ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON IN-STATE ENERGY
February 5, 2013
7:31 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator John Coghill, Co-Chair
Senator Peter Micciche
Senator Dennis Egan
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Cathy Giessel

COMMITTEE CALENDAR

OVERVIEW: ALASKA'S STAND ALONE PIPELINE (ASAP) FOR ALASKA GASLINE DEVELOPMENT CORPORATION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

FRANK RICHARDS, Manager
Pipeline Engineering
Alaska Gasline Development Corporation
Anchorage, Alaska
POSITION STATEMENT: Presented an overview on Alaska's Stand Alone Pipeline.

DANIEL FAUSKE, President - via teleconference
Alaska Gasline Development Corporation
Anchorage, Alaska
POSITION STATEMENT: Offered to answer questions on Alaska's Stand Alone Pipeline.

DARYL KLEPPIN, Commercial Manager
Alaska Gasline Development Corporation
Anchorage, Alaska
POSITION STATEMENT: Presented an overview on Alaska's Stand Alone Pipeline.

ACTION NARRATIVE

7:31:07 AM
CO-CHAIR CLICK BISHOP called the Senate Special Committee on In-State Energy meeting to order at 7:31 a.m. Present at the call to order were Senators Micciche, Egan, Wielechowski, Co-Chair Coghill, and Co-Chair Bishop. He welcomed Senator Giessel to the meeting.

Overview: Alaska's Stand Alone Pipeline (ASAP) for Alaska Gasline Development Corporation

7:31:55 AM
CO-CHAIR BISHOP welcomed the Alaska Gasline Development Corporation (AGDC) to provide an overview of Alaska's Stand Alone Pipeline (ASAP) Project.

7:32:26 AM
FRANK RICHARDS, Manager, Pipeline Engineering, Alaska Gasline Development Corporation, introduced himself and offered Daniel Fauske the opportunity to provide a brief introduction.

7:32:44 AM
DANIEL FAUSKE, President, Alaska Gasline Development Corporation, (via teleconference) offered to answer questions and stated that ASAP's Optimized Plan has garnered a lot of attention and answered a lot of questions.

MR. RICHARDS said House Bill 369 [2010] mandated that the Alaska Housing Finance Corporation (AHFC) facilitate the design for an in-state pipeline. He explained that AHFC created AGDC as a subsidiary to take over project planning and execution for the ASAP Project. He said the ASAP Project addressed the legislative mandate to provide for in-state [energy] needs at the lowest possible cost and at the earliest possible time. He explained that the in-state area encompassed users within Interior Alaska and the Cook Inlet Basin. He noted the Governor's recent statements in the State of the State Address that would help move the ASAP Project forward to get energy to Alaskans.

MR. RICHARDS said AGDC acquired 604 miles of state right-of-way from the State Pipeline Coordinator's Office with inclusion for the Fairbanks Lateral [pipeline]. He explained that AGDC completed a Final Environmental Impact Statement (FEIS) in November 2012 and was awaiting an FEIS Record of Decision from the [U.S. Department of the Interior]-Bureau of Land Management (BLM). He said BLM's possible action would allow for an additional 100 miles of federal right-of-way granting to the ASAP Project, giving AGDC a total of 704 miles out of 770 miles of pipeline. He stated that the ASAP Project's land mileage acquisition had less than 10 percent left to acquire from private and native corporation lands.

He said AGDC "optimized" the ASAP Project Plan from the original scope by changing the in-stream natural gas composition from "enriched" to "lean." He explained that the Natural Gas Liquids (NGL) would be pulled out and noted that the primary plan was to use the NGL as a benefit to lower the cost. He said NGL was not as cost beneficial as they were when the ASAP Project was initiated.

He said pipeline engineering was advancing and AGDC was working with Fluor-Worley as a facilities designer for the ASAP Project's gas treatment plant and pressure station.

He explained that AGDC was working with the legislature for enabling legislation that was required to move the ASAP Project forward in order to meet legislative timelines.

He said AGDC was planning an aggressive Summer Field Program to acquire the necessary geotechnical-hydrologic information for permitting and project advancement.

