

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

January 27, 2009

1:11 PM

MEMBERS PRESENT

Senator Lesil McGuire, Co-Chair - via teleconference
Senator Bill Wielechowski, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Hollis French - via teleconference
Senator Bert Stedman
Senator Gary Stevens

MEMBERS ABSENT

Senator Thomas Wagoner

OTHER LEGISLATORS PRESENT

Senator Gene Therriault
Senator Joe Thomas

COMMITTEE CALENDAR

Update on Natural Gas Pipeline
Presentation by Tony Palmer, Vice President, Alaska Development,
TransCanada
Presentation by Bud Fackrell, President, Denali - The Alaska Gas
Pipeline LLC

PREVIOUS COMMITTEE ACTION

No previous action to consider

WITNESS REGISTER

TONY PALMER, Vice President
Alaska Development, TransCanada

POSITION STATEMENT: Presented TransCanada's gasoline update.

BUD FACKRELL, President
Denali - The Alaska Gas Pipeline LLC

POSITION STATEMENT: Presented Denali's gasoline update.

SENATOR GENE THERRIAULT
State Capitol

Juneau, AK

POSITION STATEMENT: Asked questions on gasline update.

ACTION NARRATIVE

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CO-CHAIR BILL WIELECHOWSKI called the Senate Resources Standing Committee meeting to order at 1:11:59 p.m. Present at the call to order were Senators Huggins and Wielechowski. Senators McGuire and French were on teleconference.

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TransCanada update

TONY PALMER, Vice President, Alaska Development, TransCanada (TC) Corporation, showed a slide of the project and what a gas pipeline right-of-way looks like. The pipe is buried four feet deep and vegetation is allowed to grow back on top of it. He said TC has done the work to be able to include the potential for both instate bullet lines in 18 months.

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Slide 3 focused on the elements of a successful project for TransCanada. He said while the project's economics have to be good that gas prices are volatile and difficult to forecast. So, that is not their focus; rather it is on the competition from various sources of natural gas - conventional Lower 48 and WCSB (Western Canadian Sedimentary Basin), global LNG, shale and coalbed methane. They all compete for market share. Shale gas has made significant progress over the last few years. Some of those basins look very prospective at gas prices around \$6-7; others are unknown.

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CO-CHAIR WIELECHOWSKI asked if the large shale gas finds in Texas and the northeast Atlantic Coast impact this gasline.

MR. PALMER replied that it's too early to say. The Texas fields have had positive results, but the other fields are still being proven up. Also, this project is still 9.5 years away. This project will have to compete with conventional gas and LNG. Alaskan gas will compete with all other sources of gas. The focus of this project is to drive forward by maintaining costs at a low level and maintaining the schedule - both things they have control over. He said if the capital cost is higher by \$1 billion that means \$.10 is added onto the toll each day for 25

years; that toll would amount to \$160 million/year - for customers and government. Their current toll estimate prepared in fall/2007 is \$2.76 from Prudhoe Bay to the Alberta Hub. They think it is critical to keep the toll under \$3. Even at today's low prices, producers and government have a modest margin under \$3.

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Slide 4 indicated that this project needs the support of governments and communities, and they need commercial contracts with shippers as well. He related that TC has had discussions since August with potential customers who want delivery in Alaska, in Alberta on the way to the Lower 48 and to Asia. These discussions are ongoing; however he can't reveal who TC is speaking to and what the nature of the discussions are until they have a deal. That would normally come about at the end of the open season.

He showed a pipeline right-of-way on the same slide that had revegetated. He restated that TC is a proven project developer with a 50-year successful track record.

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Slide 6 showed TC's project schedule, which is the same that he presented to the Legislature all through last summer. The only change is that they had hoped the license would be issued in August of 2008 and the actual date was December 5. Their target date of July 31, 2010 to conclude the open season is unchanged and they see nothing that would change that.

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SENATOR STEDMAN joined the committee.

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Slide 7 showed TC's key objectives through the open season phase with the legislative phase concluded. They now want to develop a Class IV cost estimate, a higher quality one than they put before them in the AGIA process, and that should take one year. They would then go to the open season phase.

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The project status for August 2008 - January 2009 is to develop detailed plans for technology development, engineering, construction infrastructure, logistics and cost estimating.

MR. PALMER said they need to identify the specific pipeline roading in Alaska and have already done that in Canada. They also need to execute the preliminary environmental activities.

He next walked them through an update the Legislature had requested on what specific things they had concluded since August and what they propose to do in the next two quarters.

