

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

April 7, 2009

1:59 p.m.

MEMBERS PRESENT

Senator Lesil McGuire, Co-Chair
Senator Bill Wielechowski, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Thomas Wagoner

MEMBERS ABSENT

Senator Hollis French
Senator Bert Stedman
Senator Gary Stevens

COMMITTEE CALENDAR

Overview: Pipeline Updates
HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record.

WITNESS REGISTER

Tony Palmer Vice President
Alaska Development
TransCanada

POSITION STATEMENT: Delivered a presentation on the TransCanada gas pipeline.

Bud Fackrell, President
Denali - The Alaska Gas Pipeline

POSITION STATEMENT: Delivered a presentation on the Denali gas pipeline.

Bill Walker, Project Manager and General Counsel
Alaska Gasline Port Authority

POSITION STATEMENT: Delivered a presentation on the gas pipeline.

ACTION NARRATIVE

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CO-CHAIR LESIL MCGUIRE called the Senate Resources Standing Committee meeting to order at 1:59 p.m. Present at the call to order were Senators Wagoner, French, Wielechowski and McGuire.

PIPELINE UPDATES

CO-CHAIR MCGUIRE announced the business before the committee is to hear an overview on the potential pipeline projects.

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TONY PALMER, Vice President, Alaska Development, TransCanada, said he will briefly address questions that have come up since he last spoke to the body in January.

He displayed a map of North America showing TransCanada 2008 pipeline accomplishments. He highlighted that the first phase of the \$12 billion Keystone Oil Pipeline will be completed in a year. It will move more than 1 million barrels of Canadian oil into Patoka Illinois, Cushing Oklahoma and ultimately to Houston, Texas by 2012. Second, they have a 42 inch construction project through the North Central Corridor (NCC) running from northwestern Alberta to northeastern Alberta. Federal jurisdiction has been approved for the Alberta facilities and will improve the chance to achieve the Fort Nelson option that he described last year. Finally, TransCanada has two northeast shale gas plays. Horn River is on the Alberta BC border just south of 60° N latitude and Groundbirch is just south of Boundary Lake in the Montney shale gas play. Together, TransCanada has executed shipper contracts with customers for 1.5 bcf/d of new shale gas by 2014. He noted that it sounds impressive but in the last two years conventional gas in western Canada has decreased by 1 bcf/d and is expected to further decrease by another 1 bcf/d in the next two years. At present in western Canada, shale gas is offsetting the decline in conventional gas.

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MR. PALMER displayed a slide showing the TransCanada Alaska Pipeline Project. Two alternatives will be offered in the initial open season. One is for customers that want to serve the Lower 48 by going through the Alberta Hub and the other is to go to Valdez and deliver gas to either Lower 48 or Asian markets.

MR. PALMER displayed a slide of the elements of a successful project and highlighted that cost and schedule are critical to the success of a project. TransCanada is very focused on keeping the costs under \$3/MMBtu. While TransCanada cannot control gas

prices or what other players in the marketplace will do, they do have some measure of control over capital costs. He added that TransCanada has had discussions with potential shippers within Alaska, to Asia and the Lower 48 through Valdez, and to the Lower 48 through the Alberta Hub.

MR. PALMER said that since November 2008 TransCanada has raised \$5.5 billion Canadian, \$4.4 billion U.S., at competitive rates in an uncertain market. It has secured 10 year money at just over 7 percent, 30 year money at 7.625 percent, and has raised common equity through a public offering. This access to the capital markets is unparalleled for pipelines in North America. Addressing those who question whether the project can be financed, he pointed out that the project will have access to the \$18 billion U.S. federal loan guarantee. Project financing will occur five years out when markets are likely to be less turbulent.

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SENATOR FRENCH said he read a Bloomberg article about efforts by Shell Oil and BP to renegotiate with their support companies for a 20 percent to 40 percent reduction in the costs of their contracts and services going forward. Their justification was the economic climate and the price of raw materials like steel. He asked if TransCanada is undertaking a similar effort as it works up cost estimates.

MR. PALMER replied they aren't at the stage where they have to renegotiate contracts. They won't purchase pipe for about five years, assuming that the project moves forward. As TransCanada develops capital cost estimates over the course of the next 12 months, they will look at what costs are today and project what they will be ultimately. Clearly, prices rose through 2008 and this year they are falling back.

