ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RESOURCES STANDING COMMITTEE
SENATE RESOURCES STANDING COMMITTEE
Anchorage, Alaska
June 16, 2010
1:43 p.m.

MEMBERS PRESENT

HOUSE RESOURCES

Representative Craig Johnson, Co-Chair
Representative Mark Neuman, Co-Chair
Representative Paul Seaton (via teleconference)
Representative Peggy Wilson (via teleconference)
Representative David Guttenberg (via teleconference)
Representative Scott Kawasaki (via teleconference)
Representative Chris Tuck (via teleconference)

SENATE RESOURCES

Senator Lesil McGuire, Co-Chair
Senator Bill Wielechowski, Co-Chair
Senator Hollis French
Senator Bert Stedman
Senator Gary Stevens (via teleconference)

MEMBERS ABSENT

HOUSE RESOURCES

Representative Bryce Edgmon
Representative Kurt Olson

SENATE RESOURCES

Senator Charlie Huggins, Vice Chair
Senator Thomas Wagoner

OTHER LEGISLATORS PRESENT

Representative Carl Gatto
Representative Jay Ramras
Senator Joe Thomas (via teleconference)

COMMITTEE CALENDAR

PRESENTATION AND UPDATE FROM DENALI-THE ALASKA GAS PIPELINE, LLC'S OPEN SEASON

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

BUD FACKRELL, President
Denali - The Alaska Gas Pipeline, LLC
Anchorage, Alaska
POSITION STATEMENT: Provided a presentation entitled "Denali Project Update."

ROBERTO REICHARD, Vice President
Gas Treatment Plant
Denali - The Alaska Gas Pipeline, LLC
Anchorage, Alaska
POSITION STATEMENT: Reviewed the Gas Treatment Project.

KRIS FUHR, Vice President
Project Mainline
Denali - The Alaska Gas Pipeline, LLC
Anchorage, Alaska
POSITION STATEMENT: Continued the presentation regarding the mainline and transmission lines.

SCOTT JEPSEN, Vice President
Business Services
Denali - The Alaska Gas Pipeline, LLC
Anchorage, Alaska
POSITION STATEMENT: During the presentation, discussed the commercial offer.

ACTION NARRATIVE

1:43:15 PM

CO-CHAIR LESIL MCGUIRE called the joint meeting of the Senate and Senate Resources Standing Committees to order at 1:43 p.m. Representatives Johnson, Neuman, P. Wilson (via teleconference),

Seaton (via teleconference), Guttenberg (via teleconference), and Kawasaki (via teleconference) and Senators McGuire, Wielechowski, French, Stedman, and Stevens (via teleconference) were present at the call to order. Representative Tuck (via teleconference) arrived as the meeting was in progress. Also in attendance were Representatives Gatto and Ramras and Senator Thomas.

Presentation and Update from Denali-The Alaska Gas Pipeline, LLC's Open Season

1:43:41 PM

CO-CHAIR JOHNSON announced that the only order of business would be the presentation and update from Denali - The Alaska Gas Pipeline, LLC's open season.

1:44:20 PM

BUD FACKRELL, President, Denali - The Alaska Gas Pipeline, LLC, said he would begin with a summary of the technical offer from Denali - The Alaska Gas Pipeline, LLC, ("Denali"). Referring to slide 3, Mr. Fackrell reminded the committees that Denali's open season plan was approved by the Federal Energy Regulatory Commission (FERC) and open season will begin July 6 and conclude on October 4, 2010. The open season plan was before the public and comments were received for 90 days prior to that. During open season, Denali will seek binding agreements. To move a pipeline of this size forward firm transportation commitments are required, which begins with precedent agreements being signed during open season.

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MR. FACKRELL, in response to Co-Chair Neuman, explained that a nonbinding open season is one in which interest is solicited in a project, but no commitment is being requested. Whereas, a binding open season is one in which signatures are obtained such that both parties, the transporter and shippers, are bound to an agreement. An agreement at this stage would have conditions precedent. During the 90-day period [prior to the open season] the work focuses on identifying those conditions precedent by the transporter and the shipper. Denali has already identified its conditions precedent in the offer forwarded during the open season plan. Therefore, as Denali proceeds through the open season, it will determine the conditions precedent with the shippers if they decide to sign something. After that, a

timeframe is established to resolve the conditions precedent in order to achieve a binding agreement. The next step is then to sign a firm transportation service agreement.

1:50:18 PM

MR. FACKRELL, returning to slide 3, opined that Denali has a high quality design and project execution plan as is evidenced by the following. Denali invested over $140 million and 670,000 man-hours [since 2008]. Furthermore, Denali brings decades of arctic, mega-project pipeline experience and has engaged world-class engineering firms, such as Bechtel, Fluor/WorleyParsons, and CH2MHILL. Additionally, Denali has gathered field data during this two-year period of time and incorporated the numerous studies that have been performed over the last 30 years. He related that Denali is confident that it has a high quality design, which is important as Denali is trying to convince shippers that they know the cost of the pipeline and the risk and uncertainties of it. Mr. Fackrell acknowledged that the Alaska gas pipeline is an enormous undertaking with significant risk. In the commercial offering, Denali tried to address those risks in order to avoid asking shippers to take unreasonable risks too early in the life of the project.

1:52:12 PM

MR. FACKRELL, referring to slide 4, informed the committees that the project is designed to deliver 4.5 billion cubic feet a day (bcfd) of gas from the North Slope to North America. The plan is to have six delivery, off-take, points in Alaska and four in Canada. The process starts with a large gas treatment plant (GTP) that will remove CO_2 and impurities on the North Slope, compress and chill the gas. He noted that the GTP has unbundled services such that various services can be chosen when the gas is processed. The project also includes transmission lines from Prudhoe Bay to the GTP and from Pont Thomson to the GTP. The shippers can decide whether to utilize those transmission lines or build them. There is also a mainline that goes from Prudhoe Bay to Delta Junction down the Trans-Alaska Pipeline System (TAPS) highway right-of-way and through the Yukon, British Columbia, and into Western Alberta. The Alaska portion of the mainline is over 700 miles long while the Canada portion is over 1,000 miles long. Mr. Fackrell highlighted that there are three off-take points in Alberta to feed gas to the U.S., which include the Spectra Energy Pipeline System, the Nova Gas Transmission Ltd. system, and the Alliance Pipeline Ltd. system.

Denali's project allows shippers to nominate gas on any three of those options.

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REPRESENTATIVE P. WILSON inquired as to the location of the six delivery points in Alaska.

MR. FACKRELL informed the committees that an in-state gas study was completed. The study identifies the delivery points within the state, including Fairbanks, Delta Junction, Livengood, and at the GTP on the North Slope.

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CO-CHAIR NEUMAN recalled that TransCanada is considering a 48-inch line, which carries 5.5 bcf a day, maximum. The aforementioned would leave 1.0 bcf a day since TransCanada has said it needs 4.5 bcf a day to amortize its expenditures. He then inquired as to the size of pipe Denali is considering.

