

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 3, 2010

1:05 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Bryce Edgmon

COMMITTEE CALENDAR

HOUSE BILL NO. 312

"An Act authorizing an advisory vote on use of Alaska permanent fund earnings for an in-state natural gas pipeline; and providing for an effective date."

- MOVED CSHB 312(RES) OUT OF COMMITTEE

OVERVIEW BY TONY PALMER, TRANSCANADA ALASKA: AGIA UPDATE/OPEN SEASON

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 312

SHORT TITLE: ADVISORY VOTE ON IN-STATE GAS PIPELINE

SPONSOR(S): REPRESENTATIVE(S) CHENAULT

01/25/10	(H)	READ THE FIRST TIME - REFERRALS
01/25/10	(H)	RES, FIN
02/03/10	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

REPRESENTATIVE MIKE CHENAULT

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as the sponsor of HB 312.

LAURA ACHEE, Director of Communications
Alaska Permanent Fund Corporation
Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 312, answered questions.

MERRICK PEIRCE
Salcha, Alaska

POSITION STATEMENT: Opposed HB 312.

TONY PALMER, President
TransCanada Alaska, LLC;
Vice President
Alaska Development
TransCanada
Calgary, Alberta, Canada

POSITION STATEMENT: Continued the PowerPoint presentation and update on TransCanada's Alaska Pipeline Project that he began on February 1, 2010.

ACTION NARRATIVE

[1:05:27 PM](#)

CO-CHAIR MARK NEUMAN called the House Resources Standing Committee meeting to order at 1:05 p.m. Present at the call to order were Representatives Olson, P. Wilson, Seaton, Guttenberg, Tuck, Kawasaki, Johnson and Neuman.

HB 312-ADVISORY VOTE ON IN-STATE GAS PIPELINE

[1:05:48 PM](#)

CO-CHAIR NEUMAN announced that the first order of business is HOUSE BILL NO. 312, "An Act authorizing an advisory vote on use of Alaska permanent fund earnings for an in-state natural gas pipeline; and providing for an effective date."

[1:06:35 PM](#)

REPRESENTATIVE MIKE CHENAULT, Alaska State Legislature, sponsor of HB 312, said the various options for an in-state natural gas

pipeline need to be looked at and HB 312 would give legislators the opportunity to hear the voices of Alaskans when it comes to the energy needs of the state. The bill would provide that the following question appear on the ballot [of the next statewide primary or general election]:

After paying annual dividends to residents and inflation-proofing the Alaska permanent fund, should permanent fund investment earnings be appropriated to help pay the costs of constructing an in-state natural gas pipeline?

[1:08:11 PM](#)

REPRESENTATIVE CHENAULT noted that the issue of routes is kept out of the question because this is about Alaska and not any specific region. He said [the sponsors] are interested in having conversations with Alaskans on what is seen as the biggest problem and how to address it. This bill would not pay for an in-state gasline, but it would be one of many options that are out there. With the energy crisis that is looming for Alaska in the forthcoming years, HB 312 would provide Alaskans an opportunity to say whether they think the State of Alaska should be involved in the in-state energy needs of the state.

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CO-CHAIR NEUMAN said he has heard loud and clear from many people that they want an in-state gasline and he thinks it is a good idea to ask Alaskans what they want to do. While this would be advisory, legislators work for the people and it would be a directive. Given there are laws regarding use of the permanent fund, HB 312 would be part of the process in following those rules. It has always been a concern that politicians would spend the Alaska Permanent Fund [earnings] on pet projects and other things. Because it asks for authorization to use permanent fund [earnings], HB 312 is part of a process that asks Alaskans what they want done with their money.

REPRESENTATIVE CHENAULT replied that legislators cannot spend the corpus of the Alaska Permanent Fund, and he thinks that most Alaskans know that. However, the legislature could at any time spend all of the fund's earnings, but the legislature has not "cracked that egg" because it would be political suicide. This bill is asking whether Alaskans are interested in forwarding an in-state gasline if money is available after dividends and inflation-proofing. Excess earnings are put back into the fund

to determine what the next [dividend] will be, so this would have a minimal effect, although he does not know the number.

1:12:33 PM

REPRESENTATIVE P. WILSON, in reference to the chart of earnings in the committee's packet, noted that since the permanent fund has been in effect, the earnings have dropped eight times from one year to the next. This represents money that was just lost when it could have been used to the benefit of the state, and this is something that needs to be thought about.

REPRESENTATIVE CHENAULT responded that every person wishes he or she was smart enough to get in on the lull and out on the high, but there has been a good return to the permanent fund overall since it was enacted, despite the ups and downs of the market.

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REPRESENTATIVE SEATON, in regard to the ballot question itself, surmised that the earnings could be used for any number of options, such as a loan that is repaid, investment in an equity share, or a subsidy for construction where no repayment is received so that the tariff could be lowered.

REPRESENTATIVE CHENAULT answered he thinks all options should be on the table, but these discussions cannot occur without knowing how Alaskans think about it and is why this question is being put forward. It is probably more about the future needs; Alaskans are looking for a long-term energy supply that grows Alaska, not something that just gets the state by year to year.