MR. PALMER said that in their AGIA application they forecast that capital costs would be \$26 billion in 2007. In one year that will be updated and the new numbers will be given to customers for the open season. He displayed a bar graph showing pipe prices and highlighted that they skyrocketed after TransCanada prepared their AGIA application in the third quarter of 2007. Prices had fallen somewhat by the third quarter of 2008 when the application was approved and prices today are at about the same level as when TransCanada prepared their application.

CO-CHAIR WIELECHOWSKI asked what percentage of the project steel costs represent.

MR. PALMER replied a reasonable estimate for bare pipe is between 20 and 30 percent.

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MR. PALMER displayed a graph of recent crude oil price forecasts as a proxy for looking at how viable the project might be. He directed attention to 2018, which is the success case for this project, and highlighted that all four consultant's forecasts that were conducted in January 2009 have prices in the \$80 to \$120 range. If those numbers are accurate, that would give a significant netback for an LNG project. He added that he doesn't have all the components of that project so he doesn't have precise numbers.

Recent Alberta Hub gas price forecasts show a steep drop in natural gas prices in the last 12 months. When he testified last summer gas prices were \$10 to \$12 and rising and now they've fallen to less than \$4. However, short term swings in natural gas prices do not determine the viability of this sort of project. Determining factors include the long term forecasts of gas prices and the cost of the project. He noted that the five consultants that prepared forecasts between December 2008 and March 2009 predicted prices in 2018 to be higher than \$8. If that price is maintained and the project costs can be controlled as described, this is a very viable project.

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MR. PALMER said all AGIA applicants used the December 2006 U.S. EIA Alberta Hub gas price forecasts as a common tool so that the state could compare applications. That was the most recent forecast when the applications were submitted in the fall of 2007. He directed attention to a line graph of U.S. EIA Alberta Hub gas price forecasts and pointed out that the fall 2008 EIA forecast is about \$2/MMBtu higher than the EIA forecast used in the AGIA application.

At the time of the AGIA application the U.S. EIA forecast in 2018 was \$6.53/MMBtu, tolls were \$2.76/MMBtu, and the netback was \$3.77/MMBtu. Over 25 years the netback was \$6.89/MMBtu and would have resulted in \$350 billion in revenue for governments and producers to share. If the December 2008 EIA forecast is used the total revenue would increase by one-third to \$475 billion. As of today, the economics of the project have improved relative to the AGIA application.

He advised that the TransCanada website for the Alaska pipeline project has been in place for several months and provides a number of statistics and facts.

MR. PALMER summarized that the AGIA bill passed and the license was subsequently issued on December 5, 2008. TransCanada is aggressively advancing the project. The activities that were outlined in a January 2009 presentation and the schedule have been unaffected by the turbulent financial markets. TransCanada has solid access to the capital markets today. Current gas prices are higher than those used in the application and this upward swing would result in an additional \$125 billion in revenue to producers and governments compared to their application. Projects of this nature rely on long-term economics and do not succeed or fail based on short-term swings in gas prices. This project will be in service in 9.5 years and for 25-50 years beyond that time. Finally, TransCanada will continue to focus on costs, schedules, and attracting customers.

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SENATOR MCGUIRE asked if TransCanada has decided to prefile with the Federal Energy Regulatory Commission (FERC) and for an explanation for their decision.

MR. PALMER said their plan was to follow the traditional model and prefile with the FERC post open season. That being said, they have clearly heard that FERC wants TransCanada to speed up that schedule. Productive discussions are ongoing and he is optimistic they can reach a satisfactory resolution. TransCanada is committed to controlling costs and maintaining schedule and some control of that is handed over to the FERC once you prefile. That is why prefiling traditionally occurs post open season. He again expressed optimism that TransCanada and the FERC will resolve their concerns in a short while.

SENATOR MCGUIRE asked if he has a sense of how things will play out in the open season next spring.

MR. PALMER said they will hold an open season in the spring of next year and conclude it by July 2010. They have had productive discussions with a number of customers, but, as always, the customers are holding their cards close. His experience is that customers look beyond the prices today to when the project will be in service and beyond. The potential customers are sophisticated, but he is optimistic that the open season will be successful. TransCanada will offer customers a competitive project with competitive commercial terms that are already

public information. "TransCanada will do its utmost to have a successful open season and the customers will have to make the decision if they're ready to commit their gas to Valdez, to Alaska, to Alberta and make one of those alternatives a success," Mr. Palmer said.