MR. FACKRELL answered a 48-inch pipe that's expandable.

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CO-CHAIR JOHNSON inquired as to what selection of services would be available at the GTP.

MR. FACKRELL explained that part of the process requires the pipeline company to offer unbundled services such that the services can't be bundled for one tariff. At the GTP, gas treating services, removing CO_2 and H_2S, as well as compression and chilling services are being offered. A company could choose to bypass the gas treating portion of the GTP if there's sweet gas, whereas a company would elect to use both services for gas with CO_2 at Prudhoe Bay.

CO-CHAIR JOHNSON inquired as to the impact of [unbundled services] on the tariff, particularly for a company that has sweet gas and can bypass the GTP.

MR. FACKRELL answered that it would reduce the tariff if there is sweet gas that the company chooses not to process.

CO-CHAIR JOHNSON related his understanding that the tariff for the company with the sweet gas would be reduced, but he asked

whether those companies that have gas requiring processing would face an increased tariff.

MR. FACKRELL clarified that the gas is processed on a Btu value and the tariffs are based on a Btu value. Therefore, the Btu value is measured, which excludes the sour gas.

CO-CHAIR JOHNSON surmised then that a producer with the sweet gas will have a lower tariff than a producer with a dirtier product.

MR. FACKRELL replied yes, adding that's because a producer with the sweet gas doesn't have to perform gas treating to remove it. In further response to Co-Chair Johnson, Mr. Fackrell confirmed that unbundled services are a FERC requirement.

1:58:03 PM

MR. FACKRELL, returning to his presentation, continued with slide 5 entitled "Key Metrics." He highlighted that all the costs are in 2009 U.S. dollar estimates. There is a high quality Class 4 cost estimate of $35 billion, which includes the GTP in the portions of the pipeline in Canada and Alaska. He explained that the project is referred to as high quality Class 4 because the project has met all Class 4 requirements as well as almost all of Class 3 cost estimate requirements. Mr. Fackrell said that Denali feels very confident in its estimate. He then related that the estimated tariff from GTP to Alberta is $2.67 per million Btus (MMBtu). He noted that the aforementioned is in today's dollars. When the pipeline is built and online in 2020, the estimated tariff from GTP to Alberta would likely be $3.25 per MMBtu. That future price is based on which prices escalate as well as other factors. Mr. Fackrell directed attention to the cost and rate summary of the $35 billion. The GTP cost $12.2 million, which is a mega project itself, for which the tariff for all its services will be $.90. The cost of the Alaska Mainline is $10 billion while the Canada Mainline is $12.5 billion, which totals $35 billion.

2:00:03 PM

MR. FACKRELL then directed attention to the timeline on slide 5. He pointed out that the open season will start in early July and end in early October. In the success case, Denali forecasts that it will file its certificate of public convenience and necessity (CPCN) applications at the end of 2014, receive FERC approval in 2013, and sanction the project in early 2016. The

aforementioned would result in first delivery of gas in 2020 and thereafter the trains on the GTP will be ramped up. He explained that currently Denali is trying to provide the shippers confidence in the cost estimate. The underpinning of such is having a high quality team. As related on slide 6, Denali has leveraged over 30 years of historical technical work. Furthermore, Denali has a very experienced core team with decades of projects and engineering experience around the world as well as in Alaska. Moreover, Denali had world-class capabilities and experienced and highly regarded contractors. He noted that virtually every major project constructed on the North Slope was built by one of Denali's owners. Therefore, Denali has the benefit of people who have worked on those projects being on this team as well as the processes that the two owners utilized. Mr. Fackrell related that Denali has already had many conversations with the shippers who have expressed that they are impressed by the level of understanding and the identified risk.

2:02:45 PM

SENATOR FRENCH inquired as to how many full-time or full-time equivalent staff are working on the Denali project.

MR. FACKRELL answered that it varies depending upon what Denali is doing. He related that at the peak Denali employed about 90 employees, which it referred to as its core team, as well as dozens of contractors. He noted that additionally Denali has engineering offices in Long Beach, California, that employed 40-50 employees. There was also an engineering office in Houston, Texas, where there were 15-20 employees. Denali also has an office in Canada as well as the core team in Anchorage. Turning to slide 7, Mr. Fackrell pointed out that the slide shows the logos of the many companies that have or are currently working for Denali. The important take-away is that Denali has employed large engineering contractors and small boutique contractors with experience in handling particular parts of the pipeline. For example, Denali has a contractor who has handled almost all of the sealifts on the North Slope over its history.

2:04:47 PM

CO-CHAIR NEUMAN said he hadn't seen information from Denali regarding the $18 billion federal loan guarantee. However, TransCanada is seeking a doubling of the federal government's loan guarantees and thus there would be $36 billion worth of

federal loan guarantees for a $40 billion pipeline, which amounts to 90 percent loan guarantees on the project.

MR. FACKRELL remarked that loan guarantees are going to be an important part of financing the project, but that has not yet been the focus as the [company] is currently reviewing whether Denali has a commercial venture or not. He pointed out that the project is $35 billion and thus an $18 billion loan guarantee is much smaller than the project today. There are numerous loan guarantee bills before Congress, he noted. As part of Denali's open season plan Denali has to provide a financing plan.

2:06:37 PM

SENATOR WIELECHOWSKI informed the committees that today BP put out a press release relating that it intends to implement a significant reduction in organic capital spending. He asked if that will impact this project at all.

MR. FACKRELL responded that Denali has a budget that has been approved by both of the project's owners, who have indicated that they will support it. Therefore, Denali feels good about moving through the open season with the budget it has today.

2:07:14 PM

MR. FACKRELL, returning to his presentation, directed attention to slide 8. This slide illustrated the manpower outlook in Alaska during the construction phase of the project, and therefore for the [construction] of the pipeline and the GTP. However, it doesn't include the manpower in Canada. The chart illustrates that during the height of construction the construction manpower in Alaska peaks at 9,000 people, but drops off very rapidly. Once the pipeline is up and operating, the operating expense and manpower required totals about $400 million annually of which about $290 million is in Alaska. The forecast is that Denali will have a company of about 440 personnel of which 310 will be in Alaska.

2:08:39 PM

CO-CHAIR JOHNSON, referring to the chart on slide 9, pointed out that the drop off between 2019 and 2020 is a huge number. He interpreted that drop off to illustrate 7,000 unemployed people over the period of one year, which will be a significant number requiring review. Are the skills of these employees during construction transportable, he asked. He recalled that when the

construction of the oil pipeline ended, there were problems with the decrease in employees. Therefore, he further asked if Denali is reviewing the aforementioned socio-economic side of [the completion of the gasline].