1:17:18 PM

CO-CHAIR JOHNSON inquired how much money has been put into the Alaska Permanent Fund as opposed to how much has been paid out in dividends.

LAURA ACHEE, Director of Communications, Alaska Permanent Fund Corporation, responded that \$14 billion has been put into the permanent fund over its 30 years of existence; these funds have come from the mineral royalties required by the constitution and additional appropriations from the general fund. In that same time period, about \$17.5 billion has been paid out in dividends. Today, the fund is worth just under \$34 billion. Thus, more has been paid out than taken in and there is still \$34 billion. This is an amazing conversion of a non-renewable natural

resource into a renewable financial resource, and it shows what a success the fund has been.

CO-CHAIR JOHNSON said his point is that Alaska has a healthy fund and he would like to hear what the people have to say about putting more of it to use in the state.

MS. ACHEE, at the request of Representative P. Wilson, reiterated that \$14 billion has been put into the fund and \$17.5 billion has been paid out.

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CO-CHAIR NEUMAN opened public testimony.

MERRICK PEIRCE noted that he serves on the board of the Alaska Gasline Port Authority, but that he is offering his own point of view in opposing HB 312. He said the voters of Alaska have already weighed in on what they would like to do with the gasline. In the 2002 election, voters overwhelmingly voted to build the all-Alaska gasline from the North Slope to Valdez. If the legislature had funded the law passed by the voters - the same voters who had the wisdom to create the permanent fund - the state would now have a gasline providing affordable energy for Alaska and a new source of state revenue, as well as bigger dividends. Instead, today there are certain legislators who have expressed contempt for the voters' wishes suddenly pretending that they care what the voters think.

MR. PEIRCE maintained that a "bullet line" does not provide affordable energy because it does not have an economy of scale and would therefore have high tariffs and a high cost of gas for Alaskans. A "bullet line" would not provide new revenue for the state, and it would undermine the voter's preferred option by attempting to siphon gas away from that project.

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MR. PIERCE related that last week Tony Palmer and Paul Pike [of the Alaska Pipeline Project] stated that, best case, the line into Canada would not be delivering gas until 2020. It was also heard that the high cost of the line into Canada has raised the tariffs to Alberta to around \$3.50 [per million British thermal units (MMBtu)]. "We" can project that tariffs may be as high as \$6.00 to get gas to Chicago. Meanwhile, the massive amount of shale gas in the Lower 48 has caused the Lower 48 gas industry to proclaim that there is a 100-year gas supply in the Lower 48.

At year-end 2009, "ConocoPhillips" applied to the Federal Energy Regulatory Commission (FERC) to export this excess gas from what was to have been a liquefied natural gas (LNG) import facility in Texas. In Kitimat, British Columbia, another LNG import terminal is now preparing to export LNG. Additionally, "ExxonMobil" just invested \$31 billion in XTO Energy Inc., a shale gas company that has over 11 trillion cubic feet in proven reserves and another 50-60 trillion in estimated reserves. This answers the question of where U.S. consumers will be getting their gas - it will be from shale deposits and not a gasline from Alaska with high risk and high tariff.

[1:24:13 PM](#)

MR. PEIRCE pointed out that in about five years the Trans-Alaska Pipeline System (TAPS) throughput is projected to be 500,000 barrels per day or less, and the consequences for Alaska are dire. Only been the high price of oil that resulted from the Iraqi oil production going offline in 2003 as the U.S. invaded that country has sheltered Alaska. Iraq oil production is now going back online from the second largest reserves in the world and that could result in significant declines in world oil prices, which would have significant impacts on Alaska revenue as TAPS throughput continues to decline.

MR. PEIRCE said Alaska must get to work on the only viable gas project and that is the all-Alaska gasline to Valdez. Alaska needs the affordable energy, particularly the Interior, and Alaska must have a new source of revenue. Alaska cannot wait 10 years. He disagreed that a "bullet line" would expand Alaska's options and said it actually reduces the options.

[1:25:43 PM](#)

CO-CHAIR NEUMAN commented that HB 312 only asks the people whether they would like to be involved. He agreed there is a lot of gas in the Lower 48, and that TAPS is going down, the cost of government is going up, and everything that can be done must be done to create an in-state gas pipeline.

[1:26:27 PM](#)

REPRESENTATIVE KAWASAKI referenced an amendment that may be proposed that would put this question to the voters during the next primary election. He asked what happens if the voters pass the proposition and what happens if they deny it.

REPRESENTATIVE CHENAULT responded that no one has a crystal ball as to what would happen for either a yes or no vote. It would allow legislators to have the option to look at the excess earnings of the Alaska Permanent Fund for funding a project. The bill does not stipulate either a "bullet line" or the "all-Alaska line;" it only talks about a gasline in Alaska. If the people say no, then legislators would know that under this scenario the people do not want to invest that particular fund.

[1:28:16 PM](#)

REPRESENTATIVE KAWASAKI noted that the sponsor earlier said the legislature can already use the permanent fund's earnings. Therefore, he inquired, is this off the table if the people vote no, and this legislature will never approach that issue again.

REPRESENTATIVE CHENAULT said he cannot say whether the legislature would approach the issue again. However, if the vote is no, he would suggest there are very few legislators who would have the ambition to utilize that fund over the objection of the citizens of Alaska.