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SENATOR MCGUIRE asked for an update on the TransCanada strategy in event of an unsuccessful open season.

MR.PALMER said they have obligation under the AGIA license to continue with the necessary work and will continue to shoot for a 2012 application to the FERC. They have also committed to solicit customers at least every two years so that would be 2012 unless they decided to advance it earlier.

With respect to what they would do with potential customers, he explained that they would examine the results of the open season and if there were conditioned bids they would work with the potential customers to resolve the conditions. That is the first step take that TransCanada would take with potential customers.

SENATOR MCGUIRE asked him to explain the process for addressing conditional bids.

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MR.PALMER said it is a negotiation process. For example, TransCanada might receive sufficient bids to a particular destination with the single condition that they change the rate of return by 50 basis points. In that circumstance TransCanada would decide whether or not it would make the change and take a reduction in return in order to have a successful open season. Sometimes the condition(s) aren't in TransCanada's control to negotiate; they are simply able to identify the condition(s) to the party or parties that have control to negotiate. "That's often what happens over the course of one to six months after an open season," he said.

SENATOR MCGUIRE observed one such condition might be the tax rates on natural gas.

MR. PALMER agreed that certain parties might have that as a condition.

CO-CHAIR MCGUIRE asked him to talk about the jobs that have been created vis-à-vis TransCanada in Alaska.

MR. PALMER reminded the committee that in the application TransCanada said it expected all of its employees to be Calgary-based prior to open season. However, TransCanada has opened a small Alaska office and there have been 42 jobs through the contractors in the last several months. Some were temporary, which is expected at this phase of the project. He highlighted that TransCanada has not yet submitted a bill, but very shortly it will submit the first invoice for reimbursement from December 5, 2008 through March, 2009.

SENATOR MCGUIRE asked if he wants to state for the record what that might total.

MR. PALMER said he understands that it will include about \$2 million in qualified expenditures. If they are accepted TransCanada will be reimbursed for half that amount.

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SENATOR HUGGINS joined the meeting.

SENATOR MCGUIRE asked his perspective on the MacKenzie Delta gas line and if it will impact completion of the Alaska line. Her information indicates that it will be approved in December this year and that there is a mandate for it to go forward ahead of the Alaska line.

MR. PALMER said the MacKenzie project started six years ago and the joint review panel is expected, but not obligated, to complete its final report and decision in December. The National Energy Board will then use that information and issue its final decision sometime in 2010. He understands that the project proponents and the government of Canada have discussed fiscal terms, but he has not been privy to those discussions. However, the government of Canada recently announced it has made an offer to the participants. That project has stated it can be in service by 2014 and it that's correct TransCanada's Alaska project won't be affected. If the MacKenzie project slips by three or four years, there is the potential for piggybacking. That being said, TransCanada strongly supports both projects. They have been and will continue to be on independent tracks and TransCanada will continue to push forward on both whenever it can reach a commercial or regulatory breakthrough.

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SENATOR MCGUIRE asked what specific elements would impact the Alaska line if the MacKenzie project slips three or four years.

MR. PALMER said TransCanada will potentially have a three percent to five percent interest in the MacKenzie project so that impact would be small. However, if the two projects are piggybacked the cost impact could be substantial and could increase the cost of both projects. He noted that recently there have been many Lower 48 projects that have gone forward simultaneously and the industry has managed, but costs have been higher.

CO-CHAIR WIELECHOWSKI asked if he has current cost estimates for the project.

MR. PALMER replied he doesn't expect to have an update from what was filed in the AGIA application until a year from now.

CO-CHAIR WIELECHOWSKI asked if he can talk about the political landscape, conversations he's had with the Obama administration, and impacts of the proposed cap and trade legislation might have on the pipeline.

MR. PALMER said TransCanada has not spoken directly to President Obama about the project, but they are pleased that it is a high priority for his administration. They spoke briefly with his staff about a month ago, before they had formulated how they might proceed. As Senator Begich said today, cap and trade or other climate change legislation should be positive for this project and gas in general as a bridge to renewable energy.

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CO-CHAIR WIELECHOWSKI observed that some people say that shale gas and LNG are possible detriments to the Alaska line while others say they're a bridge. He asked his thoughts on that.