MR. FACKRELL said that it's a number of years before the process reaches the point at which there's a drop off in employment. Still, it's important that Denali has a cost estimate and an execution plan. Since there are many details behind the numbers, Denali knows the types of crafts that will be involved. This manpower is primarily pipeline-related crafts, and therefore as the pipeline is completed the jobs will go away. He highlighted that it will be a different skill set and thus a different group of people who will be left to run the project after construction. It's important, as manpower is planned, to recognize the aforementioned, he opined.

2:10:38 PM

ROBERTO REICHARD, Vice President, Gas Treatment Plant, Denali - The Alaska Gas Pipeline, LLC, referring to slide 9, informed the committees that the GTP is a world class treatment plant designed to condition the gas in the mainline. The GTP consists of four processing trains to remove the acid gases from the gas in order that it's conditioned for transportation. The gas is then dehydrated, compressed, and chilled to 30° before being placed in the pipeline. As mentioned earlier, the plant is designed to have a nominal output of 4.5 bcfd while providing 0.3 bcfd of clean gas for users on the North Slope. The CO_2 and H_2S removed from the gas will be returned to the shippers for their use for enhanced oil recovery or sequestration. He noted that with the addition of one more treatment train, the GTP can be expanded to 5.8 bcfd. As was also mentioned earlier, the GTP has unbundled services and thus the shipper has the option to treat the gas or compress it and chill it. Additionally, some of the gas can be returned as clean gas.

2:12:32 PM

MR. REICHARD, referring to slide 10, highlighted that the design of the GTP emphasizes safety and the environment, and therefore will implement the latest safer design norms and energy efficiency strategies. The GTP is highly reliable and in fact, simulations illustrate that the plant will be at full capacity over 98 percent of the time. The aforementioned, he noted, includes time for plant maintenance. The design of the GTP incorporates the lessons learned about operating gas plants on

the North Slope as well as other Arctic areas. Moving on to slide 11, Mr. Reichard reviewed some of the key studies that have been completed, such as energy optimization studies, constructability, logistics, and risk analysis. He noted that the studies include design studies and project execution planning studies. These studies, he explained, were used to develop the key deliverables, which are used to develop the cost estimates, schedules, and execution plans. Slide 12 depicts a fly-over of a three-dimensional (3D) model of the GTP, which is comprised of the individual layouts made for each of the over 90 modules that makeup the plant. He reviewed the functions of the various portions of the GTP as well as the key components and equipment in the various buildings of the GTP.

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MR. REICHARD, continuing with slide 13, showed the committees the plot plan of the GTP, which has some aircraft superimposed for scale purposes. The larger aircraft are 747s. Moving on to slide 14, which outlines the sequence that will be used to fabricate, transport, and install the modules for the GTP. The current planning basis is that the modules will be fabricated in the U.S. Gulf Coast. The plan calls for five major fabrication yards in the U.S. Gulf Coast. The first modules will be ready to leave the fabrication plant within 2.5-3 years after receiving the CPCN from FERC. The modules will be loaded onto ocean-going barges and transported to the North Slope. Once in Prudhoe Bay, the modules will be offloaded on existing Dock 2. However, Dock 2 needs to be upgraded and expanded in order to birth at least four sets of barges at a time. The modules are then offloaded onto specially designed, multi-axel vehicles to be transported to the final location where they will sit on pre-installed piles. Referring to slide 15, he related that the plant will require three consecutive yearly sealifts in order to move the over 90 modules from the Gulf to the North Slope. The modules need to be near Wainwright by late July/early August of each year to take advantage of the ice-free window. Therefore, the modules have to depart from the Gulf Coast by mid-May/early June. The modules then head south to the Panama Canal and up the West Coast to Alaska. In fact, the bridges over the Panama Canal determine the height limitations of the modules.

2:19:29 PM

SENATOR FRENCH recalled that the chart on slide 8 illustrates a jump in employment in 2017-2019. He asked if that increase in employment reflects the three consecutive years of sealifts.

MR. REICHARD reminded the committees that the chart on slide 8 illustrates the manpower in Alaska. The modules, he clarified, will be fabricated in the Gulf Coast. However, he pointed out that the manpower required to install the GTP modules on the North Slope peaks at about 2,000 in 2019.

MR. FACKRELL interjected that the remainder of the curve is the pipeline personnel. The curve, he related, is mainly dominated by the pipeline in Alaska.

2:20:36 PM

SENATOR FRENCH surmised that the final year of construction is 2019, with some wrap up in 2020.

MR. REICHARD said that's correct.

SENATOR FRENCH asked then if the first year of the sealift for the GTP would be 2017.

MR. REICHARD clarified that it would be 2019. Therefore, the modules arrive on the North Slope in the summer of 2019. In further response to Senator French, Mr. Reichard stated that the last train would be completed in 2021. Gas would be able to be produced in 2020 from the first train and then the other trains would be brought online and thus ramp up the (indisc.) capacity. The pipeline's flow rate in 2020 would be approximately 1 bcfd.

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SENATOR STEDMAN requested a brief summary of the employment impact this would have in the Gulf Coast states, including any alterations that would have to be made to work on a project of this size.

MR. REICHARD pointed out that the aforementioned is addressed in the next slide, slide 16. He directed attention to the estimated job-hours and noted that a large number of the job-hours, approximately 43 million man hours, are for module fabrication and assembly.

2:22:51 PM

CO-CHAIR JOHNSON inquired as to the number of people 43 million man hours would employ, particularly in terms of the impact on the job market in Louisiana.

MR. REICHARD answered that [the project] would peak at about 5,000 full-time equivalents for direct craft. Additionally, there would be several hundred people employed in management and supervisory capacities. In further response to Co-Chair Johnson, Mr. Reichard confirmed that [construction of the pipeline] would potentially employ about 5,500 people nationwide. He noted that the employment would be for a limited period of around three years.

2:23:44 PM

SENATOR STEDMAN asked if Alaska's pipeline construction would be a disruption in the work flow for those in the Gulf Coast.

MR. REICHARD informed the committees that Denali performed an extensive survey during which staff visited a dozen of the major fabrication yards in the Gulf Coast area. The staff assessed their manpower and projected capacities and work, which he acknowledged can change dramatically over the next five years. The survey determined that [the Alaska project] will use about one-third of the total capacity of the Gulf Coast.

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CO-CHAIR JOHNSON inquired as to where else this can be completed. He reminded everyone that Alaska is in competition with another pipeline that will travel through Canada. He asked if Alaska will be competing with Canada in terms of [the Gulf Coast workforce.]

MR. REICHARD said that although it's difficult to know these many years in advance, the expectation is that there will be competition from other pipeline projects as well as potential offshore projects. The aforementioned is why Denali performed the assessment to determine the resources that are available. He estimated that Denali will use about one-third of the Gulf Coast's [workforce] capacity. Mr. Reichard informed the committees that there are opportunities to build these modules outside the U.S., such as in the Far East. However, the assumption is that the module construction will occur in the U.S. Still, the situation will likely depend upon what the market is like when the facilities are being bid upon. If the Gulf Coast yards are very busy, they may not make a very competitive bid or vice versa. Many factors, including the effect of loan guarantees, will have to be weighed, he said.

