

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON IN-STATE ENERGY

February 12, 2013

7:30 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 Charlie Huggins
Representative Mike Chenault

COMMITTEE CALENDAR

OVERVIEW: ALASKA GAS-LINE PORT AUTHORITY'S PRESENTATION ON THE
ALASKA LIQUID NATURAL GAS PROJECT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

BILL WALKER, General Counsel
Alaska Gasline Port Authority
Anchorage, Alaska

POSITION STATEMENT: Presented an overview of the Alaska Gasline
Port Authority and the Alaska Liquid Natural Gas Project.

CRAIG RICHARDS, General Counsel
Alaska Gasline Port Authority
Anchorage, Alaska

POSITION STATEMENT: Presented an overview of the Alaska Gasline
Port Authority and the Alaska Liquid Natural Gas Project.

ACTION NARRATIVE

[7:30:34 AM](#)

CO-CHAIR CLICK BISHOP called the Senate Special Committee on In-State Energy meeting to order at 7:30 a.m. Present at the call to order were Senators Micciche, Wielechowski, Co-Chair Coghill and Co-Chair Bishop.

OVERVIEW: Alaska Gas-line Port Authority's Presentation on the Alaska Liquid Natural Gas Project

[7:31:10 AM](#)

CO-CHAIR BISHOP welcomed the Alaska Gasline Port Authority (AGPA) to the meeting and asked that they proceed with their presentation.

[7:31:16 AM](#)

SENATOR EGAN joined the committee meeting.

[7:31:25 AM](#)

BILL WALKER, General Counsel, Alaska Gasline Port Authority, said he would address the Alaska Liquid Natural Gas Project (ALNGP).

[7:32:00 AM](#)

CO-CHAIR BISHOP recognized that Senator Huggins and Representative Chenault were in attendance.

MR. WALKER said AGPA was formed in 1999 and one of its first tasks was to take a trip to Asia in 2002 with Bechtel Corporation (BC). He noted that relationships take many years to establish in the Asian market.

He said ALNGP was the same project considered for many years and the same project that voters mandated in Proposition 2. He explained that the ALNGP would follow the Trans-Alaska Pipeline System (TAPS) right-of-way with a spur-line from Glennallen to South Central.

He noted that a lot of questions had come up as to why AGPA selected the TAPS/Glennallen route. He explained that the route matched up with AGPA's entities, but the route was also selected by: TAPS, El Paso Corporation, Yukon Pacific Corporation (YPC), and many companies chose the route as the most permissible. He said a highly selected and permitted route was required for a big dollar project.

MR. WALKER addressed the permits previously obtained for the gasline to Valdez. He said he would not review each permit obtained by YPC for the proposed gas pipeline route. He explained that another route was possible, but the TAPS route was permitted. He said rather than trying to reinvent something, AGPA continued to follow the route that received the federal environmental impact statement (EIS), federal right-of-way, Alaska right-of-way, and export license. He explained that permitting TAPS had taken 12 years and cost \$100 million when the company was created by Governor Egan and Governor Hickel. He noted that AGPA was told by BC, Williams Companies, and BG Group that it was not the permits, but the data that was collected. He pointed out that he did not believe any of the permits were current today, but the fact that the permits were obtained gave an indication that they would likely be obtained again.

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SENATOR MICCICHE addressed the previous permits obtained by YPC and asked what the acronyms TAGS and MT meant.

MR. WALKER replied that "TAGS" was the acronym for Trans-Alaska Gas System and "MT" was the acronym for Marine Terminal.

CO-CHAIR COGHILL asked for clarification that permits previously obtained for TAGS were not currently valid.

MR. WALKER answered correct. He said the process had stopped to be advanced. He explained that the data was available, but the actual permits had expired.

He addressed the location for the proposed LNG liquefaction plant in Valdez. He said a Houston, Texas based company was hired for LNG siting and Alyeska Marine Terminal's dormant West Tank Farm was selected as an appropriate location. He noted that the idea for the site came from the Joint Pipeline Office. He said BC estimated that \$2 billion to \$3 billion would be saved on construction costs at the former West Tank Farm location versus a "green field" location.