SENATOR WIELECHOWSKI asked what the plan was for the NGL.

MR. RICHARDS answered that NGL would remain on the North Slope for the producer's use. He said he assumed that NGL would be re-injected to enhance oil recovery.

SENATOR WIELECHOWSKI asked if NGL belonged to the state or the oil companies. He inquired how NGL would be paid and credited for during the process.

7:37:38 AM
DARYL KLEPPIN, Commercial Manager, Alaska Gasline Development Corporation, answered that the current plan was for the AGDC treatment plant to take gas straight from the North Slope's

Central Gas Facility and not take the NGL stream. He explained that the [oil] producers and the state's royalty share owned the LNG stream.

SENATOR MICCICHE asked about the possibility of trucking NGL if interest was shown.

MR. KLEPPIN answered that the NGL would remain on the North Slope, but noted that NGL could be available for other users.

CO-CHAIR BISHOP asked what native corporations would be involved in the [right-of-way] negotiations.

MR. RICHARDS replied that he did not know.

CO-CHAIR BISHOP asked that the native corporations' names be provided to him.

MR. RICHARDS answered yes.

SENATOR WIELECHOWSKI asked what the gas cost would be from the North Slope supplier and what the current price was.

MR. RICHARDS answered that the ASAP price model was for $2.00 per million British thermal units (MMBtu) to be paid to the North Slope supplier.

MR. KLEPPIN responded that AGDC was a pipeline owner and not a shipper. He said the cost of gas would be determined by the purchasers and shippers. He said for modeling purposes, AGDC assumed the supply price would be $2.00/MMBtu with a distribution charge of $2.00/MMBtu. He noted that current pricing for the state's royalty gas on the North Slope was $3.50/MMBtu to $4.00/MMBtu.

SENATOR WIELECHOWSKI asked what would make AGDC believe that gas could be purchased for $2.00/MMBtu when the current price was $3.50/MMBtu to $4.00/MMBtu.

MR. KLEPPIN responded that AGDC would not be the gas purchasers. He said the shipper would be responsible for acquiring and shipping their gas. He noted that historically, large volumes had been purchased at somewhat of a discount, but that was to be determined in the future.

7:41:39 AM

SENATOR MICCICHE asked if the tariff would be "postage stamp" or varied by the off-take point.

MR. KLEPPIN responded that AGDC's tariff model was distance-sensitive and not a "postage stamp."

SENATOR MICCICHE asked if AGDC knew what the tariff was.

MR. KLEPPIN replied that the forthcoming presentation would address Senator Micciche's question for the Fairbanks and Big Lake tariffs.

MR. RICHARDS explained that the ASAP Project's change to "lean gas" allowed for plan modifications to eliminate expensive processing facilities, change the gas pressure, and change the pipe's diameter. He noted that the original plan called for a pipe with a 24 inch diameter and 2500 Pound-force per Square Inch (PSI) for shipping enriched gas. He said AGDC's Optimized Plan would be for a pipe with a 36 inch diameter pipe and 1480 PSI. He noted that the Fairbanks Lateral [pipeline] would be a 12 inch diameter pipe. He summarized that the costly facilities were removed and the project's overall cost was reduced. He explained that the tariffs to Fairbanks and Anchorage would be positively impacted.

7:44:09 AM
CO-CHAIR BISHOP addressed the pipeline's maximum working pressure and asked if the 36 inch pipe was a "500 wall pipe."

MR. RICHARDS answered correct.

CO-CHAIR BISHOP asked if gas volume going forward would be at [500 million cubic feet per day (MMcf/d)].

MR. RICHARDS answered correct. He explained that the ASAP Project's design concept was in compliance with the Alaska Gasline Inducement Act (AGIA). He stated that the AGIA statute required that any state sponsored in-state gas pipeline only be designed up to 500 MMcf/d.

SENATOR WIELECHOWSKI asked why the ASAP Project went from a 24 inch [diameter] pipe to a 36 inch [diameter] pipe with the Optimized Plan. He inquired if the larger [diameter] pipe was more expensive.