2:26:38 PM

CO-CHAIR NEUMAN remarked that with the global economy in a slump, the industry is hungry. Therefore, he predicted that a better value for the [construction of these modules] will be obtained. He inquired as to how the aforementioned is accounted for in the class 4 engineering report.

MR. FACKRELL explained that although the assumption with the execution plan was that the platforms will be built in the Gulf Coast, it is possible that due to market circumstances at the time the bids are let some will have to be built elsewhere. Going into [the planning] Denali was concerned regarding whether the Gulf Coast would have the capacity to build [the platforms]. The positive result of the study is that the Gulf Coast could build these platforms, if everything falls into place. He did point out; however, that part of this will be getting into the cue early at the fabrication yards and even Denali setting up some new fabrication yards. "So, we do play the global market in the end. They'll be built where they will be the cheapest and the manpower exists at the time you put out the bids," he said.

2:28:25 PM

CO-CHAIR NEUMAN, regarding the sealift, highlighted that it's a two-month window in Alaska. By not making the sealift, the $35 billion project could face a setback of a year. A setback of a year on any netback increases risk analysis and cost.

MR. REICHARD said that Denali will try to position itself to take advantage of every ice-free day that it's able to enter Prudhoe Bay. Therefore, Denali wants to be positioned at Fort Wainwright early enough to take advantage of a possible early breakup. Furthermore, the amount of time required to move in the sealift, off load the sealift, and move the barges out is a small proportion of the average ice-free time period. Denali will require about 20 percent of the typical window that is usually available.

2:29:50 PM

REPRESENTATIVE GUTTENBERG pointed out that a lot of infrastructure in Prudhoe Bay, Kuparuk, and the outlying fields will have to be modified for gas. He asked if those employment and timelines have been built into Denali's numbers that have been presented thus far.

MR. REICHARD replied no, adding that Denali has only reviewed the facilities that it would be responsible for implementing. Denali hasn't assessed the modifications that potential shippers would have to do to their facilities to deliver the gas to Denali. However, Denali is in conversation with potential shippers and have had meetings with the operators in Prudhoe Bay, all of which are aware of Denali's plans and what they need to do.

MR. FACKRELL added that currently Denali is reviewing two fields being the primary source of gas - Prudhoe Bay and Point Thomson. Point Thomson is currently under development and thus there will be facilities constructed. Prudhoe Bay already produces a significant amount of gas that it's reinjecting. Although modifications will undoubtedly be necessary, Prudhoe Bay already has a very large gas recovery process and reinjects the gas.

2:31:50 PM

SENATOR FRENCH mentioned that the Dalton Highway needs a lot of funds invested in it prior to the construction of this project. It's possible that the State of Alaska may not be in a financial position to make that sort of investment. Therefore, he questioned what would happen if the state doesn't have the funds to invest in the necessary roads.

MR. FACKRELL informed the committees that Denali has had many conversations with the state on this matter. He acknowledged that roads, bridges, and ports will be integral to moving pipe down the line.

MR. REICHARD explained that the pipeline component will involve a lot more land logistics than the GTP. The GTP is a mainly sealifted operation, and thus for the GTP not many upgrades are being required.

2:33:21 PM

MR. REICHARD, referring to slide 16, pointed out that on the North Slope the GTP installation will require 3.4 million man hours, which amounts to about $1 billion of labor costs in today's wage rates. Turning to slide 17, Mr. Reichard stated that the GTP alone is a mega project, which Denali estimates will cost $12.2 billion in 2009 dollars.

2:34:31 PM

KRIS FUHR, Vice President, Project Mainline, Denali - The Alaska Gas Pipeline, LLC, began by directing attention to slide 18. He explained that the current basis of Denali's commercial offer for the transmission lines is a conventional, above ground pipeline system for both Point Thomson and Prudhoe Bay. For Point Thomson, the line will be 62 miles long using 36-inch pipe and the initial design is to move 1 bcfd from Point Thomson to the inlet and the GTP. The design is expandable to 1.5 bcfd. The [Prudhoe Bay transmission line] is a 60-inch line that runs about 1 mile long and links the GTP inlet to the central gas facility (CGF) that currently exists at Prudhoe Bay. The central gas facility currently moves between 7-8 bcf of gas a day. Mr. Fuhr related that Denali has a good idea with regard to the tie-in requirements to tie the 60-inch pipeline into the CGF to supply the vast portion of the 4.5 bcf to the pipeline from Prudhoe Bay.

MR. FUHR then related that for the mainline Denali is apprenticing a 48-inch line with a maximum operating pressure of 2,500 pounds. The mainline will be a buried pipeline that will be chilled in Alaska, which means that there will be refrigeration at the compressor stations that allow reduction of the gas temperature to below 32° Fahrenheit. The gas temperature will remain below 32°F as it transverses across Alaska in order to ensure no permafrost is thawed. To move the 4.5 bcf of gas a day to Alberta, 15 compressor stations are necessary of which 6 will be located in Alaska. Mr. Fuhr emphasized that this pipeline system will be expandable. With the addition of 16 compressor stations between Prudhoe Bay and Alberta, the capacity can be increased to 5.6 bcf of gas a day, which is consistent with an additional acid gas removal train at the GTP. As mentioned earlier, the mainline is a bit over 700 miles in Alaska and over 1,000 miles in Canada. There would be three termination points, primarily to existing pipeline infrastructure in Alberta. Denali will [offer] tie-ins to the Nova, Alliance, and the Spectra systems. Of the six delivery points currently planned in Alaska, one will be at Prudhoe Bay to provide sweet fuel gas for consumption on the North Slope. Other delivery points include Livengood, the Brooks Highway spur, Fairbanks, Tok, and Delta Junction. Those delivery points are consistent with the recommendations of the in-state gas study performed by Northern Economics in January 2010. The [transmission lines] are initially sized to provide about 338 million standard cubic feet per day to initial customers in Alaska. Four delivery points are planned in Canada, which include the three termination points described earlier as well

as the expectation to provide gas to Whitehorse. Denali is open in terms of shippers providing gas to other clients along the right-of-way and is willing to evaluate such within the design.

2:38:08 PM

REPRESENTATIVE RAMRAS inquired as to the cost communities should expect between the take-off point of the line and connecting to the local transmission line.

MR. FACKRELL said that the presentation will relate the tariff rate of the different locations later in the presentation. He noted that Denali's offer includes a distance-sensitive rate, such that there would be a different rate in Fairbanks versus Delta Junction, for example. Additionally, there will be a distribution system charge to take the gas from the pipeline to the customer. Denali doesn't have a figure for the distribution system charge since it's not under its purview. He reminded the committees that this gas has liquids in it, and therefore when the pressure is dropped propane will be created. The aforementioned will also result in a charge.

