIVE OLSON recalled that either the Department of Natural Resources (DNR) or TransCanada said the approximate 4 BCF per day could be reached without Point Thomson gas or "Foothill" gas.

MR. PALMER replied he did not think that was his testimony, so it must have been the administration's. TransCanada will seek access to all potential gas, he said, but TransCanada is clearly not in control of what gas will be available because that is something that governments and producers do.

2:12:57 PM

REPRESENTATIVE OLSON inquired whether a 1 BCF/day bullet line to Cook Inlet would impact the TransCanada pipeline if TransCanada's gas is solely from the Foothills, other than the ramifications that might be triggered under the AGIA contract.

MR. PALMER said he will not speak to the ramifications under the AGIA contract since those are well known to the committee. TransCanada believes that the State of Alaska wants to have in-state gas deliveries as well as a large line to export the surplus gas to the marketplace. There is a lot of proven gas at Prudhoe Bay, Point Thomson, and other locations, he said. However, there is not sufficient gas for 25 years from those existing fields based on today's information. TransCanada does expect to draw on exploration and thinks that encouraging exploration is one of the goals of AGIA. TransCanada certainly hopes that future gas found on the North Slope or the Foothills would be available to the pipeline that exports gas out of Alaska and that TransCanada will have the chance to compete for that gas.

2:15:04 PM

CO-CHAIR NEUMAN asked whether 4 BCF/day is the minimum amount of gas necessary for making the pipeline financially viable.

MR. PALMER said he thinks what he has testified to is that TransCanada expects that customers wanting to go through Alberta on the way to the Lower 48 would want to see a pipeline that would move at least 3.5 BCF/day because of economies of scale. He said the LNG project would probably be economic for a much lower volume than that and he thinks TransCanada has looked at a 2 BCF/day potential volume for that project. TransCanada could construct a 2 BCF/day pipeline through Alaska on the way to Alberta, but the economics would be much less attractive than the $2.76 that the committee was shown earlier.

CO-CHAIR NEUMAN opined that it is critical for Alaska to not put all of its eggs in one basket and to diversify through such things as added-value processing, especially given all the competition from other gas production projects in the Lower 48. He understood the economy of scale for a pipeline to Southcentral Alaska to be a minimum of 1 BCF/day or the tariffs would be too high.

2:18:28 PM

MR. PALMER moved to slide 12 and reviewed the status of TransCanada's work regarding the commercial side of the project. He said TransCanada has continued discussions with potential shippers and in first and second quarter 2009 TransCanada will: select a contractor for an in-state gas study, continue discussions with potential shippers, and continue to develop plans for an open season. He noted that the left picture on slide 12 depicts what the haul road along the pipeline right-of-way would look like during construction and the right picture is of a compressor station. Initially, for a 4.5 BCF per day system, there would be six compressor stations spaced about 120 miles apart along the pipeline in Alaska. A compressor building is two times the height of a two-story house and about one-sixth the height of a 1.5 megawatt wind tower. The industrial site for a compressor station is about 1,000 feet by 1,000 feet which is one-sixth to one-eighth the footprint between two 1.5 megawatt wind towers.

MR. PALMER, in response to Representative Seaton, explained that AGIA requires TransCanada to look at what Alaska's needs are for gas consumption within the state. Thus, TransCanada will be contracting a party that is expert in forecasting in this regard.

2:21:43 PM

MR. PALMER delineated the project's administrative status (slide 13). An Anchorage office was leased on December 1, 2008, and TransCanada has dedicated project office space in Calgary, Alberta, he said. Regarding reimbursement under AGIA, TransCanada has had initial discussions with the Palin Administration regarding the process and mechanics. TransCanada has also initiated the required cost reimbursements with the State of Alaska and with the U.S. Bureau of Land Management (BLM) for open season field activities, including the winter 2009 geotechnical program. The reimbursement agreements must be in place with both the state and BLM in order for TransCanada to be allowed to do the winter 2009 geotechnical work, he said. The Anchorage office will be in place in early February 2009 and TransCanada expects to have the office manager hired by next week. Discussions with the state on AGIA reimbursement details must be finalized by the end of March because that is the end of the first quarter and subsequently TransCanada must submit its invoices to the state for reimbursement. TransCanada must also finalize its reimbursement agreements with BLM and DNR for access and permits, which it hopes to do very shortly because that work needs to be done this winter.