MR. RICHARDS answered that the ASAP Project's reduced compression requirements allowed for an increase in pipe size

and a lower cost steel. He said AGDC was looking at the mandate to reduce the gas delivery's overall cost.

SENATOR WIELECHOWSKI asked to clarify that the compression reduction allowed for a larger pipe and lowered the project's cost.

MR. RICHARDS answered that there was always a tradeoff between compression and pipe diameter. He explained that the ASAP Project was able to reduce the need for compressor stations to one head-station without an additional intermediate-station. He said the single head-station would be able to flow the 500 MMcf/d from Prudhoe Bay to Cook Inlet.

CO-CHAIR BISHOP explained that the bigger diameter pipe's wall thickness saved weight and [used less steel]. He said he was curious to see the welding procedure and anticipated an easier process with the 36 inch pipe rather with dealing with the "exotic" steels in the 24 inch [diameter] pipe.

MR. RICHARDS stated that the larger diameter pipe would use more weld-metal, but the construction process would be easier.

CO-CHAIR BISHOP explained that the larger diameter pipe would involve capping and filling a half inch [thick] pipe rather than capping and filling a smaller diameter pipe with a one inch [thick] pipe.

7:47:54 AM
SENATOR WIELECHOWSKI asked if the pipeline would be able to handle increased compression and what the maximum capacity throughput was.

MR. RICHARDS responded that AGDC was limited in its design to 500 MMcf/d. He stated that conceptually there would be more flow if compression was added. He explained that the Legislative Affairs Agency and Attorney General's Office were looking at whether or not AGDC could actually calculate a higher daily flow rate. He stated that AGDC did not want to place itself in jeopardy with the AGIA statute.

SENATOR WIELECHOWSKI asked if it was theoretically possible to increase the pipeline's compression to 1 billion cubic feet per day (Bcf/d) or 1.5 Bcf/d.

MR. RICHARDS answered yes. He noted that Senator Wielechowski was probably looking for the project's ultimate flow and he

reiterated that AGDC did not want to place itself in jeopardy [with the AGIA statute].

MR. FAUSKE explained that AGDC was designing the ASAP Project to a certain dimension that stayed within the [AGIA] parameters. He noted that the same question was asked at the [Joint In-State] Gas Caucus and AGDC stated that the ASAP Project's pipeline could carry up to 1.6 Bcf/d. He explained that answering Senator Wielechowski's hypothetical question did not violate anything and his response would assist the committee in understanding the ASAP Project's potential.

7:50:22 AM
SENATOR MICCICHE noted that many pipeline projects were designed at a lower pressure and the economics allowed systems to be expanded for much higher capacity so there was nothing unusual about the ASAP Project's design.

MR. RICHARDS said the "Optimize Project Plan" was released in late 2012 and the positive aspects were as follows:

- The reduction in the number of facilities means that it has less of a significant footprint on the environmental impacts.
- Less risk in the project due to the grade of the pipe and the pertinences that we will have.
- Less costly connections to any Alaskans or Alaskan industry along the line that would like to be able to tap in to the pipe.
- It would not be required to have a straddle plant to push gas into Fairbanks.
- The risk involving design, construction, and finance have been reduced significantly because we are using industry standard.
- The tariff has been lowered.
- The overall construction cost was still estimated to be $7.7 billion in 2012 dollars, plus or minus 30 percent, based upon the current level of engineering. This relates to approximately $7.5 billion that we had identified in 2011, but when you factor in the cost of inflation on that project, it was almost an equal amount at $7.7 billion for either of the projects. We are using 2.5 percent inflation factor which equates to almost $200 million per year in additional costs for every year the project is not advanced.

- Not in competition with AGIA, so that is where we are continuing to stay within the constructs of the law.

SENATOR MICCICHE said the priority for the ASAP Project was to supply natural gas to Alaskans with hopefully some leftover for export. He stated that NGL was important to Alaskans and could be processed should their value increase. He asked if NGL could be introduced into the same pipeline.

MR. RICHARDS answered that it would be dependent on the NGL's phase. He said if it was necessary to keep the NGL in the gaseous phase, it would require a higher strength pipe. He noted that the original concept called for a 2500 PSI pipe to be able to keep NGL in the dense phase to transport. He said the 1480 PSI pipe was designed for the "lean gas" without NGL.