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REPRESENTATIVE RAMRAS expressed concern that if the cost is $10 million and it's divided amongst 300 customers at the Yukon River bridge, no one will be able to afford the off ramp. However, if that same $10 million cost is divided amongst 110,000 nozzles in South Central, it's an affordable conduit to local distribution.

MR. FUHR remarked that Representative Ramras's observation is correct. He explained that Denali is offering a tie-in point with gas that is not utility quality gas and will likely require a significant amount of capital to reduce the pressure, liquids, and provide a safe supply of the utility to the end user.

2:42:34 PM

MR. FUHR, referring to slide 19, highlighted that Denali has spent a lot of time ensuring the pipeline is fully integrated with the GTP, which is a complex facility. With regard to engineering a pipeline, it really starts with identifying the route. Therefore, Denali has spent extensive time in the field evaluating what it believes to be the optimized route. However, he noted that the route won't be finalized until the last foot of ditch is dug. Much of the work performed by Denali's owner

companies has been leveraged and there are over 12,000 boreholes to identify the soil conditions along the route. Once the route is determined, the pipeline design can be determined. Denali has its own proprietary thermal hydraulic model that identifies the number of compressor stations, the horsepower requirements, and the physical locations [of the compressor stations]. The aforementioned technical work is then integrated with the environmental, regulatory, and land personnel to optimize the location of the compressor stations.

2:44:29 PM

CO-CHAIR NEUMAN assumed that the gas pipeline route will basically follow the TAPS route. At pinch points such as Atigun Pass where there is limited distance between the pipes, will there be any concern with regard to the explosiveness of the gas and oil pipelines, he asked.

MR. FUHR responded that he absolutely believes there will be issues with regard to pinch points, with Atigun Pass being one of the most critical in Alaska. There are three to four more pinch points located in Canada that will be as equally challenging. He noted that Denali has had some initial conversations with Alyeska. Denali's base approach is to not place the pipeline right-of-way any closer than 250 feet to the existing TAPS pipeline. However, there will be areas where the gas pipeline will cross underneath TAPS.

2:45:48 PM

MR. FUHR, continuing with slide 19, turned the committees' attention to compressor station design. He related that the premise is that the compressor stations will be truckable, fabricated modules that Denali intends to construct in Fairbanks, Anchorage, and Kenai. The desire is to maximize the amount of truckable models for each of these compressor stations. He recalled that the refrigerated stations in Alaska are 38-40 truckable modules each. Denali, he further related, will assemble on the compressor station sites in order to maximize local content where the fabrication yards exist. With regard to the total staffing requirements, there will be about 250-300 jobs in fabrication yards from 2017-2020. Mr. Fuhr then pointed out that there are some significant river crossings that need to be engineered. For example, the premise for the Yukon River is that Denali will horizontally directionally drill under the Yukon River. The base case on most of the major rivers, of which there are about 80 major river crossings between Prudhoe

Bay and Alberta, will require significant additional engineering as the process continues. Alaska does have active faults, which will require detailed engineering to ensure the pipeline can take the type of stress and strain resulting from a seismic event. Denali is premising the use of high strength steel; the weld-ability of the steel as well as the ability to identify defects in the welds must be finalized as Denali permits a "strain-based design" for the pipeline. This pipeline, he related, needs to be able to absorb frost heaves, thaw settlement, and elements associated with some of the permafrost issues in Alaska. Denali has also developed its proprietary geospatial system, which is a data-based system that's geospatially oriented and contains all the technical information for the 1,750 miles of the pipeline.

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CO-CHAIR JOHNSON asked if the 48-inch high strength steel is readily available.

MR. FUHR answered no, it's not readily available. Currently, there are seven mills globally that can make 80,000 psi stress capable pipe. The mills are in Europe, India, Japan, and Russia. After obtaining quotes for the pipe, the India and Russia sources were eliminated. The current basis of Denali's cost estimate is focused on Japan. He opined that Denali can wait about three years before one must finalize the mill with which the orders will be placed in order to complete the pretesting and certification work to facilitate the delivery of the pipe.

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REPRESENTATIVE GATTO asked if it's possible to make a thicker pipe and make it in North America.

MR. FUHR responded that currently there aren't capabilities with U.S. mills, which he attributed to a combination of the specifications of the materials, its diameter, and its wall thickness. Currently, there isn't the infrastructure in U.S. mills to make such a product.

2:50:24 PM

MR. FUHR returned to the presentation, specifically slide 20. Slide 20 is an alignment sheet that is a plan view of the right-of-way for the pipeline route. Denali has described and defined

the slopes, both longitudinal and cross slopes, which is important when determining how much dirt has to be moved; how much pad or gravel has to be moved in; and what type of work pads are necessary. The [characterization] also describes the type of terrain that ultimately determines how the ditch will be dug, with what it will be dug, and how fast it will be dug. All of the aforementioned ultimately speaks to how much it will cost to build [the gas pipeline]. Moving on to slide 21, Mr. Fuhr expressed the hope that the slide relates the level of definition Denali has with regard to its execution plan and the requirements or quantities that will need to be purchased to deliver construction. The 90 mainline block valves amounts to about $50 million, which would be used from Prudhoe Bay to Alberta. The mainline will require 2.2 million tons of X80 steel, which amounts to roughly $4 billion worth of a capital purchase just for the pipeline steel. Furthermore, over 20 million cubic yards of gravel will need to be mined and spread for pads for camp, access roads, storage yards, et cetera. Mr. Fuhr, referring to slides 22-23, explained that Denali has evaluated all the various activities, determined when they need to be performed, the season in which they need to be performed, the crews that need to be used, including the number of people and equipment requirements. All of the aforementioned is done in building a comprehensive construction execution plan that ultimately manifests into the cost and timeframe of the project. The next step is to talk with those who do these various activities for a living. He noted that Denali has received over 200 requests for information from a myriad of vendors and suppliers regarding the various timeframes and costs for the various aspects of building the gas pipeline. Mr. Fuhr pointed out that Denali has talked with every vendor listed on slide 24 in order to obtain real-time data on their areas of expertise.

2:54:06 PM

REPRESENTATIVE RAMRAS highlighted that this morning one of Denali's owners suspended its $10 million dividend for 2010. He then inquired as to how the aforementioned impacts Denali's ability to put capital together and obtain vendors.

MR. FACKRELL stated that at this point, the open season stage, Denali has full funding from both owners. The immediate goal is to get through open season and determine if there are bids on the project.

2:55:26 PM

REPRESENTATIVE GATTO asked if the cost of construction would be increased in a scenario in which the federal government implemented a cap and trade program.