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He said YPC considered Anderson Bay as a potential "green field" location, approximately five miles from the Alyeska Marine Terminal in Valdez. He said the Anderson Bay site was permitted by the Federal Energy Regulation Commission (FERC) for a terminal siting permit and the Department of Energy (DOE) for an

export license. He explained that the permits obtained for Anderson Bay were currently not valid.

CO-CHAIR COGHILL asked if permits were obtained for Anderson Bay in anticipation for an LNG export terminal.

MR. WALKER answered correct.

CO-CHAIR COGHILL asked if Anderson Bay was permitted prior to the Exxon Valdez spill.

MR. WALKER replied that it was about at the time of the Exxon Valdez spill.

CO-CHAIR COGHILL stated that he was trying to get a time frame in his mind because the EIS probably would be significantly different. He asked if Anderson Bay would be a "green field" operation.

MR. WALKER answered yes because there was nothing there in the way of development.

He said he met with Norway's LNG producers and they noted that cargo shipments had to transverse through two canals and deal with possible Somali pirates before reaching the Asian market. He noted that Alaska's LNG had a straight shot to the Asian markets in addition to boasting the longest recorded history of on-time LNG shipments out of Nikiski since October 1969.

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He said AGPA hired Wood Mackenzie Research and Consulting (WM) as an outside source to analyze the LNG project. He stated that AGPA asked WM to do an analysis and find out if Alaska LNG was competitive, the costs, and the potential for the State to make money. He noted that WM was asked not to use previous data generated by BC and AGPA. He added that WM was asked to use the highest numbers when data showed multiple figures. He said WM's [2011] "Alaskan LNG Exports Competitiveness Study" showed that Alaska had done well. He explained the findings as follows:

In comparing us to other projects, we did well, we had a delivered price of \$8.50 [per million British thermal units (\$US/MMBtu)] into Japan. Other projects such as Kitimat in British Columbia, was \$11.76/MMBtu, so our numbers came out fine.

He provided work-up data on how WM calculated the \$8.50/MMBtu delivered LNG price to Japan. He said WM's LNG estimate provided a positive story on Alaska LNG.

MR. WALKER explained that WM's first three work-up calculations were derived from TransCanada's 2010 open season as follows:

- \$0.26/MMBtu for [wellhead] processing.
- \$2.22/MMBtu for processing and shrinkage.
- \$1.70/MMBtu for transport.

He stated that liquefaction [\$4.00/MMBtu] was the highest cost in the world; WM did not cut any slack on liquefaction. He said AGPA believed that liquefaction could be reduced by \$1.00 to \$1.50, but AGPA was fine with WM's analysis for an \$8.50/MMBtu delivered LNG price to Japan.

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He said WM's projection for ALNGP revenue to the State was in the range of \$220 billion to \$419 billion over a 30 year period. He noted that natural gas was the "stepchild" to oil, but AGPA posed the question on the ability to make money from natural gas. He stated that under WM's model, the natural gas revenues to the State would exceed projected oil revenues by about year three and continued to climb after that for production at 2.7 Bcf/d (billion cubic feet per day).

CO-CHAIR COGHILL asked to confirm that the assumption was for 100 percent State ownership.

MR. WALKER replied that WM's model was based upon private sector ownership.

CO-CHAIR COGHILL responded that WM's ownership model was similar to the plan with TransCanada.

MR. WALKER answered yes.

SENATOR MICCICHE asked what commodity price WM was using for their model; Henry Hub [Natural Gas Futures] versus Alaska LNG.

MR. WALKER answered that the market price WM used was the price in Asia, \$14.00/MMBtu.

SENATOR MICCICHE asked what WM used as the commodity [wellhead] price.

MR. WALKER answered that he believed WM used \$2.00/MMBtu as the wellhead price.

SENATOR MICCICHE asked if Henry Hub [Natural Gas Futures] was used at the time of WM's 2011 comparisons with the Lower 48.