7:53:26 AM
MR. RICHARDS said AGDC's approach to the project was called the "Stage Gate Approach" and its execution was explained as follows:

- Front-End Loading (FEL) approach where there are specific stage gates.
- The 2011 Project Plan was the end of what is known as FEL-1 and at that point we were to enter FEL-2.
- FEL-2 was going to be the alternate selection stage and the advancement of the preliminary engineering.
- We have been waiting for the action on the legislature to be able to give us enabling legislation as well as funding to advance the project to the next stage gate, which would be the open season and then ultimately project sanction at the end of FEL-3.
- After FEL-3 comes the execution or construction phase of the project.

CO-CHAIR BISHOP asked when AGDC would obtain and provide more detailed design and project information.

MR. RICHARDS answered that if AGDC was granted the necessary funding, AGDC would advance the project's pipeline facility engineering and regulatory actions. He said AGDC had done most of the conceptual pipeline engineering work with money received

in the 2013 fiscal year (FY13) capital budget. He noted that the gas treatment design would be in excess of $100 million and AGDC was meeting with Fluor-Worley to advance the facilities design. He said FY14 legislative funding would allow AGDC to advance the facilities and pipeline engineering to get to an open season with sufficient information for shippers and producers.

7:55:42 AM
MR. RICHARDS addressed the "ASAP Project Schedules" as follows:

- The schedule was legislatively mandated by House Bill 369 in 2010.
- The schedule called for project construction in 2014 and gas with project startup by 2015 or 2016.
- The ASAP Optimized Project Schedule was currently in FEL-2.
- Enabling legislation and sufficient funding would allow AGDC to advance the engineering and regulatory work to get the ASAP Project to an open season in late 2014 and early 2015.
- Final or bridge engineering would lead to project sanction at the end of 2015.
- The Execution Phase in 2016 would initiate orders for pipe and conditioning facility modules.
- Construction would commence in 2017 with first gas in 2019 or 2020.

He addressed the "ASAP Project Milestones" as follows:

- An open season [late 2014] would ascertain shippers' and producers' confidence levels with tariff models that AGDC presented via cost estimates from facilities and pipeline design.
- The open season would identify the willingness for shippers and producers to commit their money to be able to ship gas down the pipeline.
- The next phase would lead to project sanction for the "go" or "no-go" decision to advance the project and seek the necessary funding.
- The ASAP Project's go-ahead would lead to long-lead item procurement, construction, and gas transmission in 2019 and 2020.

CO-CHAIR BISHOP commented that the explosion of shale gas in the Lower 48 allowed steel manufacturing to comeback and noted that steel prices had dropped by 40 percent. He stated that lower cost steel was a good thing for Alaska and the state was seeing the benefits of natural gas.

MR. RICHARDS revealed that Nucor Corporation had moved steel plants overseas and was now building new U.S. plants due to the access of cheaper natural gas. He said the end result would be U.S. steel manufacturing at a lower cost.

MR. RICHARDS reviewed the "Tariff Assumptions Comparisons" as follows:

- Black & Veatch originally provided services for tariff modeling and AGDC was now able to perform their own tariff modeling comparisons.
- The tariff levelized term was changed from 20 years to 30 years.
- AGDC advanced the project so the cost estimates were updated and changes resulted in the contingencies for the major components.
- The pipeline engineering contingency changed from 5 percent to 10 percent to allow for sufficient room in the estimate to provide better numbers as the project advance.
- The debt/equity split and the return on equity were changed.
- The year delay from 2011 to 2012 and a 2.5 percent inflation rate were factored in.

7:59:54 AM
SENATOR WIELECHOWSKI asked what the ownership model was for the ASAP Project.

MR. RICHARDS answered that the initial concept from House Bill 369 was to advance the ASAP Project to a point where it could be handed off to a private entity. He said when reviewing the benefits of partial or full state ownership, project costs could be lowered via the backing of the state's bond rating. He said the sponsors of [last session's] House Bill 9 and the [current session's] HB 4 were looking to provide the ownership model decision to AGDC. He said AGDC needed to work with partners to see what the benefit would be for the state and consumers regarding the best ownership model going forward.