REPRESENTATIVE KAWASAKI said he would like to lodge his complaint against HB 312.

[1:29:36 PM](#)

REPRESENTATIVE GUTTENBERG stated that while he likes where the sponsor is going as far as providing more options, his concern is that it would be an advisory vote in a primary election and primaries can have low voter turnout. Additionally, given there are so many [pipeline] options, he thinks this nebulous part of the question will lead to lots of misinformation within the public and people will be arguing about what legislators' motives are and whether the purpose is to get more money to TransCanada or a "bullet line." This dialogue will get lost in all the rhetoric and will make the issue harder because there is no focus to it. Thus, there will be an answer to a question that is not specific enough in asking something. He said he thinks legislators should be involved with the people of the state and that there is an inherent interest in the state participating in, and building, some structure that provides long-term, reliable, and affordable energy - even at a subsidized rate for the people - because building out the state's economy is probably one of the most important things legislators can do.

REPRESENTATIVE CHENAULT agreed that discussion is out there. However, if the question is not asked, the answer will never be known. Numerous people in his district are saying in-state gas is needed and it is needed now. This bill would allow legislators to ask the question, see what the response is, and decide whether that is a viable option that can be utilized; but, if it is an option that Alaskans do not want legislators to use, then legislators will need to look at other ways to finance a project if the state gets to that point in time. If the state runs out of energy by not trying to push something forward, "it is shame on every one of us."

[1:33:28 PM](#)

REPRESENTATIVE TUCK said he is trying to imagine what the voters are going to want to know. One thing they might want to know is whether it would be a percentage of the earnings, all of the earnings, or up to the legislature to decide, should the advisory vote pass.

REPRESENTATIVE CHENAULT explained that it is not all of the earnings, it is the excess earnings. To answer the advisory question, citizens need to understand that it would be after a permanent fund dividend is paid, after the fund is inflation-proofed, and if there are any excess earnings. If the people approve the proposition, it would have to be looked at on a year-to-year basis to determine whether there are excess earnings and whether there is a project to use them on.

REPRESENTATIVE TUCK clarified that he was referring to the excess earnings, and reiterated his question.

REPRESENTATIVE CHENAULT said how much would be utilized is an issue that would be looked at in the future and would be based upon other funding sources and the type and size of the project.

[1:36:16 PM](#)

REPRESENTATIVE TUCK, in regard to Alaskans having a need for gas right now, inquired whether Representative Chenault sees that need as gas for export for the revenue or as the provision of low-cost natural gas to Alaskans.

REPRESENTATIVE CHENAULT responded that he does not know what opportunities lay ahead and gas export may be one of those opportunities. However, if an in-state gasline is not built there will be no opportunities.

1:38:05 PM

REPRESENTATIVE GUTTENBERG commented that past experience shows the public will not limit its dialog to just what the question says. Once the ballot proposition leaves the legislature and gets to the public, there will be no restrictions on what the dialog is. He said he will support the bill, but fears there will be a loss of focus because it is not specific enough.

CO-CHAIR NEUMAN said he hopes the public talks about it.

CO-CHAIR JOHNSON stated he does not think dialog is a bad thing. The vote will give legislators guidance regardless of the outcome. He said he supports getting more information from his constituents and is not afraid of the answer to the question, one way or the other, because it would give him direction. Because this is one of the biggest decisions legislators will be making, he would like some guidance from constituents.

1:41:13 PM

REPRESENTATIVE SEATON noted that a dividend was nearly not paid out in 2003, and since then the legislature has not appropriated any of the money from the earnings back into the fund's corpus as was previously done. He is concerned this could become an issue of reducing the earnings such that dividends could not be paid the following year, which could result in a no vote on the ballot proposition. He asked whether a no vote would be interpreted as Alaskans not wanting to invest in a pipeline or as Alaskans not wanting to use permanent fund earnings to invest in a pipeline.

REPRESENTATIVE CHENAULT answered that his interpretation of a no vote would be that the people do not oppose investing in a pipeline, but rather they oppose investing those particular funds in a pipeline. He added that if constituents have other ideas, legislators will hear them during the process.

1:43:49 PM

REPRESENTATIVE TUCK related that he is not against the idea of having the people decide whether they want to invest in an in-state gasline; he is only looking for answers to the questions that have come to him. He asked what the public should expect as the rate of return from this investment - potential revenues to the state from the selling of gas or gas for Alaskans.

REPRESENTATIVE CHENAULT responded there are many options, such as using the money to take an equity position or using it as an investment that subsidizes the tariffs to lower them for that particular project. He agreed that people will have these questions and have already had them, and he has told them that it is unknown what position would be taken in a pipeline if one is built - it just gives the option to have that conversation.

[1:45:44 PM](#)

CO-CHAIR NEUMAN moved the committee adopt Amendment 1 as follows:

Page 1, line 6:
Delete "or general"

REPRESENTATIVE GUTTENBERG objected for purposes of discussion. He asked whether the question would still be on the primary ballot even if the bill is not passed until the last day of this session.

CO-CHAIR NEUMAN said he supports Amendment 1 exactly for the reason of the discussions occurring here today. There are lots of questions and no time to waste, so the sooner the answer to this ballot question is known, the better.