MR. WALKER answered that WM did a Lower 48 comparison, but he would have to look at WM's model to see the exact number used from Henry Hub [Natural Gas Futures]. He noted that he assumed that a \$3.00/MMBtu range was used as the market price. He said the significant difference AGPA had with the shale gas was that Alaska's shipping costs would be \$0.59/MMBtu versus the Gulf Coast \$3.00/MMBtu range via the Panama Canal. He noted that when the Panama Canal was ultimately widened, the cost would be similar to the cost of sending a ship around South America's [Cape] Horn. He stated that Alaska's shipping advantage would remain after the Panama Canal was widened.

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He stated that there had been a lot of questions if there was an Asian market. He remarked that the assertion that AGPA had relegated itself to "opposite the editorial page" and presentations was not correct. He said AGPA had spent a lot of time in the market last year. He reiterated that the markets were based upon relationships and noted Jeff Lowenfels [former CEO for YPO] had brought market folks year after year to Juneau.

He explained the molecular makeup of the "Post Treatment Gas Compositions Estimate." He said the Asian market liked the high British thermal units (Btu) content and the liquids in Alaska's gas. He stated that a combination of high Btu content, cold climate, and proximity to the Asian market were all advantages.

He said over the past year and a half, AGPA had entered into various agreements with different companies. He noted that Asian market letters of interest, confidentiality agreements, memorandum of agreements in the Asian markets stated an interest in Alaska LNG. He said the largest electric utility in South Korea, Korea East West Power Co., stated an interest in Alaska LNG.

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CO-CHAIR COGHILL stated that he appreciated information on South Korean interest and noted that he thought South Korea would be the market for LNG. He asked what the next step was after the letters of interest.

MR. WALKER answered that the next step was typically a project development agreement in addition to an open season. He noted that AGPA had an opportunity to join in an open season and the next step would be to find out if there was a way of getting gas from Prudhoe Bay to the market. He explained that most projects around the world start at the market and work backwards. He stated that Alaska had gas and interest from the market.

CO-CHAIR COGHILL replied that he agreed. He noted that the Alaska Gasline Inducement Act (AGIA) pipeline never got beyond an open season and the Alaska Stand Alone Pipeline (ASAP) was heading towards an open season. He asked if AGPA had gone beyond the letter of interest.

MR. WALKER answered that AGPA had on some.

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He brought attention to additional Asian interest from GS Energy, a large energy distribution company from South Korea; POSCO, South Korea's largest steel manufacturer; KOGAS from South Korea [world's largest LNG importer]; PTTI International, based in Thailand; and PT PNG LNG Indonesia. He noted that everyone received the solicitation of interest for the September 14 open season from Prudhoe Bay to South Central Alaska and AGPA was pleased that every company participated.

He explained that AGPA submitted a nomination on September 14 for the open season that was held under AGIA. He stated that AGPA made their nomination public because AGPA felt that it suffered from "not knowing what was going on." He said he could not show each company's exact nomination, but the total was 2.80 [billion cubic feet per day] (Bcf/d). He noted that AGPA's target was 2.70 Bcf/d with 0.25 Bcf/d for in-state use, and the total was 3.05 Bcf/d.

He explained that AGPA only knew what they nominated and did not know what else was nominated at the open season because it was not made public. He noted that not all companies nominated a volume, so the total volume was likely significantly higher than 2.8 Bcf/d.

CO-CHAIR COGHILL stated that he knew some of the companies had invested in other LNG projects. He asked if the companies involved in the open season that cash or financing was available to would "drive the show."

MR. WALKER answered that every company was involved in worldwide projects and none would put emphasis in one particular project. He said interest was in buying at the wellhead and as far upstream as possible.

CO-CHAIR COGHILL asked to clarify that AGPA had an "organizer role" to get gas from the supplier, selling it to the marketer, and managing the pipeline.

MR. WALKER answered that AGPA mission was to build or cause the ALNGP to be built. He said the key has been acquiring the gas to address the interest in buying at the wellhead. He pointed out that British Petroleum (BP) stated during the AGIA hearings that they would be happy to sell at the wellhead; he noted that the leases required the producers to do that. He said the LNG buyers want to be involved with liquefaction and pipeline ownership positions. He explained that an off-taker being involved in upstream equity roles was the worldwide model for LNG projects.