SENATOR WIELECHOWSKI asked what rate of return would be expected if the state assumed ownership for the life of the project.

MR. FAUSKE commented that the ASAP Project would be issued on a revenue bond standpoint and the rating would be based on the project's credit. He said the state's high credit rating had an impact on the rating agencies' economic view of Alaska. He asserted that the APAP Project would not be fully funded by and or backed by state credit. He stated that the established credit rating would be based on precedent agreements, long term fixed contracts and bonds that were sold. He noted that agreements, contracts, and bonds would have to be in place before an investor would come forward to invest in the ASAP Project.

He said the rate of return over the past several years had been kept at 12 percent. He explained that the rate of return was based upon industry averages on projects throughout the United States. He said AGDC lowered the rate of return by 1 percent to an 11 percent return on equity.

He explained the debt/equity ratio and noted that the advantage was having more debt into the project because debt could be sold cheaper than paying someone 11 percent for ownership. He said the end result would drive down the tariff price to a more equitable rate.

He said ownership model analysis would occur during the ASAP Project's open season. He pointed out that AGDC had not considered the concept of the state operating ASAP, but noted that the state could be an owner. He addressed inquiries on the possibility of Alaskans having an opportunity to invest in ASAP within a mutual fund concept.

He summarized that the 2.5 percent inflation rate used by AGDC for the ASAP Project was derived from the Philadelphia Reserve, a known entity with data that could be defended. He stressed that the inflation rate added $200 million per year in cost to the ASAP Project and Alaskans would realize a $1 billion cost in cash if the project's cash flows were discounted out over 30 years due to delay. He explained that time was always of the essence when the decision was made to move multi-billion dollar projects forward. He reiterated that the ASAP Project was not a credit based on the issuance of debt by the state of Alaska.

8:05:33 AM
MR. KLEPPIN stated that AGDC's "New Tariff Model" was as follows:

- 75 percent debt to 25 percent equity. The rate of return on the 25 percent equity portion was 11 percent versus AGDC's 2011 original project plan of 12 percent, so it was down slightly.
- The cost of the debt was assumed to be the same, 5.7 percent, which was what AGDC assumed in 2011. The current markets would suggest that you could get a number lower than that, but AGDC did not change it and it was left at 5.7 percent.

SENATOR WIELECHOWSKI inquired if the plan was to go to the Regulatory Commission of Alaska (RCA) and ask that the ASAP Project be allowed to have a slight profit, be cost neutral, pass everything on to consumers, or pass savings on to the consumer.

MR. KLEPPIN clarified that the Senator's question was whether or not people would make money on the ASAP Project. He noted that HB 4 would authorize AGDC to determine the project's ownership model. He explained that outside of a possible state ownership share, investors would realize an 11 percent Return on Equity (ROE) plus the cost of their debt, AGDC assumed 5.7 percent. He said within the projected ROE were returns for the bondholder and the people who provided the equity.

8:07:51 AM
MR. RICHARDS addressed the "Tariff Comparison Chart" between the "Original 2011 Project Plan" and the "Optimized Project Plan" as follows:

- The levelized term for Fairbanks was now $4.25/MMBtu to $6.00/MMBtu as opposed to $6.45/MMBtu. This reflects the elimination of the straddle plant and the other upstream facilities.
- For Big Lake or the Cook Inlet Basis, the rates were from $5.00/MMBtu to $7.25/MMBtu as opposed to the $5.63/MMBtu. We are providing a range just to identify the level of the project engineering we feel that we want to be able to indicate the low end and the high end.
- Cost driver impact for capital costs: increase or decrease means a $0.50/MMBtu to $0.80/MMBtu tariff reduction or increase to the users in Fairbanks and Cook Inlet.