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MR. PALMER, in response to Co-Chair Neuman, said the majority of work to date has been done by contractors and will continue to be done by contractors, and the office manager will be employed directly by TransCanada. He outlined the contractors that TransCanada has retained (slide 14): Aero-Metric, Inc. of Anchorage for the aerial photography, five full-time equivalents (FTEs) for seven weeks, subcontractor Lounsbury & Associates, Inc. of Anchorage, three FTEs for three weeks; R&M Consultants, Inc. of Anchorage for the terrain mapping, six FTEs; Golder Associates, Inc. of Anchorage for the geotechnical fieldwork, six FTEs for sixteen weeks, subcontractor Discovery Drilling, Inc. of Anchorage, seven FTEs for twelve weeks; ENSR AECOM of Anchorage for the environmental planning and permitting, subcontractor Clarus Technologies, LLC of Eagle River, two and one-half FTEs; Northern Engineering and Scientific of Anchorage for the geothermal modeling and support, one and one-half FTEs; and Jade North of Anchorage for external relations, one FTE.

2:26:23 PM

CO-CHAIR NEUMAN inquired what TransCanada will be doing outside of Anchorage to ensure that smaller companies located in other Alaska communities will be included.

MR. PALMER replied that TransCanada looked at both Anchorage and Fairbanks for locating its Alaska office and decided that Anchorage was the most appropriate place for the early phase of the project. It is likely there will be other office locations as the project proceeds, particularly in Fairbanks, he said. As TransCanada goes forward it will look at other locations while always assessing the benefits to Alaska, but keeping in mind the project costs and project schedule.

CO-CHAIR NEUMAN offered his belief that Fairbanks legislators will be making sure that their constituents are represented.

MR. PALMER responded that TransCanada is very cognizant of that, but must focus on the type of work proceeding at this stage during the open season relative to the more active right-of-way work which will occur after open season.

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MR. PALMER next discussed the project status for alignment meetings (slide 15). He said TransCanada has met with Alyeska Pipeline Service Company ("Alyeska"), Alaska Natural Gas Development Authority (ANGDA), ENSTAR Natural Gas Company ("ENSTAR"), Alaska Department of Transportation & Public Facilities (DOT&PF), and Alaska Department of Labor & Workforce Development (DLWD). TransCanada has started addressing Alaska Natives and socio-economic issues, he continued, and will be meeting with the North Slope Borough later this week.

MR. PALMER, in response to Co-Chair Neuman, explained that the discussions with Alyeska are in regard to how TransCanada will be accessing Alyeska's current right-of-way. Discussions with ANGDA and ENSTAR are solely for interface and information-sharing purposes so that all parties can stay abreast of the progress on each other's respective pipeline projects.

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MR. PALMER, in response to Co-Chair Neuman, said TransCanada has been attending the AGIA Training Plan Steering and Implementation Committee seminars, but has not committed at this point to investing [workforce] training dollars, although the State of Alaska has done so. Training of individuals for this project is something that normally governments would undertake, not proponents.

CO-CHAIR NEUMAN commented that it is nice to have a training partnership between industry and the government on these projects.

MR. PALMER agreed with Co-Chair Neuman and noted that TransCanada continues to meet its obligations and has clearly shown its intention of having Alaskans engaged on this project. The government of Alaska has indicated that it will be making contributions and there have been indications over time as to what the federal government will do, he said. The majority of the several thousand workers needed for the pipeline's two-year construction phase will need to be redeployed into other industries, hopefully gas exploration and production, because only 50-75 people will be needed to operate the pipeline once it is in service.

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REPRESENTATIVE SEATON understood that ANGDA is trying to complete its pipeline construction prior to the start of TransCanada's project in order to avoid competition for the workforce. Has there been any coordination for moving workers from ANGDA's project to TransCanada's, he asked.

MR. PALMER answered that there is no formal process at the present time, but that clearly those employees would be very attractive to other contractors and TransCanada. Coordinating plans is one of the reasons TransCanada is talking with ANGDA and ENSTAR.

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MR. PALMER, at Representative Olson's request, updated members regarding the status of Canada's First Nations. He said that for the past 25 years TransCanada has held a valid right-of-way through the entire Yukon for this project, and no other party has that. Within the Yukon, six of the eight right-of-way First Nations have settled their land claims and TransCanada's right-of-way is specifically recognized in each of the six final land claims. He said that despite there being two unsettled land claims, the umbrella final agreement established between the government of Canada, the government of Yukon, and all Yukon First Nations in 1993, 10 years after the right-of-way was established, specifically highlights and identifies TransCanada's right-of-way and specifically says that this right-of-way will be recognized in every completed First Nation land claim. Although, TransCanada has no control over when the

remaining two land claims will be completed, it can proceed under its right-of-way. In British Columbia, TransCanada does not have a right-of-way, but it does have what is called a map reserve. Given that there are already thousands of miles of pipe in the ground moving gas, TransCanada is confident it can achieve [a right-of-way] as well. He said he cannot speak for First Nations as to whether they support the project, but TransCanada will be seeking their support very soon this year. In further response to Representative Olson, Mr. Palmer said he is optimistic regarding the First Nations.