[1:47:42 PM](#)

REPRESENTATIVE SEATON inquired whether Amendment 1 is supported by the sponsor.

REPRESENTATIVE CHENAULT replied he has no problem with the amendment because the [August 2010] primary election will have a number of issues on the ballot, which might bring more people out to vote in the primary.

[1:48:28 PM](#)

REPRESENTATIVE GUTTENBERG said he opposes Amendment 1 and if it fails he will offer an amendment that goes the other way. He maintained that, historically, contentious issues have not increased the primary turnout in Alaska, especially at the end of August. A lot more people participate in a general election and he would support that over a primary election. Additionally, there will be a new legislature and everybody and everything will be in play. The timeline will not change as far

as the proposition's impact on the full legislature. Therefore, it is much more appropriate that this question be on a general election than a primary.

[1:49:26 PM](#)

REPRESENTATIVE TUCK asked if the decision on whether it is the primary or general election was a decision the sponsor had expected this committee to make or a decision to be made in another way.

REPRESENTATIVE CHENAULT answered he thinks that is part of the legislative process and the legislature will make the determination as to which election dates it supports.

[1:50:24 PM](#)

REPRESENTATIVE GUTTENBERG maintained his objection to the amendment.

A roll call vote was taken. Representatives Olson, Seaton, P. Wilson, Neuman, and Johnson voted in favor of Amendment 1. Representatives Guttenberg, Kawasaki, and Tuck voted against it. Therefore, Amendment 1 passed by a vote of 5-3.

CO-CHAIR NEUMAN closed public testimony and opened committee discussion.

[1:52:25 PM](#)

REPRESENTATIVE KAWASAKI outlined the reasons why he will object to reporting HB 312 from committee. He said no new options are actually placed on the table as far as using permanent fund earnings and the bill could result in the opposite. It will not take long for some folks to start the rally cry that the bill raids the Alaska Permanent Fund, which means there may be negative and untrue attacks on this particular legislation. Bringing the proposition up on the primary ballot sets a bad precedent for future elections. Additionally, it is easy to vote yes or no, but knowing the substance behind the bill is what is important and hard to do. Representative Kawasaki said he does not like advisory votes in general because they can be used as a way for the legislature to shirk its responsibility of leading. He feared that if the answer in the primary election is that the public does not want to use permanent fund earnings, this legislature will have bound the hands of future legislators, which he does not think is a good thing. Fewer

people vote in the primary, he continued, and even fewer will take the time to learn what this advisory vote will or will not do. Given that few people vote in the primary, this is advice that is unacceptable to him. Legislators conduct polls and have regular contact with their constituents to learn what people are thinking, and this advisory vote gains nothing but the potential for a lot of dissent.

1:57:10 PM

CO-CHAIR JOHNSON stated he is in regular contact with his constituents, but this is a statewide issue. There are legislators whose constituents may not receive any direct benefit from this and he would like to know how those people feel. When spending other people's money, he wants to know what everyone in the state thinks.

REPRESENTATIVE OLSON understood Representative Kawasaki to be saying that his no vote on HB 312 is to represent all the people who will not be voting in the primary.

REPRESENTATIVE KAWASAKI responded that he does not track what Representative Olson is saying.

1:59:37 PM

REPRESENTATIVE GUTTENBERG reiterated that a vote in the primary means the sampling will not be as large as it would be in a general election, and a large sampling is what is wanted in a polling. The nebulous aspect of the question will mean to him that people are voting yes or no for a variety of reasons. Every legislator knows that the Alaska Permanent Fund is the third rail and a legislator does not get near it unless he or she is specific and knows exactly what he or she wants to do. People will not read past permanent fund, they will not read investment earnings, some will understand the difference and some will not, legislators' motives will not be understood, and consequently some people will challenge what legislators are doing. However, his biggest concern is that the answer to the ballot proposition will be interpreted differently by each legislator. The ballot question is not focused enough and confusion on a ballot initiative results in a no vote. The state is not close enough to a clear description of what it wants to do; for example, TransCanada is not before the legislature with a specific project nor is an in-state sponsor. This question does not get legislators to an answer that is politically useable or even useable for political cover.

2:02:42 PM

CO-CHAIR NEUMAN urged that members talk to bill sponsors prior to committee hearings to better get their questions answered.

REPRESENTATIVE TUCK pointed out that some questions do not occur to him until he hears someone else speak. He said he is not opposed to the idea of using the permanent fund [earnings] and having a ballot vote in this regard. His earlier questions about the intent were to lay it out tighter so it does not get convoluted. He is concerned it could become a big public messaging battle, and the battle can be reduced by answering these questions up front. His support for keeping the general election in the body of the bill is because it would provide a better representation of those turning out to vote and thus a better idea of the people's overall intent. A survey he sent to his constituents is now coming back and many Alaskans are confused on the gasline issue. Therefore, he thinks people may have some insecurities about making a decision to make an investment. People are expecting their elected representatives to know, and while he is not claiming he knows everything, he is trying his hardest to learn the issues and as he does he is communicating back to his constituents so that as he learns, they learn. He is bringing all of this forward so the bill can be improved, if needed, before it goes on to the advisory vote.