- Cost driver impact on Alaska's contribution: reducing the project cost would reduce the tariff by almost $0.45/MMBtu.
- Cost driver impact on ROE: each percentage change would increase or decrease the tariff by $0.20/MMBtu.
- Cost driver for the useful life of the bond: shifting from a 20 year to a 30 year bond could reduce the cost of the tariff by $0.75/MMBtu.
- Cost of one year delay to the project schedule was $0.20/MMBtu. Over the life of the project, that would equate to almost $1 billion extra that Alaskan consumers and business would have to pay.
- The tariff is the cost to cover the construction of the pipeline project as well as the operations.

8:09:57 AM
SENATOR WIELECHOWSKI asked to verify that the gas cost was not included.

MR. RICHARDS answered correct. He said the cost of the gas was not included.

SENATOR WIELECHOWSKI calculated that Anchorage was currently paying $7.00/MMBtu to $7.50/MMBtu for natural gas. He asked what Anchorage would be paying for ASAP gas.

MR. RICHARDS replied that the Optimized Plan for Anchorage would be $9.00/MMBtu to $11.25/MMBtu. He noted that the Anchorage rate included $2.00/MMBtu for purchasing gas from the North Slope and $2.00/MMBtu for distribution costs. He noted that the distribution costs were commensurate to what Northstar Gas was charging for their Anchorage distribution costs. He pointed out that Northstar Gas' website had shown their 2013 first quarter overall-cost at the burner tip was $9.30/MMBtu, a rate that fell within the Optimized Plan's range.

SENATOR WIELECHOWSKI asked if AGDC was assuming full capacity for ASAP and what would the outcome be if the flow was 250 MMcf/d.

MR. RICHARDS answered that rates were based on ASAP at full flow.

MR. KLEPPIN stated that the tariffs calculated were for a 500 MMcf/d flow. He said he did not have data on a 250 MMcf/d scenario. He explained that tariffs would essentially double if costs remained the same and billable volume units went down by half.

8:12:36 AM
SENATOR WIELECHOWSKI asked what the total gas usage was for Fairbanks, Anchorage, and South Central.

MR. FAUSKE replied that total usage was based on Fairbanks being maxed out at 60 MMcf/d with an additional 180 MMcf/d. He explained that 240 MMcf/d to 250 MMcf/d would be available for the Railbelt down to the Kenai and the Northstar Gas system.

He said AGDC held an "expression of interest" meeting over a year ago where confidential non-binding proposals were solicited and the responses would maximize ASAP at 500 MMcf/d. He said ASAP's open season would determine the full usage of the pipeline.

He stated that AGDC had always operated under House Bill 369's mandate to provide gas to Alaskans at the lowest possible cost. He emphasized that AGDC's guiding principle was always to beat the price of imported LNG or the ASAP Project would be a "fool's errand." He explained that AGDC's stage gate approach allowed the ASAP Project to be shut down if the numbers and deals collapsed. He stated that the decision to do the project would require that ASAP be advanced to the next level in order to receive hard data on what people were willing to do and pay.

8:15:31 AM
MR. RICHARDS continued to address ASAP Costs as follows:

- The cost to Alaskans has been up to $400 million to advance the project through an open season and a project sanction date in late 2015.
- AGDC was appropriated $72 million over the last several years to advance and retain the project assets that AGDC acquired; EIS and engineering aspects.
- AGDC thinks it can provide a long term natural gas supply for Alaskans by the end of this decade.
- The cost is $7.7 billion, based on AGDC's current estimate level. A 36 inch pipe flowing 500 MMcf/d is a mega-project. AGDC could achieve it, but it

would take the work by the legislature and administration to be able to advance the project forward.

- The cost to consumers in Anchorage would range from $9.00/MMBtu to $11.25/MMBtu and Fairbanks from $8.25/MMBtu to $10.00/MMBtu. That was a very good cost of energy within the Interior where the current cost to those on the LNG distribution system was approximately $23.00/MMBtu.

8:17:10 AM
CO-CHAIR BISHOP commented that the numbers were very attractive and he knew that people watching the meeting at home were saying the same thing.