MR. PALMER said in order for parties to present price forecasts like he showed today they must consider all of the sources of supply and demand. As recently as last month, parties were still projecting a positive outcome for this project in 10 years time with gas prices greater than \$8. Obviously, gas price forecasts do change, but TransCanada is optimistic that neither LNG nor shale gas will take Alaska gas out of the market. If costs are kept under \$3, Alaska gas competes very well with LNG, shale, and conventional gas sources into 2018.

CO-CHAIR WIELECHOWSKI asked if he's thought about whether or not the terms of AGIA would allow the parties that submitted conditioned bids to receive preferential tax treatment under AGIA.

MR.PALMER replied he hasn't, but he imagines that would be the case if their conditions are resolved. He added that he isn't qualified to give a legal view.

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CO-CHAIR WIELECHOWSKI recalled that under the conditions of AGIA the preferential tax treatment extends through open season. If someone submitted a conditioned bid on the last day of the open season and negotiations occur after that, as you suggested, it's something to think about, he said

MR.PALMER said he will ask his legal advisors to look at that.

SENATOR WAGONER asked the wellhead price of the shale gas plays at Horn River and Groundbirch.

MR.PALMER replied they will receive a wellhead price at the Alberta Hub minus the cost of transportation from the well head to the Alberta Hub. He can't say what the gas prices will be in 2011 through 2014, but the transportation costs will be significantly less than for the Alaska gas because it's closer to the Alberta Hub. The tolls within Alberta are about \$.35 Canadian and the transportation costs into the Alberta system from Horn River or Groundbirch will probably be under \$1.

SENATOR WAGONER asked if they have started producing the shale gas.

MR.PALMER replied modest amounts of gas are being produced today and that will increase to significant volumes in 2011 and through 2014.

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CO-CHAIR MCGUIRE announced the committee would next hear an update on the Denali project.

BUD FACKRELL, President, said Denali is on schedule to conduct an open season in 2010. The existing economic conditions haven't their view on that, but it's clear that the project has to be economic and it has to compete with supply sources in the Lower 48, including shale gas. It's also clear that the current administration views Alaska gas as a keystone of its energy policy. He said that Denali sees Alaska gas as having space in the Lower 48 supply and demand scenario if it's economic. Their current focus is on the open season, but they realize that it's

important to only spend what is necessary to move the project through that open season.

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MR. FACKRELL displayed a map of the Denali project and pointed out two options. The main pipeline follows TAPS and the Alaska/Canadian highway into the existing Alberta infrastructure with the existing tariffs. The gas can either go into the existing Alberta infrastructure with the existing tariffs or it can go into new pipe down into the Lower 48. Whether the new pipe is built or whether the gas goes into the existing infrastructure will be dictated by the shippers. Another important point is that they are talking about 4 bcf/d of gas, which is 6 percent to 8 percent of demand today. By any measure it's a significant project, he said.

Turning to a slide on terms of service, he said it's time to lay to rest the assertion that Denali is not an open access pipeline. That's not true and would be against the law. FERC has very clearly stated that "People have open access to the pipeline, not just the producers." Denali wants as many customers as it can and is committed to solicit expansions every two years. The terms include distance sensitive transportation among other things, he said.

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SENATOR MCGUIRE clarified that he's referring to the 2005 FERC order that sets up the law.

MR. FACKRELL said yes; the Alaska Natural Gas Pipeline Act of 2004 dictated that and the FERC subsequently wrote the rules.

He explained that in Canada there are two regulatory frameworks and Denali will be using the National Energy Board Act. That is the modern legislation that is open to any project proponent. In the U.S. FERC is responsible for authorizing the project. AGIA is not an exclusive license to build a pipeline and Denali is moving forward without AGIA.

MR. FACKRELL outlined the following progress and key accomplishments:

- The Denali project team has been mobilized and 90 to 100 people are in the core team; 80 percent are based in Alaska. Contract services will come and go as needed.
- They have established headquarters in Anchorage and in Canada.