SENATOR MICCICHE stated that he wanted to make sure that the panel understood that there was a big difference between non-binding solicitation and an open season. He stated that the proof was when companies were willing to sign-on to 20 or 30 year commitments.

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MR. WALKER answered correct. He explained that every project started with letters of interest or intent, a statement which showed a party had interest. He noted that letters of interest or intent could not be taken to a bank, but further negotiations would continue. He said AGPA went into deep negotiations with Mitsubishi Corporation and they have invested money into the pipeline effort.

He said after the September 14, 2012 open season, an article revealed that Resource Energy, Inc., a Japanese consortium, nominated 2.7 Bcf/d in addition to the previously nominated 3.05 Bcf/d. He said the total gas nomination from the open season was 5.5 Bcf/d. He explained that according to BC's calculations on the 48 inch pipeline's average daily throughput at maximum pressure was 5.9 Bcf/d.

He said with WM's half-volume projections versus the interest shown in the open season, there was a significant Asian market for Alaska's gas.

He addressed Alaska's competition for Asian markets as follows:

- Qatar;
- Papua New Guinea, was adding more [treatment] trains;
- Australia, had more export LNG projects going on than anyone and would probably surpass Qatar;
- Golden Pass (U.S. Gulf Coast).

MR. WALKER stated that projects were being built all over the world. He said one question that he frequently received from the market place was why Alaska continued to place itself at the back of the queue and was not aggressive or in a hurry. He said the message he received was that Alaska needs to hurry and be aggressive. He noted that the competition was not studying or thinking about LNG; they were welding steel, laying pipelines and building tankers.

[7:55:12 AM](#)

He addressed the potential benefits to Alaskans from a state-owned gasline/LNG project. He referenced a consultant study on energy cost savings for Bethel and Fairbanks: Fairbanks would save 80 percent and Bethel would save 25 to 65 percent. He noted that the study assumed small LNG barges would be used out of Valdez to service Bethel and Alaska coastal cities.

CO-CHAIR COGHILL noted that LNG shipping to Bethel would involve building a holding facility. He asked if storage costs were considered in the economic analysis.

MR. WALKER responded that the study's results indicated that there would be savings.

CO-CHAIR COGHILL stated that there was talk about building a pipeline from Southcentral to the Donlin Gold Mine and he surmised that the mine would want to consider it.

MR. WALKER answered correct.

SENATOR EGAN asked if any studies were done on LNG shipments that would benefit the 70,000 plus Panhandle/Southeast residents.

MR. WALKER replied that AGPA did look at Southeast and the benefits would be via revenues to the State.

SENATOR EGAN asked if Southeast would get energy from LNG.

MR. WALKER said Southeast could receive energy and noted that gas would have to be cheaper than hydro-power. He explained that AGPA met with [Alaska Ship & Drydock] in Ketchikan regarding other countries that use small barges to transport LNG. He said LNG barges could be used in Southeast, as long as it was more economic than hydroelectric. He noted that [Alaska Ship & Drydock] liked the idea of building the barges and small vessels in Ketchikan.

[7:57:55 AM](#)

CRAIG RICHARDS, General Counsel, Alaska Gasline Port Authority, said he would address the large [diameter] pipeline bottlenecks and the advantages of a large [diameter] pipeline from the North Slope (NS) to Valdez/South Central versus a bullet-line.

MR. RICHARDS explained that ALNGP had all of the major components for a project as follows:

- Gas availability, 30 to 35 trillion cubic feet of proven reserves.
- Asian market demand, the most recent solicitation of interest was double ALNGP's full capacity.
- Alaska LNG economics were the best in the world, according to WM.
- No appearance of significant regulatory hurdles, the Lower 48's change in natural gas supplies would improve the chances for ALNGP to obtain an export license.

He addressed why a large project has not moved forward as follows:

- Fiscal certainty, NS producers do not want to move forward until they get fiscal terms arranged in an acceptable manner.
- NS producers do not want to build a project themselves or sell gas until their demands were met.