MR. FACKRELL related that when reviewing emissions on the North Slope Denali has tried to take an approach that some sort of trading will take place. He reminded the committees that Denali will be taking CO_2 out of the gas and reinjecting it, which is positive. He indicated that highly efficient turbines and machinery on the North Slope will be used. By using more efficient equipment emissions will be reduced. Furthermore, Denali will be offering 300 million cubic feet a day of clean gas to operators on the North Slope. Those operators who take that clean gas will reduce their CO_2 footprint on the North Slope. Mr. Fackrell opined that Denali is doing some things with this project that could be viewed as environmentally friendly.

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MR. FACKRELL, in response to Representative Gatto, acknowledged that there are a number of different pieces of environmental legislation that are being discussed. Therefore, it's difficult to determine what will be approved in the end. Denali is trying to be aware of the aforementioned and realize they will impact the project. However, from a larger perspective, the [national] administration views gas as a clean burning fuel and a bridging fuel to renewables. In fact, [the national administration] has said that the Alaska gas project is in the top of its energy list. Still, he acknowledged that the legislation that's ultimately adopted could impact the project.

2:58:07 PM

MR. FUHR, returning to the presentation, directed attention to slide 25. Slide 25 lists the various service providers of which Denali has inquired to obtain real-time data on areas or activities that are critically important to the delivery of the construction of the pipeline. Information has been requested of vendors from the U.S. as well as Canada. With regard to an earlier question about the resourcing of the pipeline crafts, Mr. Fuhr informed the committees that Denali's execution plan has seven major pipeline spreads that will impact the construction over a two-year period. The plan is to become mechanically complete with the pipeline in 2019. Of those seven spreads, three are in Alaska and four are in Canada. Through Denali's initial evaluation, they pre-qualified 23 big-inch

pipeline contractors in the U.S. and Canada. Denali would require seven of those. He then moved on to slide 26, which specifies the various material vendors who were contacted for material quotes. Mr. Fuhr played an animated 60-second video of a flyover along the entire gasline from Prudhoe Bay to Alberta. He reviewed the various aspects of the pipeline and the infrastructure the pipeline will need, which the video illustrates. In summary, he referred to slide 28 and emphasized that Denali feels good about the mainline cost estimate. He explained that [the mainline cost] estimate isn't factored; it is resource loaded; the number of [employees] and the amount of equipment are known as is how long the employees need to be employed and the activities that need to be executed. Furthermore, the estimate is quantity based; uses a mile-by-mile design; has industry benchmarks and real-time data; and utilizes a world class team to develop the estimate. Mr. Fuhr informed the committees that the [mainline] cost estimate is about $23 billion.

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SCOTT JEPSEN, Vice President, Business Services, Denali - The Alaska Gas Pipeline, LLC, echoed earlier statements that the cost estimate for this project, the GTP and the mainline, is $35 billion, in constant 2009 dollars. He noted all the numbers he'll be using will be in constant 2009 dollars. Referring to slide 29, Mr. Jepsen pointed out that the first table summarizes the cost breakdown for the various components of the project and the cost to move the gas through the GTP or the mainline. He then turned to the fact that Denali is offering unbundled services, which means customers can select only the services they require. The cost to the shipper for use of the transmission lines between Prudhoe Bay and Point Thomson would be $0.4 per MMBtu while it will be an estimated cost of $0.26 per MMBtu to move gas from Point Thomson to the GTP. At the GTP, the services will be unbundled and thus there will be a rate for treating and a rate for compression. The rates are also based on distance and the table entitled "In-State Deliveries" relates the estimated cost to move gas to Fairbanks, $0.50 per MMBtu, and Delta Junction, $0.59 per MMBtu. If the gas needs to be treated prior to it entering the pipeline, of course the appropriate GTP cost would have to be paid. If all of the services of the GTP are needed, one would add $0.90 to those delivery rates.

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REPRESENTATIVE GATTO asked if it's possible to send gas that isn't chilled down the line.

MR. JEPSEN replied no, adding that the gas will have to be chilled. In further response to Representative Gatto, Mr. Jepsen confirmed that compression and chilling are options. If a customer wants to deliver cold gas to the pipeline at 2,500 psi and its sweet gas with no impurities, the entire GTP can be bypassed. As mentioned earlier, FERC required that the entire project not be bundled into one tariff/rate. Individual services and options have to be offered for shippers. In further response to Representative Gatto, Mr. Jepsen emphasized that a shipper would have to provide cold gas, otherwise the gas wouldn't be accepted.

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MR. JEPSEN, in response to Co-Chair Neuman, stated that Denali is providing a delivery service that is gas treating, compression, and transportation. The actual selling price of the gas would be determined by the owner of the gas and the purchaser of the gas. He clarified that Denali doesn't own the gas or sell the gas. Therefore, the selling price of the gas will be dependent upon what the market demands at that time.

CO-CHAIR NEUMAN surmised then that the [selling price] of the gas would be $1.40 to Fairbanks plus whatever it costs to purchase the gas.

MR. JEPSEN explained that typically the $1.40 is going to be encompassed in the end price for which the gas is sold.

MR. FACKRELL interjected that Denali will charge the gas shipper/producer $1.40 to move gas to Fairbanks. The shipper/producer will charge a price, which will take into account taxes, profit, et cetera, to the consumer. Therefore, the tariff to move the gas will be $1.40, and then there will be taxes and development costs that [the shipper/producer] will charge the consumer.

3:08:53 PM

REPRESENTATIVE SEATON pointed out that on slide 29 the estimated rate of gas delivered from the GTP to Alberta is $2.67 per MMBtu excluding fuel. He asked if the estimated rate of gas delivered to Fairbanks also excludes fuel. He also asked how the fuel cost is handled, in general.

MR. JEPSEN confirmed that the deliveries to Fairbanks also exclude fuel. Basically, the shipper/customer supplies fuel in-kind for transporting their gas. In further response to Representative Seaton, Mr. Jepsen stated that a little over 6.5 percent of the gross volume is fuel gas with an estimated $2.67 rate, which the shipper would incorporate into the selling price of the gas.

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REPRESENTATIVE SEATON recalled that [TransCanada's] pipeline project has a condition specifying how the compression and transmission, carbon dioxide output, is handled. The reasoning is that the 6.5 percent is more than the total of all current carbon dioxide from all commercial and residential uses within the state. He asked if Denali has a plan for minimizing and handling carbon dioxide emissions.

MR. JEPSEN reminded the committees that the goal is to build as efficient a compression project above the GTP and compressor stations, which will minimize the CO_2 emissions. With regard to CO_2 scrubbed from the gas at the GTP, it will be returned to Denali's customers who will presumably handle the gas through reinjection.