- They went through the pre-filed process on the advice of FERC and it's been beneficial. They have submitted resource reports and will engage an environmental contractor.
- They have filed for right-of-way on federal lands in Alaska so that the Bureau of Land Management (BLM) can work with Denali on requests for field work.
- The summer 2008 field program was successful. It focused primarily on the Delta Junction to the Canadian border, but there was field work other than that as well. They currently have a large magnitude database.
- Community outreach meetings have been held in Alaska and Canada and will continue.
- Denali is proud of the archeology technician program it has established with UAF.
- They have been engaged with the Alaska DOT workforce development task force.
- They have met with many regulators in Alaska, the U.S. and Canada to understand what is expected on the project and making sure that people are clear on what Denali is doing.
- Denali has awarded two multi-million dollar contracts for the gas treatment plant and pipeline preliminary engineering. The first is a joint venture with Fluor and WorleyParsons to build the gas treatment plant. These engineering firms have previously designed and developed a significant number of facilities on the North Slope, which will work to Denali's advantage. The second contract is with Bechtel who will supplement the engineering on the pipeline itself.

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MR. FACKRELL highlighted some of the summer 2008 field work.

- Surveyed over 200 miles of wetlands.
- Investigated 70 archeological sites.
- Shot over 1,700 miles of orthophotos [aerial photos that are geometrically corrected so that the scale is uniform].
- Shot 730 miles of immersive video [spherical view].
- At one point, as many as 80 people worked in the field.
- 80-100 people did engineering work in the office focusing particularly on cost estimates and schedules.

A subsequent slide depicted 35 different logos of companies Denali hired on a project basis.

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MR. FACKRELL said the 2009 program will focus on costs and schedule in order to conduct a successful open season. He highlighted the following important points:

- The broader program will build on the data from the producers' 2001-2002 \$125 million 18 month cost estimate.
- Fluor and WorleyParsons was awarded the gas treatment plant contract and preliminary engineering is underway.
- Bechtel will work on the pipeline itself, supplemented by Denali employees who already understand the route.
- Work with the Alaska Department of Natural Resources (DNR), Federal Energy Regulatory Commission (FERC), National Energy Board (NEB), and the Office of Federal Coordinator (OFC).
- Continuing to meet the FERC pre-filing requirements including engaging the FERC third-party contractor.
- Work with the Alaska Department of Transportation and Public Facilities (DOTPF) on infrastructure will continue. Before construction on the project starts, roads, bridges, and ports in the state require upgrading. The pipe for this project is twice as thick as TAPS. Pipeline projects are about logistics - moving people, equipment, and goods and services at the right time.
- The Canadian field program is underway.
- The field program in Alaska will be minimal in 2009 because a great deal of data has already been collected. It is sufficient to carry through the open season.
- Workforce development programs include: UAF and Tanana Chiefs Conference to train surveyor technicians. This project will need both union and nonunion labor and there will be at least one project labor agreement (PLA).
- Stakeholder engagement in Alaska and Canada will continue to be crucially important. Denali has had extensive interaction with Native groups and that will continue. BP and ConocoPhillips have relationships in Canada and Denali will piggyback on that because that will be a large part of the 2009 program.
- In 2009 commercial work will be progressing to the open season.

He summarized that the 2009 program will focus on costs and schedules, and fulfilling pre-filing requirements, and getting ready for the open season in 2010.

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MR. FACKRELL stated that Denali has unique offerings and is the only project proponent that:

- Has decades of Alaskan and Canadian construction experience and experience building in the Arctic.
- Has the experience to build and operate the gas treatment plant on the North Slope.
- Has followed the FERC advice and prefiled. They plan to follow up with all the requirements.
- Has a significant presence in its Alaska headquarters.
- Is spending its own money to move the project forward even under the current uncertain economic conditions.

Denali is committed to moving the project forward and is focused on the open season and providing the two low shippers a solid cost estimate underpinned with good engineering that is field tested.

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SENATOR MCGUIRE asked if he has a sense of how things will play out in the open season next spring.

MR. FACKRELL expressed hesitation in answering a hypothetical question. Denali is trying to set itself up for success by doing things within its control like getting good cost estimates. That will play well with the shippers. Similarly important is to follow through with the commitment to prefile with the FERC to give people confidence that they are working cooperatively as they move through the process. FERC wants to be involved going forward as they've been given stewardship over this very important project.

SENATOR MCGUIRE asked if, in the event of a successful open season, he sees a role for TransCanada or a merging of the projects.

MR. FACKRELL said the owners have always said they are open to bringing in other project participants that can bring down risk and enhance the project. However, at this point it's problematic to join TransCanada and Denali because TransCanada is an AGIA licensee. It is being paid by the State of Alaska and is operating under a set of obligations. The owners of Denali did not file an AGIA application because they did not believe that process would result in a viable project.