[8:00:28 AM](#)

He cited a quotation from Steve Coll, author of "Private Empire," a book on ExxonMobil. He said Lee Raymond, CEO of ExxonMobil in the mid 90's, was referenced in the book as follows:

Exxon had opportunities to exploit oil and natural gas in Alaska, but held back from some expensive deals

because [CEO Lee] Raymond had learned after the Valdez [oil spill] that the political risks posed by Alaska's frontier-minded political culture and populist governors were comparable to those of West Africa.

MR. RICHARDS said Mr. Raymond was indicating that ExxonMobile was nervous about investing in Alaska and the likelihood of the Alaska government changing the fiscal terms on ALNGP. He noted that ExxonMobil did not want to invest in Point Thomson or a natural gas pipeline until they get the fiscal structure they want.

He paraphrased testimony made before the Alaska House Resources Committee in April 2007 by Marty Massey, ExxonMobil U.S. Joint Interest Manager as follows:

Exxon was willing to accept geologic risk, they were willing to accept commodity price risk, they were willing to accept cost overrun risk, but what they were not willing to risk before they invest in Alaska or before they sell at the wellhead, is fiscal certainty risk; they are not willing to risk the state of Alaska changing terms on them in the future if a deal is reached.

He said that ExxonMobil's position was confirmed in a letter the Governor received from the producer's three CEO's in March 2012. He noted that the statement to the Governor was consistent with what had been heard since the mid-90s; the producers want fiscal certainty before moving forward with the project.

He said in October, a project update letter was presented on the Alaska Pipeline Project as follows:

A healthy, long-term oil business, underpinned by a competitive fiscal framework and LNG project fiscal terms that also address AGIA issues, is required to monetize NS natural gas resources.

He said the Alaska Pipeline Project letter was ConocoPhillips, BP, and ExxonMobil telling the state of Alaska that fiscal certainty and AGIA changes were required before moving forward with a project.

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He stated that fiscal certainty was required for the NS producers to get onboard with the project. He said fiscal certainty for the producers was as follows:

- Tax and royalty concessions on oil and gas. One of the hallmarks of the requirements in the past before the move forward with the pipeline project is that they not only want structure on gas taxes that they like, they want structure on oil taxes that they like.
- State relationship redefined as contractual in terms locked in for the life of the project, they want it so that Alaska cannot get in and sort of turn the knobs after the project was under construction to change to fiscal deal.

MR. RICHARDS explained that the producers want to redefine Alaska's relationship as both a project partner that owns Prudhoe Bay and as sovereign government. He noted that the current relationship provided Alaska with both contractual rights as an owner and sovereign rights of a government. He explained that the producers want to realign away from sovereignty towards a purely contractual arrangement through fiscal certainty. He said the [contractual arrangement] was the approach that the "Big Three" [producers], especially ExxonMobil, take around the world. He said when producers view a sovereign government as unstable; they try to put a contract in place with decision making parameters and international arbitration review. He said the contracts removed sovereignty from local decision making and puts a deal in place that the producers feel they can move forward with.

[8:04:33 AM](#)

He addressed what fiscal certainty looked like for the NS producers with the 2006 Stranded Gas Development Act (SGDA) in order to allow a pipeline project to go forward were as follows:

- No regulatory jurisdictions by the Regulatory Commission of Alaska (RCA).
- Contract trumps state sovereignty.
- Alaska would be forced to take NS royalty taxes in-kind.
- Oil and gas taxes reduced and taxed.
- No meaningful development for Point Thomson until it was commercially favorable.
- Alaska courts would have no jurisdiction on disputes.
- Keep as much confidential as possible.

- General force majeure clause.

MR. RICHARDS noted that SGDA contract articles were embedded into the [2012] Point Thomson Settlement Agreement (PTSA) without addressing tax issues. He predicted that the administration would likely come forward within the next six to twelve months with a fiscal deal similar to Governor Murkowski's [2006] contract or a series of individual bills that addressed specific issues.