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REPRESENTATIVE GUTTENBERG offered his belief that Alaska's people got the short end of the stick during construction of the Alyeska pipeline and North Slope infrastructure. He pointed out that the subcontractors named by Mr. Palmer are predominantly from Southcentral Alaska, but that he imagines there will be field offices somewhere along the pipeline route. He warned that at some point Mr. Palmer will be asked whether the people filling the subcontractor's FTE's have received a permanent fund dividend within the past year or two. Representative Guttenberg urged that TransCanada have hiring halls or facilities within the state and said that legislators will be looking over TransCanada's shoulder to see who gets these opportunities. He related that his generation of Alaskan workers usually had as many as six different skills, yet people with no skills were brought up from other states because they knew somebody.

MR. PALMER said he appreciated Representative Guttenberg's comments and noted that TransCanada is only seven weeks into the AGIA license. He assured members that as TransCanada ramps up its work, it will do its utmost to be responsive in this regard.

2:42:12 PM

REPRESENTATIVE EDGMON inquired as to when the AGIA provisions for a project labor agreement kick in.

MR. PALMER said he is unsure, but thinks TransCanada must do that before getting to project sanction.

CO-CHAIR NEUMAN, in response to Representative Edgmon, suggested that the administration could be brought in to address the project labor agreement.

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MR. PALMER summarized his presentation (slide 16): the AGIA bill was approved and the license issued December 2008; significant work is underway; commercial and regulatory engagement has been commenced; Alaska contractors have been retained, an Anchorage office is in place; conclusion of open season is targeted for summer 2010; and TransCanada is focused on costs, schedule, and attracting customers.

MR. PALMER, in response to Representative Edgmon, said that TransCanada presently plans to fuel the compressor stations with natural gas. Some of TransCanada's compressor stations across North America are fueled with natural gas and some are fired with electricity depending on the economics. In some instances, he continued, TransCanada generates electricity from those compressor stations fueled with natural gas, however this requires proximity to a user or access to economical transmission. TransCanada does not yet know if this is a possibility, but it is something that will be looked at.

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MR. PALMER, in response to Representative Kawasaki, stated that in Canada there are 10-15 TransCanada employees currently dedicated to the Alaska project, as well as some employees who are called upon when their skills are needed. TransCanada is structured so that each of its projects has dedicated employees as well as part-time employees who work on multiple projects. This integration provides low cost service and efficient, high level skills to TransCanada's projects.

CO-CHAIR NEUMAN requested Mr. Palmer to submit to the committee an idea of the employment opportunities that will be available on the Canadian side for Alaskans.

MR. PALMER, in response to Representative Seaton, related that TransCanada proposed in its AGIA application to expend $84 million by the conclusion of the open season in July 2010, and that this is still TransCanada's estimate. He understood that last year the legislature appropriated $30 million in AGIA reimbursements, and that this year's budget request is for $20 million. He said he thinks TransCanada's estimate through the FERC certificate was for $611 million, which includes the $84 million, and TransCanada will update these estimates as time goes forward.

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MR. PALMER, in response to Representative Olson, reiterated that at the present time TransCanada believes its current project schedule is achievable. The license was received four months later than expected so some time was lost, he said, but TransCanada did some preliminary work at its own cost and is doing its utmost to maintain this schedule. However, he said he will not represent to members that there is zero possibility of the open season slipping from July 31, 2010, given that the license was received four months later than expected.

REPRESENTATIVE OLSON recalled that in July 2008, Mr. Palmer had indicated that not getting the contract immediately would probably not have an impact.

MR. PALMER recollected that "at that time we did not know the final date for the schedule." He said that if he did say at the time that it was probably not going to have an impact, then he will continue to say it is probably not going to have an impact. That is quite different than saying "I can't foresee any scenario," he contended. "I would absolutely say today that it is probably not going to have an impact."

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REPRESENTATIVE GUTTENBERG offered his observation that the world has been upside down since last summer when this was being worked on. TransCanada only signed the contract in December 2008 and members are asking Mr. Palmer why pipe is not being ordered.

CO-CHAIR NEUMAN welcomed Representative Tuck to the committee and urged him to get as up-to-date as possible on the gas pipeline issue.

2:55:55 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:55 p.m.