2:05:44 PM

CO-CHAIR NEUMAN agreed that legislators' work is cut out for them to get out and talk to people.

REPRESENTATIVE TUCK added that the sponsor's statement says it is perceived that Alaska is taking a shotgun approach to a gasline, and this is adding to the confusion for constituents.

2:06:11 PM

REPRESENTATIVE SEATON noted he is pleased it is being said on the record that if the proposition fails it does not mean people do not want to invest in a pipeline, but rather they do not specifically want to use this mechanism. If people in other parts of the state do not agree to this, it does not mean they do not care about the economics of Southcentral Alaska because that is not the question on the ballot. The question on the ballot is whether to use the earnings of the Alaska Permanent Fund, which is a different question. He fears there will be a

lot of confusion in messages. An advisory vote does not bother him, but he is concerned that mistaken use of the term permanent fund dividend [rather than permanent fund earnings] will add to the confusion and get a different result. As this goes forward, it will be imperative for legislators to be clear with constituents about exactly what is on the ballot.

[2:08:17 PM](#)

CO-CHAIR JOHNSON moved to report HB 312, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 312(RES) was reported from the House Resources Standing Committee.

The committee took an at-ease from 2:09 p.m. to 2:12 p.m.

OVERVIEW BY TONY PALMER, TRANSCANADA ALASKA: AGIA UPDATE/OPEN SEASON

[2:12:13 PM](#)

CO-CHAIR NEUMAN announced that the next order of business is the continuation of an overview by Tony Palmer, TransCanada Alaska: AGIA Update/Open Season.

[2:12:34 PM](#)

TONY PALMER, President, TransCanada Alaska, LLC; Vice President, Alaska Development, TransCanada, stated he is chairman of the management committee of the Alaska Pipeline Project (APP). He reminded members that on 2/1/10 he finished with a review of the Alberta route alternative for the pipeline project licensed under the Alaska Gasline Inducement Act (AGIA). Today he is addressing the Valdez route alternative which begins on slide 12 of his PowerPoint presentation. He explained that the capital cost estimate for a pipeline from the North Slope to Valdez, including a gas treatment plant (GTP) at Prudhoe Bay, ranges from \$20-\$26 billion. He pointed out that all figures being presented are in 2009 dollars. The target in-service date is 2020, the same date as the Alberta option. The tariff range, including fuel, [from the GTP to Valdez] is \$2.45-\$3.15 per million British thermal units (MMBtu).

MR. Palmer noted that any party wishing to move gas on this alternative will also have to arrange, either themselves or with another party, for liquefaction of the gas at Valdez. Parties will also have to arrange ships to take that gas to U.S. or

international markets. Those costs are not included in these estimates. As described in its AGIA application, [TransCanada] has never contemplated doing a liquefaction plant itself. Potential customers for this option are the large producers at the North Slope, which are fundamentally in that business around the world, or some other players downstream.

[2:15:07 PM](#)

MR. PALMER, in response to Co-Chair Neuman, explained that the reason for expressing estimates in 2009 dollars is to provide consistency in the numbers. The capital cost estimates were completed in mid-2009 and this is why these numbers are being used. It allows for comparison of where things are at today as the project moves forward to in-service in 2020.

[2:16:04 PM](#)

REPRESENTATIVE GUTTENBERG understood that a lot of the escalating costs have to do with the spread between the value of the American dollar [which is now less than] the Canadian dollar. He asked whether currency traders provide a long-term forecast in regard to this situation, given that it used to be the other way around.

MR. PALMER responded that APP has made an estimation looking at the forward curve and forecasts of what that may be. He agreed that this does change and has changed significantly in the last two years. He related that the State of Alaska provided applicants with a specific exchange rate for use in their applications, and he believes this was so the state could compare a number of potential applications across the board. Many parties are predicting that in the next couple of years one Canadian dollar will be 93 cents U.S., which is a higher level than APP has predicted here. He said he thinks APP used a 1.1 factor for the Canadian dollar. He pointed out that the U.S. dollar could also be affected by what it does relative to the Japanese yen, the euro, and Korean currency because that is where some of the materials for this project will be coming from. This variable is part of the reason for the capital cost and tariff ranges that APP is providing here.

[2:19:23 PM](#)

REPRESENTATIVE KAWASAKI asked why the cost of a liquefaction plant was not included in figuring out the tariff terms, given that the AGIA application required an alternative to Valdez.

MR. PALMER replied that this was included as a fallback alternative when the AGIA application was made in 2007. Some legislators pressed that it be more than just an alternative and APP has done so. This was done on a similar basis as for the gas treatment plant and the Alberta option. TransCanada does not have the expertise to put forward a proposal for liquefaction. It is a matter that potential customers are in a position to provide and if they wish to do so, he suspects they will do so under their own proposal rather than asking APP. So, yes, in the AGIA application it was put forward as an alternative as a fallback; now APP is putting it forward as a full alternative.

REPRESENTATIVE KAWASAKI said that a specific portion of the AGIA must-haves calls for a detailed description and defines what those are. The descriptions APP has here and in the application do not seem as complete as he would like them.