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SENATOR WAGONER asked if Denali has a specific date for the open season.

MR. FACKRELL replied they will begin the open season by the fourth quarter of 2010.

SENATOR WAGONER asked how long the open season will run.

MR. FACKRELL said that is dictated by the FERC, but it's essentially 6 months from the first filing.

SENATOR WAGONER asked where he should direct calls for employment opportunities.

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MR. FACKRELL replied there is a link for applying for work as well as a list of the contractors on their website at www.denalipipeline.com.

SENATOR WAGONER, observing that TransCanada is contractually committed to go to FERC certification, asked what Denali plans to do if it doesn't have a successful open season.

MR. FACKRELL replied their first milestone is to conduct an open season. At that point you find out a lot of information like why a shipper didn't sign up if in fact it didn't. They'll make plans after they have that information.

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CO-CHAIR WIELECHOWSKI asked if he has sense of whether or not the open season will be successful.

MR. FACKRELL replied he has faith, but there are a lot of issues. A lot of pipelines don't have a successful first open season and that's not necessarily bad. That being said, Denali is planning for a successful open season.

CO-CHAIR WIELECHOWSKI asked for an explanation of the apparent discrepancy between Denali stating that first gas will flow in 2018 and ConocoPhillips stating that it expects to have gas flowing in 2019.

MR. FACKRELL replied it was initially surprising, but they learned that ConocoPhillips was talking about full capacity in 2019. First gas will still be 2018.

CO-CHAIR WIELECHOWSKI asked how many bcf will flow at first gas versus full capacity.

MR. FACKRELL said he doesn't have the information in his head.

SENATOR MCGUIRE noted that he said the shale discoveries could act as a bridge to this project. She asked if there has been any change in the level of interest in the last year considering the uncertain economy.

MR. FACKRELL said you need to take a long term view on a big project like this, but you can't ignore the existing financial situation. Shale gas is competition for Alaska gas, but on the supply and demand spectrum he believes there is room for both. He restated that the project has to be economic and it has to compete with shale gas. Likewise, it has to compete with LNG imports. Energy in the Lower 48 is depressed now because of the economy but that won't last forever. In Washington they heard that natural gas is the bridging fuel to renewables so Alaska gas will be high on the administration's priority list. It's a clean burning fuel.

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SENATOR WAGONER commented that an essential ingredient in both of these pipeline projects has to be ExxonMobile's ability to bring Pt Thomson gas into the system in a reasonable time frame. He asked how that figures into Denali's project and what he envisions will happen.

MR. FACKRELL said their target is 4 bcf/d and Prudhoe Bay isn't enough gas so Pt Thompson is very important. He believes there is enough undiscovered gas but having that gas available at the start is very important. The more gas that's available at the start, the better the project.

At ease from 3:09 pm to 3:12 pm.

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SENATOR MCGUIRE announced the committee will next hear an update from Bill Walker with the Alaska Gasline Port Authority.

BILL WALKER, Project Manager and General Counsel, Alaska Gasline Port Authority (AGPA), said that since the last update AGPA has been working with entities that are interested in developing LNG receiving terminals on the West Coast, including three companies in Oregon. Responding to a question about California companies, he explained that that Sempra has the only LNG receiving

terminal on the West Coast. It is located south of Costa Azul and north of Ensenada, Baja California. He said he was asked to extend an invitation to tour the facility.

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MR. WALKER said AGPA has received a resolution of support from the Alaska Federation of Natives and they continue to work with the Office of Hawaiian Affairs to deliver LNG to that state. He noted that they were invited to talk about the project with the Obama administration and they are pleased the administration has shown that level of interest.

AGPA continues to work with Mitsubishi Corporation and Sempra. They started with a memorandum of understanding (MOU) and have completed the joint development agreement getting ready for open season.

SENATOR MCGUIRE asked if the MOU is proprietary.

MR. WALKER replied yes it is.

CO-CHAIR MCGUIRE asked if it outlines things like the division of ownership between Mitsubishi Corporation, Sempra, and AGPA.

MR. WALKER replied that's actually part of the joint development agreement, which succeeds the MOU.

SENATOR WAGONER asked if Hawaii has an LNG receiving facility.