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MR. JEPSEN, continuing the presentation, turned to slide 30 and opined that Denali has crafted a distinctive commercial offer. The offer has been crafted such that it will allow a broad group to participate as foundation shippers. Foundation shippers are the group that makes the long-term commitments to allow the pipeline to move forward. Although the foundation shippers take a lot of the risk, they receive certain benefits. In order to be a foundation shipper, the shipper must meet the credit worthiness standards, which require a credit rating of BBB by Standard & Poors or BAA2 by Moody's; meet the net worth requirements, which means the shipper must have net worth that's commiserate with its commitment to the project; execute a precedent agreement during the initial open season with a minimum term of 20 years. He noted that there is no minimum volume requirement. Mr. Jepsen opined that the aforementioned requirements for foundation shippers will make it possible for small leaseholders, the state, explorers, and users to potentially participate in the open season as a foundation shipper. He then informed the committees that the foundation

shipper benefits include: the option to extend the primary term by five years; access to negotiated, levelized rates or recourse rates; and the "most favored nation" clause, which ensures that customers will have access to the lowest rates that Denali offers. Mr. Jepsen acknowledged the uncertainty of the project and related that Denali will offer decision points that settle specific points in time during the early stages of the project. In fact, a decision point will be offered when a [shipper] files for a CPCN and later when Denali receives approvals from U.S. and Canadian governments to move forward with construction. Returning to negotiated, levelized rates, he explained that they will be offered at several hundred basis points below the return on equity that's estimated on the recourse rates. The levelized portion means that the rates for moving the gas to the GTP will be constant on the term of the commitment.

MR. JEPSEN noted that Denali, too, will be taking some risk. Denali will take its depreciation over 25 years, although it's only seeking commitments for about 20 years. Therefore, Denali is assuming that it can recover the remaining 20 percent of the depreciation over the end of the life of the project. He then informed the committees that Denali has constructed a commercial offer that's responsive to shipper concerns. In the event of expansion and subject to FERC regulations and National Energy Board (NEB) regulations, Denali isn't going to require that existing shippers subsidize expansion shippers. Additionally, if during the initial open season Denali doesn't receive commitments for at least 85 percent of its design capacity, Denali has established a framework to work with customers in terms of redesigning the project with a smaller volume of gas to Alberta, building a pipeline to an liquefied natural gas (LNG) plant at the location of the customer's choice, or seeking to garner additional support to move forward with the original project.

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REPRESENTATIVE SEATON asked if that means Denali won't utilize rolled-in tariffs.

MR. JEPSEN answered that Denali will use rolled-in rates to the extent allowed by FERC and the NEB. However, Denali won't argue that rolled-in rates should require existing shippers to subsidize expansion shippers. He opined that most likely the initial expansions would result in a reduced rate for all shippers. Ultimately, it's up to the FERC and the NEB as to what will be allowed.

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MR. JEPSEN then moved on to slide 31 entitled "Open Season." He related that Denali intends to start its open season July 6, 2010, which will run through October 4, 2010. During that timeframe, Denali will offer open access to capacity on the pipeline and discuss with customers regarding signing binding precedent agreements in order to move forward with the project. The open season will be overseen by the FERC in the U.S. and the NEB in Canada. He noted that there will be a simultaneous open season in the U.S. and Canada. Denali sent out an expression of interest to potential leaseholders, producers, and governments in Canada to elicit whatever interest they might have. Recently, Denali sent out 250 letters announcing the timeframe of the open season. He directed attention to the illustration that specifies 170 days after the open season during which precedent agreement conditions will have to be resolved. Once the precedent agreements are executed, they will be filed with FERC and move forward with the project.

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CO-CHAIR JOHNSON requested an explanation of the FERC confidentiality requirements and inquired as to the access the legislature would have to that confidential information.

MR. JEPSEN explained that in the first 10 days, [Denali] must report with whom they have a contract and for how much gas. However, the details of the commercial arrangement don't have to be revealed. The aforementioned will be kept confidential unless both parties agree to release it, which is the case with any confidential agreement. In further response to Co-Chair Johnson, Mr. Jepsen said that he didn't believe FERC would care if both the customer and the transporter decided to make the aforementioned information public.

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REPRESENTATIVE SEATON inquired as to whether there is a listing of Denali's conditions precedent, especially those that would involve the state and its relationship with the pipeline or the producers.

MR. FACKRELL stated that the main conditions precedent have been discussed. The conditions precedent relative to the state and resource base is anticipated to be from the shipper/customer

side. From Denali's side the aforementioned isn't a condition precedent that it lists. He offered to provide the committees with a list of the conditions precedent, which will definitely be laid out when the open season package is submitted.

REPRESENTATIVE SEATON remarked that it would be helpful to have a listing of the conditions precedent. He then asked whether there is any other conditions precedent besides the 20-year term, the rate portion, and obtaining approval from the owners that would impact the state's relationship with the producers of the pipeline.

MR. JEPSEN offered to provide the committees with the precedent agreement, which lists them. Most of Denali's conditions precedent don't relate to Denali's relationship with the state. As mentioned earlier, the issues that would relate to the state are shipper/customer issues not transporter issues. He informed the committees that Denali won't start construction of the pipeline until a CPCN is obtained [in Alaska and Canada] and the right of eminent domain through Canada to build a pipeline is obtained.

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MR. FACKRELL, referring to slide 32, related that there are seven key elements for a successful project. First, the cost has to be understood and managed as well as the execution plan. Although Denali believes it has the aforementioned under control, it recognizes that it's a dynamic situation. Second, there must be a defined regulatory process. He said that Denali understands the regulatory process in the U.S. as well as in Canada. Third, there must be commercial agreements with customers. He characterized the agreements as creative and distinctive. Fourth, there must be resolution of stakeholder issues on the pipeline route. The aforementioned, he noted, is still in process. Fifth, there must be attractive financing, which will most likely require the use of a multitude of [financial] instruments. In order to accomplish the aforementioned, there need to be agreements and collateral. Sixth, there must be resolution of a series of issues in the State of Alaska, including resource uncertainty. He noted that Point Thomson remains in litigation, and thus the concern is what shippers will do in terms of nominating Point Thomson. Denali encourages the parties' to resolve the issue because at this point, it seems that Denali's open season will be heavily conditioned on that item, which is outside the realm of the pipeline company itself. Another issue that needs to be

resolved is the fiscal regime for gas in the state. He said that Denali anticipates that there will be a condition precedent in that regard. Seventh, there must be a natural gas market. At this point, what's known is that there's a very volatile gas market in North America. Furthermore, since the project started two years ago, shale gas has entered the scene. Therefore, an Alaska pipeline will have to compete with other sources of gas, which means that [Alaska] will have to have the lowest tariff possible, manage the costs, and compete with other sources of gas. Resolving the aforementioned issues will be extremely important to building the pipeline. As a pipeline company, Denali has worked on those issues over which it has influence and control.