MR. PALMER explained that after legislative approval of the project under AGIA in early August, they knew that in order to maintain the target schedule they could not wait until the issuance of the license. So, they spent their own money in the period between August and December 5 to try to maintain that schedule.

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MR. PALMER said aerial photography for Alaska was completed to the Canadian border and to Valdez using a camera mounted on the bottom of a helicopter that can take 360 degree video. It is used for design so that if individual engineers want to examine a particular location, they can stop the camera and turn it on their individual computers. This will be done along the Alaska route once it has been specified.

They plan to do the winter geotechnical field program with a small two-man drill and to collect frost heave information as well. For the remainder of the next two quarters they will complete the terrain mapping, do the winter geotechnical field program in Alaska, continue route reconnaissance and do a pre-FEED for the gas treatment plant (GTP). However, he pointed out that owning the gas treatment plant is still not their preference, but since no one else is doing it, they need to do the work to continue to maintain the schedule.

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On the environmental front, Mr. Palmer said, they have established a global information system that supports environmental planning and permitting. They have completed the preliminary restraints report for the Alaska routing and have completed the initial route update in Canada. They will complete the environmental information needs analysis and commence the development of an RFP for TC's environmental contractor (for the next phase) in the next two quarters. That will go out in the third quarter of this year.

Slide 9 showed a picture of an open cut river crossing which they do many of every year. You can see fish swimming on either

side of the river during the cut, he explained, and then after it's closed they can swim north and south again.

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Regulatory and permitting strategy has been done for both Alaska and Canada, he reported; and all permit applications have been submitted to support the winter geotechnical program to the borough, state and federal agencies. The permitting needs to be done by March for the geotechnical work.

They are continuing FERC discussions and will commence discussions with individual agencies about the environmental needs analysis. He met with Drue Pearce's office that coordinated a meeting with all the federal agencies on January 6; then they came to Anchorage and Fairbanks with follow up discussions with federal and state agencies either in person or on the phone. So those people know exactly what TC intends to do for the next two years.

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On the commercial side, Mr. Palmer said, they have had discussions and this spring they will have to select a contractor for the instate gas study and continue developing plans for the open season. Slide 12 showed a picture of a compressor station and Mr. Palmer said there would be six of them to the Lower 48 or one every 120 miles. The station's footprint is 1000 x 1000 ft.

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SENATOR THERRIAULT said it appears that about a third of the land doesn't have any structures on it and asked if they are required by regulations to have that as a buffer.

MR. PALMER replied he didn't think so. This area would be fenced and they look to provide for future development in the need of another compression station.

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Slide 13 on the administrative front indicated TC leased an Anchorage office space and that they already had dedicated office space in Calgary. He explained that TC is running this project on an integrated basis and has a very small dedicated staff that works on a part time basis only, charging into the project for the hours they are actually working.

In terms of the reimbursement, because TC received the license on December 5, it will not be submitting its first invoice to

the state until the end of the first quarter. It will cover the first three months of this year plus the 26 days in December. They had to execute reimbursement agreements with the BLM agencies and the state to do the geotechnical and other field activities.

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SENATOR THERRIAULT said blogs indicate a misperception that the state just wrote TC a check for \$500 million. But in fact, Mr. Palmer just said the company decided to do work before the license was actually issued that won't be reimbursable and the \$30 million the legislature appropriated last year hadn't been totally reviewed yet and they haven't been reimburse for anything yet. So clearly the state is not giving them a pile of cash; it is only paying for its portion of the work as it is done. No profit accrues to his company under that mechanism.

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MR. PALMER agreed. He emphatically stated that TC has not received a penny from the state to this date and it will only get 50 percent reimbursement on its expenditures after appropriate audit and review by the state.

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SENATOR THERRIAULT asked if anything allows TC to make a profit from the reimbursement agreement.

MR. PALMER replied no. He added that he is in the process of hiring an office manager.

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SENATOR HUGGINS asked what size staff would be in his Anchorage office.

MR. PALMER replied one full-time person as early as next week and then as needed.

SENATOR HUGGINS agreed that some people are skeptical of the \$500 million reimbursement and asked how much he anticipated being reimbursed by the state in 2009.

MR. PALMER replied \$84 million through the open season; the state's reimbursement would be \$42 million.

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SENATOR HUGGINS emphasized that the reimbursement was for 50 percent before open season and 90 percent after open season.

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MR. PALMER agreed. He explained that even though they will have only a single full-time individual in the Anchorage office, they had retained a number of Alaskan contractors for this project to date.