SENATOR MICCICHE stated that considering the base price of Cook Inlet gas was currently at $10.00/MMBtu, he would love to get $7.00/MMBtu gas at his house, but that simply does not happen. He said ASAP was currently competitive with Cook Inlet's base price and noted Cook Inlet's usage ranged from 2 [MMcf/d] to 550 [MMcf/d]. He explained that 550 [MMcf/d] would be peak usage on a very cold winter day. He declared that the Cook Inlet was not producing enough gas to meet usage and the $10/MMBtu base price was increasing as the gap continued to grow. He stated that he was interested in seeing the ASAP Project progress to understand if the burner tip numbers were correct.

He remarked that Alaska had been waiting two generations for a natural gas pipeline from the North Slope. He noted that a natural gas pipeline was based purely on export and now there was Cook Inlet supply challenges with the Interior starving for energy. He asked if the producers did not move forward on a project, how would the schedule be pushed, what was the decision point from the other project with producers, and how would time be shaved off for the delivery of a completed project.

8:18:44 AM
MR. RICHARDS answered that there was always the impetus to try and quickly advance a major project, but that led to major cost overruns in the past. He explained that the stage gate process allowed AGDC to advance the ASAP Project if there was sufficient reason to advance the project. He recounted AGDC's mantra that ASAP gas had to cost the consumer less than LNG imports.

He explained that the ASAP Project had advanced with the funding that was made available to AGDC. He stated that from the original project plan, the concept was to enter into the FEL-2

Phase with a full funding scenario and to advance the engineering. He noted that it would be very difficult to have an engineering company design on small funding increments. He stated that AGDC would need in excess of $100 million to advance the project's engineering. He stated that funding would be the key to advance the project and allow AGDC to engage the engineers. He said AGDC would proceed on a rapid, but diligent basis to avoid errors.

CO-CHAIR BISHOP commented that engineering firms had LNG and pipeline projects throughout the world. He pointed out that Alaska was not the only one in the queue and time was of the essence, but the ASAP Project would have to continue to be thoroughly reviewed.

8:21:38 AM
MR. RICHARDS answered correct. He said many engineering companies were working on other major projects due to the explosion of shale gas and oil in the Lower 48.

He said AGDC's engineering selection would require a company to have artic and large processing experience. He noted that AGDC was working with a joint venture between Fluor and WorleyParsins, world class engineering companies that had done work on the Trans-Alaska Pipeline System (TAPS) and the North Slope. He noted that Fluor and WorleyParsins would be available to AGDC to advance the project. He explained that the ASAP Project was initiated via FY13 funding. He said $21 million was to be spread out across pipeline and facilities engineering. He explained that AGDC would be looking to go to the next detail design as the money becomes available.

SENATOR WIELECHOWSKI recounted a statement that Northstar Gas' current pricing was quoted at $10.00/MMBtu. He noted that the Northstar Gas website listed their current price at $7.25/MMBtu, $7.36/MMBtu with the Gas Cost Adjustment (GCA) charge.

MR. RICHARDS answered that he had a bar chart that showed the "all in cost."

SENATOR WIELECHOWSKI replied that according to Northstar Gas' website, AGDC was not showing the right number.

MR. RICHARDS apologized that he did not bring the ["all in cost"] chart with him and he would find it.

CO-CHAIR BISHOP asked that Mr. Richards provide the information to the committee.

SENATOR MICCICHE said the ASAP Project was personally interesting to him. He said normally a project was based on market and business principals. He noted that if ASAP had a "commercial gap" after its open season and no better options existed, legislators may have to decide whether or not to fund the gap for the greater good of Alaskans that need energy. He stated that a caveat would require ASAP Project decisions be made with a very critical eye to make sure mistakes were not made.

8:25:39 AM
MR. FAUSKE replied that he received numerous ASAP inquiries for the state to step up and AGDC was not at liberty to do that because the law did not allow it. He said the ASAP Project was always intended to service Alaskan's with gas and it would be a wonderful moment if a commercial outlay could be attained at the other end.

He reiterated that ASAP was worth pursuing if the imported price for LNG could be beat and AGDC believed they had done that. He noted that for every $1 billion the state contributed in capital, the tariff would drop $0.45/MMBtu.

He addressed the possibility of a 48 inch [diameter] pipeline and noted that the added cost would be $2.2 billion to $2.8 billion from Prudhoe to Fairbanks. He said the state could not bear the expense of a 48 inch [diameter] line.