He addressed the "Simple Alaska NS Lessee Decision Tree" to move a gas pipeline forward as follows:

- Fiscal Certainty: before the lessees commence significant technical work, they want fiscal certainty.
- Technical Work: Front End Engineering and Design (FEED) work.
- Alaska NS Lessee Commercial Decision: after cost estimates and some commercial negotiation arrangements.
- Financial Close.

He said the Decision Tree was based upon sequential gates and NS producers would not commence with FEED until fiscal certainty was addressed.

[8:07:19 AM](#)

He said the point of AGIA was to get around the problem of not starting a pipeline project by bringing in a "white knight," a company that would effectively start doing the technical work and advancing a project without resolving fiscal certainty. He explained that the architects of AGIA had been through the SGDA process and recognized that fiscal certainty was a problem in achieving the terms that worked for the State.

He said AGIA ultimately did not work and failed as it was intended, which was a means to get around the producer control and demand for fiscal certainty.

He said AGIA failed for the following reasons:

- TransCanada geared the gas pipeline as a highway project through Canada and Valdez LNG was mentioned to "cover the bases."
- TransCanada was brought in as the "white knight" and after the AGIA license was awarded, TransCanada announced that nothing would forward until ExxonMobil was happy with it.
- Shale gas changed how AGIA was going to work.

- Moved technical work above fiscal certainty without addressing the need for fiscal certainty.

MR. RICHARDS explained that AGIA was a "permit and they will come" approach and YPC attempted the same tactic without success in the late 80's/early 90's. He said the NS producers have the gas and until such time as they were willing to come to the table with gas or the State exercises another option, having permits in place and doing the technical work does not really solve the problem with moving a gas pipeline forward.

8:10:40 AM

He said the State had two options to move a pipeline project forward:

- Enter into a deal with the North Slope producers.
- Take control of the gas pipeline project and align with the market without the producers.

He explained that the NS producers would likely come forward with a fiscal package similar to what was in the 2006 SGDA contract and fiscal certainty was not acceptable to the State. He noted that the current environment was less favorable to provide fiscal certainty. He said in 2007, oil prices were at \$50/barrel, since then oil prices have doubled and Alaska's Clear and Equitable Shares (ACES) oil tax was enacted with the State's take going from \$3.7 billion in 2006 to about \$8 billion. He noted that fiscal certainty proposals that requested oil tax reductions would exceed the value of gas pipeline development to the State's treasury for a long time. He said the State needs to begin the technical work without the producers until producers were willing to commit to a project without demanding fiscal certainty. He said the Alaska Stand Alone Pipeline (ASAP) Project has been doing right by not allowing fiscal certainty to bottleneck technical development.

He said as the legislature looks at the fiscal certainty discussion that was going to occur in the next year, the question was whether Alaska was going to provide fiscal certainty on terms that were acceptable to the producers and was it in Alaska's interest to do so.

He addressed Alaska's alternative and how to advance a project with the North Slope producers. He said with Alaska's requirement for gas to be sold at the wellhead, the State should bring in other international companies with the same kind of

balance sheets to take on the project development role that BP and ExxonMobil would take if they got a fiscal certainty deal.

8:14:23 AM

SENATOR MICCICHE asked about the subject of fiscal certainty and noted articles that compared the 2006 SGDA contract with the 2012 PTSA. He asked "constitutionally" if it was fair to say that the articles that were similar to the 2012 PTSA would be relatively easy to settle constitutionally and the articles from the 2006 SGDA Contract, with the exception of two articles, would be more difficult to settle.

MR. RICHARDS answered yes. He said from a purely constitutional perspective, taking out the politics or whether it was a good deal, Senator Micciche was accurate. He explained that the point Senator Micciche was astutely making was that the contractual rights the State had in terms of its royalty and various NS contractual arrangements were things the State had the power to cut a long term deal on.

He noted that Articles 14-21 [2006 SGDA Contract] represented changing a tax structure, which the legislature could do, but locked-in tax change for some period of time or the life of the project. He explained that the rub on fiscal certainty was that the State constitution explicitly prohibited contracting away the power to tax and lock-in taxes that could not be changed in the future.