[2:22:14 PM](#)

MR. PALMER, in response to Representative Seaton, explained that the Valdez option is for a 3.0-billion-cubic-foot-per-day treatment plant and a 48-inch pipeline from Prudhoe Bay to Valdez carrying 3.0 billion cubic feet per day (Bcf/d). The volume and diameter were requested by potential customers.

[2:23:19 PM](#)

CO-CHAIR JOHNSON, in reference to the pipeline route map depicted on slide 2, inquired whether entry into the Alberta Hub is based on the solid red line or the dotted red line.

MR. PALMER explained that the Alberta Hub is a notional point, not a physical location. Entry is at TransCanada's principle pipeline system within Alberta, depicted by the blue lines. Once this is done and the receipt toll is paid, the gas is at the hub. For the Alberta option, a new contiguous pipeline [the solid red line beginning at Prudhoe Bay] has been included all the way to Boundary Lake, Alberta, because those facilities are required. Between Boundary Lake and Caroline, Alberta, APP will build the facilities as necessary, which is why this portion is depicted as a dotted [red] line. That portion may or may not be a contiguous pipeline to move Alaskan gas to market because APP may only need to loop the existing pipelines, meaning that partial pipelines would be built to supplement the existing pipelines shown in blue. This would minimize the cost for

Alaskan gas and for other customers. If parties wish, APP could build a contiguous pipeline all the way to Caroline, but he suspects customers will likely not want that.

[2:25:08 PM](#)

CO-CHAIR JOHNSON asked why, since distance is money, the proposed pipeline is not being brought into the hub just east of Fort Nelson.

MR. PALMER answered that the route shown on slide 2 is the route approved by the Northern Pipeline Agency and is the approved route for this project through Canada. TransCanada proposed in its AGIA application two years ago, and still proposes, that customers will have the alternative to opt to deliver out of this system at Fort Nelson and into TransCanada's "blue-line system" at that point - commercially, not physically - and he recalls that that would provide Alaskan customers a savings in the range of 15-20 cents [per MMBtu]. If a customer opts to do this, it will have to opt to go into the Alberta Hub; TransCanada called that the Fort Nelson option in its application. The savings comes from Alaskan and Alberta shippers sharing the piece of pipe between Fort Nelson and Boundary Lake. It would not change the physical pipeline, but it would change the commercial arrangement between customers.

[2:26:49 PM](#)

MR. PALMER, in response to Co-Chair Johnson, said the numbers that he recalls from two years ago, in the event that a customer chose to deliver into the Alberta Hub at Fort Nelson and have TransCanada seek that from its regulator, would be a savings of 15-20 cents per MMBtu. It only makes sense for TransCanada to seek that if the customer chooses to go into the "blue system" which is the hub; if the customer chooses to go off on another system, then that would make no sense.

[2:27:36 PM](#)

MR. PALMER, in response to another question from Co-Chair Johnson, stated that at or upstream of Boundary Lake, customers now have under APP's new proposal the alternative to go off on other systems. Customers could also decide to put gas into TransCanada's system, which he hopes they will do. If they do so, then TransCanada would contract with Foothills Pipe Line Ltd. (Foothills) to construct the necessary facilities to Boundary Lake and beyond Boundary Lake under the Northern

Pipeline Act. He pointed out that the blue lines on slide 2 that go east, southeast, and southwest from Caroline to Monchy, Saskatchewan, and to Kingsgate, British Columbia, are pipeline facilities owned by Foothills and the facilities within Alberta are contracted to [TransCanada's] Alberta system.

[2:28:43 PM](#)

CO-CHAIR JOHNSON surmised that the top of TransCanada's pipeline system east of Fort Nelson [depicted in blue] is part of the Alberta Hub.

MR. PALMER replied that TransCanada's proposal, the Alaska Pipeline Project proposal, goes to Boundary Lake and beyond if necessary. He said APP is not proposing to go across directly east from Fort Nelson into the blue line because there is insufficient capacity in the blue line to transport Alaska's gas.

[2:29:48 PM](#)

CO-CHAIR NEUMAN observed that TransCanada's pipeline system is primarily in Alberta. He inquired whether there is a different tax structure in Alberta.

MR. PALMER answered that the red line through British Columbia to Caroline, Alberta, is Foothills pipeline. The line that goes southeast through Alberta and ultimately through Saskatchewan to Monchy is also Foothills pipeline, as is the line going southwest down to Kingsgate. They are all British Columbia and federally regulated. Until last year, TransCanada's blue system in Alberta was provincially regulated, but it is now federally regulated by the National Energy Board. So, there really is no difference in regulation at the present moment. The Foothills pipeline is certificated under the Northern Pipeline Act.

[2:31:14 PM](#)

MR. PALMER, in response to Co-Chair Johnson, said he does not know off the top of his head what the capacity is of the pipeline that is located east of Fort Nelson. However, he knows it is not 4 billion cubic feet per day (Bcf/d).

CO-CHAIR JOHNSON asked whether it would be more efficient to loop the aforementioned line than to build the proposed new pipe.