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MR. FACKRELL, referring to slide 33, summarized by reminding the committees that Denali's open season plan was approved by FERC and is scheduled to start July 6, 2010. Furthermore, Denali believes it has a high quality cost estimate that will provide shippers confidence in the cost of the project and its execution plan. Denali also believes that it has some attractive commercial terms that are distinctive as well as the great risks that exist on the project. The open season results should signal the market's assessment of Alaska's North Slope gas competitiveness. Although the hope has been that at this point the issues with Point Thomson and the gas fiscal regime would be resolved, he acknowledged that most likely going into the open season those issues will remain. Therefore, the next steps for Denali will be to evaluate the open season. Since this is a market driven project, the customer will dictate what Denali does after the open season. At this point, all the technical work for the project has been completed and thus the focus now is on commercial arrangements and the open season in order to determine what shippers will do next.

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CO-CHAIR JOHNSON posed a situation in which say a legislator in Louisiana agrees to increased loan guarantees if the modules are built in Louisiana. He asked if FERC has any allowance for that type of increased cost to not be included in the tariff. He asked if FERC would allow Alaska not to take the aforementioned into consideration in terms of the tariff. Since the state can't seek the lowest bidder, will the state have to pay the price for that, he asked.

MR. FACKRELL said that he was unsure as to whether he could answer that. He explained his understanding that a pipeline company must justify its tariff and the associated cost. [Denali] can't forecast what other parties will do relative to loan guarantees. He related that Denali has tried to assess the market. At this point, Denali doesn't know whether it's cheaper to build the pipeline in Louisiana as opposed to Korea. However, Denali believes that physically the pipeline can be built in the Gulf coast. Therefore, it's being used as the base case. He suggested that the question be directed to FERC.

3:30:53 PM

CO-CHAIR NEUMAN asked what the state can do to assist in ensuring as many jobs as possible stay in Alaska.

MR. FACKRELL specified that one of the best things is to understand the execution schedule in order to get ahead of it, which is commonly referred to as front-end loading. Front-end loading can be done in terms of the workforce. Furthermore, there needs to be a clear understanding of where the jobs will be in order to manage expectations. For example, the GTP modules can't be built in Alaska because the state doesn't have the fabrication yards to do so. However, the compressor stations and the modules associated with it can be built in Alaska, which is why Denali focused on those. The other portion of the workforce that will be in Alaska is the construction jobs associated with the pipeline itself. Now that Denali has an execution plan, the numbers can be better detailed.

CO-CHAIR NEUMAN remarked that he wanted to ensure that Alaska has the highest opportunity possible to ensure that [the aforementioned jobs] go to Alaskan companies.

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REPRESENTATIVE P. WILSON inquired as to the degree Denali has met with the Department of Labor & Workforce Development (DLWD). She further inquired as to whether there is anything that the legislature needs to change in relation to the training offered in the state.

MR. FACKRELL related that Denali has had extensive discussions with Commissioner Click, DLWD, and has met with most of the labor union representatives. He said that it's important to keep up to date and for folks to understand where the jobs are. As mentioned earlier, Denali has an execution plan that details

the crafts that will be used and when they will be used. Therefore, Denali is in a good position in terms of what jobs will be necessary and when they'll be necessary. The aforementioned helps DLWD dictate the training. However, the current question is regarding when the training should begin.

3:37:01 PM

CO-CHAIR NEUMAN asked if the Denali project would have an open bidding process or project labor agreements.

MR. FACKRELL replied that the project will require as many laborers as can be found and there will be multiple project labor agreements for this project.

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CO-CHAIR JOHNSON related his understanding that there will be only one pipeline. He then asked if there are any conversations ongoing between TransCanada, Denali, and Exxon.

MR. FACKRELL said it's clear that there isn't enough gas for two pipelines, and thus there will only be one pipeline. The state is in a dilemma because TransCanada is an AGIA licensee, which the state is paying. Furthermore, there are terms and conditions the state must honor. The owners of Denali, BP and ConocoPhillips, don't agree with the terms and conditions of AGIA, nor does ExxonMobil as it has not signed. Therefore, it's problematic for the two projects to come together and form one project. Mr. Fackrell emphasized that the state needs to resolve and unravel the issues that exist in AGIA in order to move forward. "It's compounded now from where it was two years ago. We have a extremely competitive gas market in North America, it's been depressed, demand is down. Alaska needs to get all parties together so that we can compete in that market. But there are issues ... that are outside of Denali's control to resolve," he related.

CO-CHAIR JOHNSON asked if AGIA is standing in the way of the construction of this pipeline.

MR. FACKRELL opined that some of the terms and conditions of AGIA are standing in the way of the construction of the pipeline.

3:40:30 PM

REPRESENTATIVE GATTO highlighted that TransCanada has indicated that it holds lots, if not all of the First Nations' permits from the Crown 40 years ago. TransCanada has also indicated that the aforementioned permits would be impossible to obtain now. He asked if those statements are true.

MR. FACKRELL said he has talked with the high level industry folks in Canada, including the Minister of Energy, the head of the EPA in Canada, and the chairman of the NEB. Canada has an open process for building a pipeline and there is no exclusive right for any party to build a pipeline in Canada. Under NPA, TransCanada has that right [to build a pipeline]. However, there's a parallel process through NEB for the construction of any project. In fact, the Department of Natural Resources (DNR) has established a special office for Denali, Major Projects Management Office, and NPA reports to a department such as DNR. Therefore, the process is present for both projects to move forward. Denali has had extensive conversations with stakeholders, including aboriginal groups along the pipeline route, some of who say that no one has a right to cross their land. Furthermore, some of the land is unsettled land claims, which means that it hasn't been resolved with the Crown or anyone else. Mr. Fackrell opined that he has taken away the understanding that there is no exclusive right to build a pipeline in Canada and Denali's process is just as valid as the competition's process. Furthermore, there are issues that both projects need to resolve in order to move the project forward in Canada.

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CO-CHAIR NEUMAN questioned what it will take to bring this all together because the problem can't be solved until the problem is known. He further questioned whether Denali is willing to talk to legislators in private or public regarding the issues needing resolution for this project to move forward.

MR. FACKRELL said that he isn't hesitant to talk about it publically because the issues are known. Furthermore, open season will clearly relate what the conditions precedent are on the shipper's side, in the event the shipper decides to sign a precedent agreement. If the shipper decides not to sign the precedent agreement, even larger issues would be indicated.

3:44:44 PM

CO-CHAIR JOHNSON said that at some point this problem will have to be addressed and hopefully it will be with the [legislators]. If the [legislators] don't know the problems, they can't be fixed. Therefore, he said the sooner the [problematic] conditions are known, the sooner the legislature can address the problems. The aforementioned is in relation to the confidentiality clause FERC uses as a protection. He noted that if the aforementioned requires signing confidentiality agreements, so be it as that's occurred in the past.

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CO-CHAIR JOHNSON related his intention to ask either the Legislative Budget and Audit Committee or the Legislative Council to have an independent analysis of the two open seasons in order to have a side-by-side comparison.

3:46:17 PM

ADJOURNMENT

There being no further business before the committees, the joint meeting of the House and Senate Resources Standing Committees was adjourned at 3:46 p.m.