MR. WALKER said no, but they are eager to get cleaner fuel than coal and diesel that they currently use. One option is an offshore LNG receiving terminal.

Continuing with the presentation, he said that in January Mr. Palmer with TransCanada came to Valdez to a community briefing to talk about the open season and answer questions directly. AGPA, working through Sempra and Mitsubishi, continues to give TransCanada information on needed volumes and pipe size for the open season.

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Now that their focus is only on liquefaction and shipping, they are developing cost estimates in much the same way that TransCanada puts theirs together for conditioning and the pipeline. AGPA has always focused on instate gas and they initially planned 22 offtake points. This is a midsize project; the target is 2.7 bcf/d plus the instate volume. AGPA has a MOU

with ANGDA for the instate portion and would like to see an offtake at Glennallen and other locations into Southcentral.

Since the last update in January more attention has focused on shale gas. AGPA is only looking at that issue because Alaska needs to keep its options open. No one knows the impact shale gas will have but it's something to keep an eye on.

MR. WALKER displayed a map of the Horn River Basin, Montney Formation, the proposed Kitimat LNG export terminal, and the gas grid to the south to show the competition. At one point the Kitimat facility was a potential receiving terminal, but it turned into export terminal for the Asian market because of shale gas. That just shows that the market changes and competition is healthy.

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MR. WALKER displayed two slides to emphasize the consequences of not having a major gas sale or project. He made the following points:

- A three train LNG project offsets declining North Slope oil production.
- Without a replacement revenue source there likely will be a pre-statehood scenario.
- Different oil price assumptions change the magnitude of state collections, but do not reverse the declining production and falling state revenues from oil.

MR. WALKER said there are ten reasons the all-Alaska LNG project is the best instate option for Alaska. He highlighted the following:

- The gas supply is known and is within the offtake limits of Prudhoe Bay at this point.
- The route is known. It is parallel to TAPS.
- There is no limit on volume of gas being within AGIA. Using TransCanada the volume can be .5b or 6b, it doesn't matter.
- TransCanada is an abundantly qualified pipeline company.
- Gas will be cheaper for Alaskans. With the export of LNG it will provide a lower tariff for gas instate. That was a founding purpose for the Port Authority.
- They've been working with ANGDA on the spur line to Southcentral. The right-of-ways have been secured.
- Revenues to Alaska's treasury will increase.

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SENATOR MCGUIRE asked him to remind her why AGPA is in AGIA.

MR. WALKER explained that in TransCanada's application they said they would do a simultaneous open season to Valdez. When they were awarded the license they received an exclusive on both routes, to Valdez and Alberta. AGPA's partners are in AGIA because of the legislative intent and what the Governor did on Administrative Order 242. It basically says there is an interest in Alaska for an LNG project of a certain level. That's been helpful.

SENATOR MCGUIRE summarized that when TransCanada goes through the open season process next spring, one route will be to Valdez and they have the exclusive license for that.

MR. WALKER said yes. TransCanada won't do anything on liquefaction or shipping, but they have the exclusive license on the pipe. They have said they would do that as a standalone pipe, which is critical to AGPA. This gives greater market option. The Alberta Hub now is surrounded by two shale plays, which will impact the price of gas in that area. AGPA likes that ships can go wherever they need to go, the U.S. and Hawaii and the world markets.

Referencing an earlier question about what happens if there is a failed open season, he said if another instate project was moving forward they would be interested in participating by adding their volume.

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SENATOR MCGUIRE mentioned the Ketchikan Ship Yard and asked if he's considered building smaller ships under the Jones Act.

MR. WALKER said yes; they like the option of building smaller ships here in Alaska. Also, compressed natural gas barges are less expensive if they're going less than 1,200 miles. They envision that happening in Southeast, but Hawaii is just outside that range. The loan guarantee includes LNG tankers, which is a tremendous opportunity for Alaska.

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SENATOR MCGUIRE encouraged him to talk to the California State Legislature about their LNG contract with Australia. She asked if he has any comment on the recent announcement that Sakhalin will begin shipping LNG.

MR. WALKER said they've watched the Sakhalin II project and others for some time and wish they were at the same stage, but it's encouraging to know they're on the right track.

SENATOR MCGUIRE thanked Mr. Walker for presenting.

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There being nothing further to come before the committee, Co-Chair McGuire adjourned the Senate Resources Standing Committee meeting at 3:34 p.m.