MR. PALMER responded that TransCanada's proposal is to build the pipeline to Boundary Lake and that is the certificated route in Canada; [TransCanada] is not proposing the alternative Co-Chair Johnson is describing. Therefore, no analysis has been done on this question. A significant piece of pipe would have to be built from Fort Nelson east and he estimates that the savings in terms of mileage is modest. That pipeline would then be significantly farther north in Alberta than it would be at Boundary Lake. It would take a significant amount of work by TransCanada to evaluate whether that would provide a lower cost.

[2:32:34 PM](#)

MR. PALMER, in response to Representative P. Wilson, stated that the numbers presented on slide 12 for the Valdez option are for a 25-year contract term. He does have numbers for a 20-year term and will provide them if members wish, but he has not represented them on this chart.

[2:33:27 PM](#)

MR. PALMER commenced his presentation, noting that the Henry Hub gas price is located in Louisiana (slide 12). The price for gas delivered to West Coast U.S. markets via the re-gas terminal in Baja, California, Mexico back up to San Diego market, should be reduced by about 75 cents per MMBtu. He said he has denoted oil prices on this slide because Asian markets are priced off an oil basis. Any potential customer will have to make an estimate as to whether that will still be the case when this project goes in-service 10 years from now.

[2:34:27 PM](#)

MR. PALMER moved to slide 13 and explained that the black line on the graph is the forecast of oil prices from the U.S. Department of Energy's Annual Energy Outlook (AEO) at the time when [TransCanada] made its AGIA application, and at that time the forecast [for the years 2020 through 2030] was for about \$60 per barrel of oil (bbl). In 2010 the AEO forecast [for the years 2020 through 2030] was for oil prices well above \$100 bbl. He pointed out that there is a large difference in the forecasted oil prices for AEO 2007/AEO 2008 and AEO 2009/AEO 2010. However, he continued, this is not the case for the gas price forecasts shown on slide 11. Thus, the U.S. Department of Energy's two most recent forecasts are indicating a significant change in the oil to gas ratio.

[2:35:38 PM](#)

MR. PALMER, in response to Co-Chair Neuman, said he believes the U.S. Department of Energy is predicting there will be a surplus of natural gas in North America relative to oil. If this becomes the case, such ratios have not been seen since 1982. In further response, he said that in 1975 the natural gas price was 44 cents per MMBtu and the oil price was \$11.16 [per barrel], an oil to gas ratio of 25:1. The ratio declined from that point and 1981 was the last time it was above 16:1, which was the ratio in 2009.

[2:37:27 PM](#)

MR. PALMER turned to slide 14 and highlighted the milestones that are required to move the project forward out of the development stage. Alaska Pipeline Project expects to get conditioned bids and, if that occurs, APP will have to work with those producers and shippers to resolve those issues. Regardless of the open season outcome, APP is obliged to continue with environmental, engineering, and field work to advance to the major permitting in the U.S. and Canada. Environmental contracts were recently awarded to URS Corporation and to AECOM for the Alaska fieldwork that will commence spring 2010. He emphasized that APP will meet its AGIA obligations, but it will advance the project in-step with commercial and regulatory breakthroughs by all parties because it does not want to get ahead of the remainder of the components of the project. It is important that both the project's and the state's monies are spent prudently. Lastly, Alaska Pipeline Project will continue to seek alignment with "BP" and "ConocoPhillips" as APP believes that is the best way to succeed in the project.

[2:40:05 PM](#)

REPRESENTATIVE P. WILSON surmised that advancing the project in-step with commercial and regulatory breakthroughs means APP will either speed up or slow down to meet those breakthroughs.

MR. PALMER answered correct, all while meeting AGIA obligations. Alaska Pipeline Project cannot stop if nothing is happening as it is obligated to continue to apply to the Federal Energy Regulatory Commission (FERC).

[2:40:50 PM](#)

REPRESENTATIVE KAWASAKI, in regard to continuing to seek alignment with "BP" and "Conoco," asked what negotiations have occurred recently.

MR. PALMER responded that for more than two years his company has made offers to the very high levels of those companies and to-date there has been no take-up of that offer by either company, so no negotiations have been undertaken to date. He added that negotiations with "ExxonMobil" commenced in fall 2008 and they came together in June 2009.

[2:42:35 PM](#)

MR. PALMER returned to his presentation and discussed the commercial and regulatory milestones that are needed to advance the project out of the development stage by other parties (slide 15). Producers and shippers that have conditions precedent with APP will have to work with the project to try to resolve those conditions. Alaska Pipeline Project has heard publicly that producers want to resolve upstream fiscal and production levels at Prudhoe Bay, Point Thomson, and other fields with the state and the Alaska Oil and Gas Conservation Commission (AOGCC). Alaska Pipeline Project is not a party to that. Lastly, producers and shippers will have to arrange downstream transportation and secure final gas markets and, if they choose to export the liquefied natural gas (LNG), they will have to get an export permit to move the LNG to international markets.

[2:43:50 PM](#)

MR. PALMER said the counterpart milestone is that the State of Alaska needs to resolve with shippers and producers the upstream tax or production issues. Also, the state needs to continue to facilitate project permitting so the project can proceed expeditiously. He noted that the U.S. government has a federal loan guarantee in place and legislation in place. Alaska Pipeline Project would like the U.S. government to determine whether the \$18 billion loan guarantee will be changed and to set out the terms and conditions under which that loan will become effective; this goes to what the ultimate interest rate will be for the project. The interest rate is critical because it affects the toll and ultimately affects the viability. In its analysis, APP assumed the existing legislation of \$18 billion plus inflation, and assumed the loan guarantee would provide an interest rate benefit relative to a non-guaranteed interest rate. If the U.S. government were to increase that amount or provide access to the Federal Financing Bank, the

interest rate would be lower for the project and this would improve the tolls.