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He summarized the update saying the legislative phase had been completed; the license has been approved and there will be an open season. They have retained Alaskan contractors and have an Alaskan office in place. Keeping tolls under \$3 would be an imperative and they would have a new cost estimate for the legislature in 12 months.

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SENATOR FRENCH said he was pleased to see him emphasize the date.

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SENATOR THERRIAULT said he had been frustrated with TC's lack of communication a few times, but he now realizes that is how the company works. He asked what other things it was doing to keep costs under control.

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MR. PALMER replied that they have just one person in the Anchorage office and while significant numbers of Alaskans have worked on the project, they are paid only for the hours that they work on it. TC's record of maintaining low costs in constructing large diameter pipelines indicate they run 25-30 percent cheaper than any other pipeline company. Regulatory matters, land and these types of things are what drive costs up.

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CO-CHAIR WIELECHOWSKI asked if the shale plays in the Lower 48 will have an impact on TC's open season.

MR. PALMER replied the shale plays have proved to be very prolific, but in a high priced gas environment. They are now in a low price environment and at \$4.50 you can't make much profit.

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CO-CHAIR WIELECHOWSKI asked if he had met with the new presidential administration and if it supported this gas pipeline.

MR. PALMER replied he had not yet met with the new US administration, but he expected they would when it was up and running. He was pleased that the TC project was on the transition website as a green project.

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CO-CHAIR WIELECHOWSKI asked if the state should reform its gas taxes to have a successful open season.

MR. PALMER responded that he wouldn't ever comment on that subject; rather he would be an interested observer.

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SENATOR THERRIAULT said some press said the Canadian government was concerned about the Mackenzie project getting shut in if the Alaska project went first. And he asked what assurance they have that Canada will not play games in the regulatory process.

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MR. PALMER replied the government of Canada has supported both projects for a long time. In fact, Canada and the US have a treaty specifically for this project. Under that treaty, the governor of Canada has committed to expedite this project for the benefit of both countries. It has a single-window regulatory agency specifically for this project that was passed under a specific piece of legislation. It has been used over the past 30 years to develop that project. More than a quarter of the Alaska pipeline in Canada is in the ground and has been operational since 1981. The governor of Canada is doing what is necessary to reactivate that agency.

He noted that TC is different from any other project proposal in that it already holds an NEB certificate for it. He has seen no reservations on behalf of the Canadian government officials to shirk its commitments; just the opposite.

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SENATOR THERRIAULT asked if they had done the work to include the line from Delta to Valdez in the open season in case the market would be there. Also he wanted to know if anyone had expressed interest in taking gas at tide water.

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MR. PALMER replied yes; they had started the work for the engineering, environmental and right-of-way there. And yes they had talked to parties who would have the full opportunity to commit their gas either to Fairbanks, Valdez, Alberta and other

locations in Alaska. This work is being done parallel with the Lower 48 line through Alberta. The reason the Valdez route is dotted on the map is that they didn't know if it would be completed.

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SENATOR STEVENS joined the committee.

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CO-CHAIR WIELECHOWSKI thanked him for his presentation and called an at-ease.

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CO-CHAIR WIELECHOWSKI called the meeting back to order and recognized some people from Fairbanks. He then announced the Denali Gasline update.

Denali Update

BUD FACKRELL, President, Denali Gas Pipeline, said Denali is on track for success and their timelines had been met so far. Their first major milestone is conducting an open season that starts in 2010 and they are preparing a quality cost estimate for that. The last estimate was completed in 2002. A lot has changed since then.

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MR. FACKRELL said the economy had not changed their focus and he intended to give them an update to his July presentation. In 2008, Denali will have spent \$55 million, what he called "risk money" from their two owners.

They formed a project team (slide 4). The executive team averages around 25 years of experience per person and have deep Alaska, Arctic and international experience. About 100 other people are working on this project full time. That number will increase as they move forward with the project. They have already filed a right-of-way on federal BLM lands; in addition they have received approval from FERC on their pre-filing.

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MR. FACKRELL said Denali had opened up its Canadian office in Calgary and its Anchorage headquarters where it has a multi-year lease on three full floors of a Northern Lights office building.

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Denali has had a series of outreach meetings in both Alaska and Canada. They have established a program with the University of

Alaska Fairbanks to work with training Alaskans to work on the project. They are a member of the Department of Labor and Workforce Development (DOLWD) workforce development team.