SENATOR MICCICHE addressed AGPA's discovery phase and asked if AGPA was able to identify an effective way to deliver fiscal certainty.

8:16:11 AM

MR. RICHARDS replied that he thought it could not be done. He said if the NS producers demanded fiscal certainty and the State could not give it to them, alternatives had to be considered.

CO-CHAIR BISHOP asked if one alternative would be the State acting as an "interest working partner."

MR. WALKER answered yes, that was one option. He said after meeting with producers, especially with ExxonMobil, the problem was trying to get someone to do something that may not be in their best interest, but was absolutely in Alaska's best interest. He stated that Alaska should not be a minority partner and explained that the world model was for governments to have predominant roles in infrastructure development. He noted that

Qatar had a 70 percent interest and the leaseholders had 30 percent. He said a predominant role allowed a government to determine what market it goes to and when. He remarked about Alaska's population of 650,000 people compared to Seoul, Korea with 11 million people. He said Alaska needs a bigger market by taking control of the opportunity.

MR. WALKER noted that at meetings in Japan and Korea, no end-users had ever been approached by Alaska's leaseholders. He explained that the State was fortunate to have the producers that were in Alaska, but they were successful companies that had projects all over the world. He said Alaska did not have projects throughout the world. He warned of sitting back and trying to incentivize with fiscal certainty on the pipeline was like trying to incentivize a freight transportation company to build a highway system. He stated that APGA had been a long supporter of Alaska stepping up and being involved as the owner. He said the president of Semptra Energy [Japan] was adamant about Alaska taking an ownership position. He noted that the State would ultimately pay for it one way or another. He agreed with Senator Micciche that it was uncertain if the State could ever get to fiscal certainty. He noted that WM's projected revenue of \$220 billion to \$400 billion was based upon half-capacity volume of 2.7 Bcf/d. He said an open season would double WM's volume projections at 5.5 Bcf/d. He stated that the State was sitting back, waiting for more announcements, waiting for somebody else to step up and do what was best for Alaska. He said AGPA urged Alaska's legislature to take notice.

He said he was surprised that Alaska was not having hearings about AGIA. He noted that \$500 million was put on the table and no results had been seen from the [AGIA's] 2010 open season. He said the only reason why the legislature saw AGPA's recent open season was because AGPA nominated, went to the market, bought it, and showed it to the legislature. He noted that an article in the Anchorage Daily News indicated that 2.7 Bcf/d was nominated. He asked what more had to be done to show. He noted that AGPA brought a contingency from the Mitsubishi Corporation to Juneau one week after the Fukushima earthquake. He said the Mitsubishi Corporation met with the Senate leadership and the Department of Natural Resources' (DNR) commissioner. He noted that afterwards, Mitsubishi Corp. went to British Columbia and invested \$1 billion with Shell Canada in an LNG project and invested another \$1 billion on the Gulf Coast. He said the Mitsubishi Corporation was ready to do business and Alaska seemed to be sitting back, living from announcement to announcement while the world literally passed the State by. He

explained that announcements were one thing, but putting a project together that was market-based and had the economics was not a "build it and they will come" approach, the markets could be tied up well in advance. He said AGPA could walk the streets of Seoul and Tokyo and sign up customers for 5.5 Bcf/d, the state of Alaska could be doing that. He said AGPA was pleased that the administration, Governor, and the DNR commissioner were making trips to Japan and that was a very good start. He emphasized that the State had to move more aggressively.

8:21:20 AM

CO-CHAIR BISHOP asked if AGPA was surprised by the number that the majors put out for the pipeline's total construction costs. He inquired if the projected construction costs were in line with WM's modeling numbers.

MR. WALKER answered that the constructions costs were in line with WM's modeling numbers. He explained that the Asian market asked if Alaska could compete with a \$65 billion gas pipeline project. He noted that Australia's Gorgon LNG Project was way over \$50 billion, a project that was not done and was half the size of ALNGP. He explained that the ALNGP project cost was actually in the \$45 billion to \$65 billion range. He noted that Alaska's climate made ALNGP 40 percent more efficient than Australia's Gorgon LNG Project because the ambient temperature was approximately 110 degrees in Australia and 40 degrees in Valdez.