2:45:35 PM

MR. PALMER, in response to Representative Seaton, explained that APP has applied the existing legislation for the loan guarantee to both the Valdez and Alberta options. When gas is exported, there is a limit as to what the guarantee value can be; but, based on APP's analysis to date, that is not a material matter at this point. Any changes in the legislation will be applied as APP moves forward.

2:46:35 PM

MR. PALMER returned to his presentation and noted that the government of Canada, Alaska Natives, and Canadian First Nations need to facilitate project permitting and alignment (slide 15). He then summarized his presentation (slide 16): the open season will be conducted May-July 2010 provided FERC approves APP's plan; APP is offering a \$500-million-per-year improvement in the commercial terms versus AGIA; APP believes both the Alberta and Valdez options are technically and commercially viable; the project, as well as producers, shippers, and governments, must achieve regulatory and commercial breakthroughs to move from the development phase; and the best opportunity to align all stakeholders and to make the project a success will be provided by TransCanada, ExxonMobil, and the State of Alaska working together through the AGIA structure.

MR. PALMER added that it is time to align to make this project go forward, and this is being sought so that the project is a success for Alaskans as well as for North American and global markets. The project will provide thousands of jobs and massive revenues and it will open up a new basin for Americans. He noted that all of APP's open season information is available at www.thealaskapipelineproject.com and the FERC website as well.

2:48:55 PM

CO-CHAIR NEUMAN commented that Alaska's gas must compete globally and in the Lower 48 and to do that APP must have a price structure.

MR. PALMER replied that APP does recognize the competition, and this is what he described to members on 2/1/10. The world is a different place than it was two years ago and will likely be

different again in two more years, five years, and thirty-five years, and APP must compete. He hopes he has shown that APP is competing; for example, APP has offered a \$500 million per year toll reduction, which he outlined on 2/1/10.

CO-CHAIR NEUMAN said he is referring more to slide 15 and the things that the Alaska State Legislature should be looking at.

MR. PALMER concurred. Alaska Pipeline Project will do what it can and hopes that other parties will also stretch to make this project a success.

2:50:28 PM

REPRESENTATIVE KAWASAKI inquired what the State of Alaska could do to encourage alignment with "BP" and "ConocoPhillips."

MR. PALMER suggested that alignment of the last two parties would be facilitated if the State of Alaska continues its alignment to advance this project, supports the AGIA structure, and resolves the items listed on slide 15. If the project is stalled, slowed, or postponed, stakeholders will go in different directions. He said local opposition kills projects, despite federal approvals and alignment of customers and sponsors.

2:53:01 PM

MR. PALMER, at Co-Chair Neuman's request, reviewed the process for open seasons. He explained that the process is established by regulatory fiat in the U.S. and Canada, and is a process that must be undertaken by companies proposing pipelines. The pipeline company must provide to potential customers the costs for the project, potential tariffs, and commercial terms. The customer has the opportunity to examine the formal written offer as well as to have discussions with the company's representatives. This has already occurred for this project and is part of the reason for APP's commercial offering, and will continue through the open season. If approved by FERC, the open season for this project will occur from May-July 2010. During this May-July time period, potential customers will seek even more information than what APP has provided on its website. If potential customers sign confidentiality agreements with APP, they will see thousands of pages of support material as to how APP derived the capital costs. At the end of July 2010, those potential customers will make an offer for what APP has described or an offer with certain conditions.

[2:56:04 PM](#)

MR. PALMER, in response to Representative Olson, said APP has an AGIA confidentiality agreement on file with the administration under the AGIA statute. Certain legislators signed agreements in the past to obtain certain information. However, the confidentiality agreements that he was just describing are to allow APP's customers to see the confidential definition of how APP derived the capital costs and other components. Many of the potential customers have already executed confidentiality agreements with APP to protect their information through the discussion stage and those will continue forward into detail data rooms after the open season starts.

[2:57:07 PM](#)

MR. PALMER, in response to another question from Representative Olson, said there will be different stages of data rooms. The first will be available to the public and the bulk of that is already sitting at TransCanada's and FERC's websites. The second stage will go to the issue of land holdings and so on, and he thinks that will be accessible to a number of parties. However, the materials on APP's capital cost estimates will only be available to potential customers; legislators will be unable to see that information. In further response to Representative Olson, Mr. Palmer said he is not familiar with the tiered information basis used by former Governor Frank Murkowski's administration; he was describing only what Alaska Pipeline Project will be doing.

[2:58:10 PM](#)

CO-CHAIR NEUMAN noted that people who wanted information about what happened earlier with contracts between TransCanada, the state, and other companies signed confidentiality agreements. He himself did this to make sure he was more informed. He urged members and the public to review the information that is available on the committee's website, as well as the sites mentioned by Mr. Palmer.

[2:59:36 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:59 p.m.