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MR. FACKRELL reported that the summer field program was very successful. They had an outstanding safety record with no loss-time injuries or recordable injuries. They opened an office in Tok focusing on surveying the 200-mile corridor between Delta Junction and the Canadian border and 200 miles of wetlands; they investigated 70 archeological sites and now have to decide if they will excavate those sites or move the pipeline route around them. They have shot over 1700 miles of ortho-photography from a fixed-wing aircraft - virtually the entire route into Alberta. They have also shot 730 miles of immersive video on the Alaska portion. They investigated over 538 potential stream/river crossings, performed route reconnaissance critical to the design of this pipeline. They identified a number of contaminated sites along the route - old military diesel dumps. Over 80 people were in the field in the summer.

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He showed a clip of the Yukon River Bridge using 360 degree video technology that would save millions in design costs. He listed teams he had met with and said the Canadian National Energy Board (NEB) process is alive and well and that he couldn't see any roadblocks at all.

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In 2009, Mr. Fackrell said they are going to tripling their investment and go beyond just field programs. They will award the preliminary engineering contract for the gas treatment plant and a contract for the preliminary engineering design on the pipeline itself both in Alaska and Canada. They will have an ongoing engagement with the federal agencies and continue field work in Alaska and workforce development. They will start field work in Canada to the Alberta mainline. They already have had significant engagement with the First Nation and aboriginal groups already, and noted that the First Nation groups that seem to be the hindrance in the Mackenzie project. They will also engage with the Native groups in Alaska and already have a close relationship with some of them. Finally, they need to do an instate gas study, which will be concluded in 2009.

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MR. FACKRELL emphasized that this project is an engine for development for Alaska - because it's an open-access pipeline.

The pipe will have access points and once it is in place, it will spur exploration up and down its route. The industry that takes place on the back of this pipeline will spur more exploration.

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In conclusion, he said, Denali has a good foundation to deliver; it has decades of Alaskan and Canadian experience along with proven worldwide technical capabilities. The "majors" are often called upon to build basin-opening, large-scale difficult projects around the world. Their plan is to triple their \$55 million investment in 2009 and to conduct an open season in 2010.

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SENATOR HUGGINS went to slide 12 and asked him to elaborate on the instate gas study.

MR. FACKRELL replied before shipping gas outside the state, FERC requires them to do an instate gas needs study. They would contract with a third party to do that. Their focus is on building the big pipe, but they will work with anyone else who has a project instate.

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SENATOR STEDMAN asked him to comment on the current price of gas relative to a potential tariff and how are they dealing with the cost of commodities.

MR. FACKRELL replied that economic conditions are uncertain now making the project risky and the shippers have to bear those risks. The price will go up and down during the 10 years of the project.

SENATOR STEDMAN said he also wanted his comments on impacts of shale gas on the project or its open season.

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CO-CHAIR WIELECHOWSKI echoed that question adding to it whether the shell plays or the LNG imports have a significant impact on the open season in 2010.

MR. FACKRELL replied that shale gas in the past two years has occupied a large percentage of Lower 48 supply. What will happen in the future with shale gas is a big question. Even though it has been a cold winter, the economic crisis has caused demand to shrink. Forecasts are often wrong. Denali is pushing to get to

an open season by controlling the things they can control. One of those things is having a real quality cost estimate so that shippers know it's valid. Fundamentally, they think the project still has a place in supply/demand in the Lower 48 markets.

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SENATOR STEDMAN asked if Denali anticipated having to import any or much of the work force and when would he expect that the Alaskan workforce would be ready to meet the demands of his project.

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MR. FACKRELL replied up to this point Denali's workforce is primarily Alaskan. That would change a bit in 2009 when they will be issuing contracts with big engineering firms, one on the gas treatment plant and one on the gas pipeline. That expertise is not available here and it's standard around the world to use those types of engineering companies. Their program in 2009 will be much broader and deeper than in 2008. He also mentioned that some of the children who had parents who worked on TAPS and are long-term Alaskans work for them now.

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SENATOR THERRIAULT asked if companies were scaling back their commitment on capital this year because of the low gas price. Would that impact this project and do they have corporate commitments for the capital they need to go through this calendar year.

MR. FACKRELL replied that their budget, which has almost tripled from 2008, is already endorsed by their two shareholders, BP and ConocoPhillips. The team feels it is sufficient and puts them in a good position for having a quality cost estimate by the end of the year.

SENATOR THERRIAULT asked if it was any less than was proposed last year.

MR. FACKRELL replied they are on track with the spending they dictated when they opened up their project.

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CO-CHAIR WIELECHOWSKI thanked everyone for their comments and adjourned the meeting at 2:37 PM.