He pointed out that the state would have to spend $400 million to get ASAP to open season. He explained that a company would not spend that kind of capital just to determine if Alaska was worthy of a project. He said the $400 million was a cost that the state would have to bear and it would not be regained through the tariff. He reiterated that the more money the state put into the project, the more the tariff would drop.

He stated that Prudhoe Bay was one of the largest gas reserves in the world with the ability to provide gas for the next 100 years. He explained that a huge strike in Cook Inlet would change the equation, but that was currently not the case.

He explained that designing a project for Alaska's low population was a problem and noted the debate would be different if gas was being supplied to Los Angeles or Seattle.

8:30:31 AM
MR. RICHARDS continued to address "Funding Required to Advance." He said full funding allocation would allow AGDC to advance the following:

- Engineering for both pipeline and facilities.
- Conduct permitting activities and agency involvement to meet the requirements for both state and federal permits.
- Engineering field investigations to be able to identify how we would need to alter our designs based on what we find in the field.

He explained that partial ASAP Project funding would limit pipeline engineering, facilities engineering, and field investigation.

MR. RICHARDS addressed "ASAP Requires Enabling Legislation" as follows:

- AGDC had identified that one of the impediments was the inability to have confidential discussions or receive confidential information. AGDC is somewhat behind the curve in regards to advancing the project with meaningful discussions with shippers, other pipeline projects that may have or are receiving state funds and doing similar work. AGDC does not want to spend its money unnecessarily and if there was work that could be shared between the projects, AGDC would love to be able to do that. However, the projects were unwilling to without AGDC's ability to hold that information confidential.

- Contract carrier status was needed to enter into long term contracts. The ability for utilities to know if they commit to purchasing gas, they were going to be delivered that gas. If another entrant comes into the pipeline, they would not see a reduction in what they were intended to have delivered to them.

- Authority to determine an ownership model that would allow the state of Alaska to benefit, not only from providing energy to Alaskans, but also

providing to Alaskans at the lowest possible cost.

- Legislation was advancing with HB 4.

8:32:53 AM
SENATOR GIESSEL asked why AGDC chose the contract versus common carrier. She noted that AGDC originally asked to create a common carrier pipeline.

MR. KLEPPIN responded that most gas pipelines were historically contract carriers. He said the Alaska Pipeline Project (APP) and the Denali Pipeline were designed as contract carriers. He explained that gas was treated differently than oil because the underlining value of the gas was equivalent to the cost of transporting it and that was different than oil. He said the users for the service were different and noted that utilities required long term supply guarantee contracts. He explained that contract carriage grew out of the need for guaranteed supply and that was consistent with other gas pipelines.

He said the issue AGDC had with contract carriage was that available space was contracted and tariffs were paid whether gas was supplied or not. He noted that gas pipelines were referred to as "take or pay." He said oil pipelines were different and if contracted oil was not transported, all pipeline customers would be prorated for lost volume on a pro rata share. He explained that utilities were dependent upon supply and could not function with a common carrier.

8:35:19 AM
MR. FAUSKE addressed the ASAP Project's financing model in reference to contract carriage. He explained that the $7.5 billion ASAP Project would require long term contracts to be in place for investors to know that the cash flows being generated would support or have the ability to support the debt service on the revenue bonds that would be issued.

He explained that AGDC designed the ASAP Project to have the ability to expand beyond 500 MMcf/d. He said there was confusion regarding the number of explorers that would be looking to get involved in a 500 MMcf/d [project] and noted AGDC's difficulty in holding a successful open season for a $3.5 to $4 billion pipeline. He addressed financing and the problem to show how the ASAP Project would be paid for over a 10 to 20 year time period. He explained that the ASAP Project could be expanded by adding compression, "looping," and other mechanisms to enhance the ASPA Project and increase the volume.

CO-CHAIR BISHOP thanked AGDC for their informative presentation.

8:37:28 AM
There being no further business to come before the Senate Special Committee on In-State Energy, Co-Chair Bishop adjourned the meeting at 8:37 a.m.