SENATOR WIELECHOWSKI asked how Alaska could break through the bottleneck. He said the State had been through the 2006 SGDA contract and there were certain things that constitutionally could not be agreed to. He stated that he did not think the people of Alaska were willing to give up state sovereignty even if it was possible.

MR. RICHARDS replied that Senator Bishop brought up a great question on whether the State should take an ownership role at a high level. He explained that the State could as a project developer without necessarily taking on an equity state. He said as a project developer, the State would:

- Identify the market.
- Contact the market.
- Negotiate gas purchase contracts.
- Take purchase contracts to the NS producers.

He explained that NS producers did not have the legal right to withhold gas production if they had a chance to make money. He said NS producers could not hold the "spicket" closed in order to gain leverage on other contractual terms and the act would be in direct violation of their leases. He disclosed that the NS producers were not going out and seeking the market or advancing the project because they wanted fiscal certainty. He said the State needs to be in the project developer role, working with the Asian buyers on a liquefaction plant, identifying the market, and negotiating gas purchase agreements. He noted that at any point, NS producers could come onboard without demanding fiscal certainty, but Alaska could not sit around waiting for the NS producers to ask for something that could not be given to them.

[8:25:02 AM](#)

SENATOR MICCICHE noted the struggles that occurred before the TAPS line was built, the numbers were always somewhat daunting, but the visionaries that built TAPS created Alaska's current economy. He stated that it was difficult to move folks beyond ALNGP's large scale, but the key was its market that was unlikely to diminish significantly. He explained that Alaska would enjoy various commodity prices through the years, but when funding something over 30-plus years, the project would literally deliver a number-two industry to Alaska that the State currently did not have. He asked if it continued to be difficult to move a large diameter line project forward, would AGPA support a smaller diameter line that was less economical, but delivered energy to Alaskans at a fair price.

MR. WALKER answered that AGPA would not go into much detail on the Alaska Gasline Development Corporation (AGDC) today, partially because of lack of time. He noted that Canada was in a similar situation during the early 50's with their gas in Alberta and their people in Toronto. He said Canada did for three years what Alaska has been doing for 30 to 40 years regarding building a gas pipeline. He explained that the Canadian Parliament put an end to the arguing about the routes, hired the contractors, and built the pipeline themselves. He noted that the Canadian government owned their pipeline for one day and sold the project to TransCanada; that was how TransCanada got started.

He said it was his hope that if the producers do not come through with something and ask for fiscal certainty, which Alaska cannot give under its constitution, Alaska's default plan should not be "failed opportunity/failed project." He said the

[AGDC] plan does not put a single dime in the State's coffers. He said the [AGDC] plan might be good for some reasons, but he advised not to step away from [ALNGP] just because some companies have said it was not in their best interest. He said his concern was accepting failure because Alaska was not willing to step up and do what was right. He recounted a notable meeting in October 1973 when Governor Egan called the producers to Juneau and announced that Alaska was going to build and own TAPS. He said the Governor and the State stood up and announced what it was going to do rather than sit back and wait for the producers to continue arguing about fiscal certainty.

MR. WALKER stated that the best option was the large volume, market based pipeline. He said Alaska had a "world class" opportunity from the NS and should match that with a world marketplace opportunity. He affirmed that the marketplace was very interested in Alaska, but they were also confused by Alaska. He noted that he was told that the marketplace knew how to do business in Africa, but did not know how to do business in Alaska. He summarized that Alaska needs to change its marketplace perception and the committee had an opportunity to change that.

[8:29:29 AM](#)

SENATOR WIELECHOWSKI asked to address when people talk about Alaska's competitiveness versus the Lower 48 with its influx of cheap shale gas. He asked if AGPA believed that Alaska could be competitive with the Lower 48. He noted that the Governor laid out a series of parameters and guidelines the he wanted oil companies to follow. He inquired where Alaska was in terms of what the Governor had laid out to the oil companies.

MR. WALKER answered that Alaska does compete with shale gas. He explained that shale gas was untested and Alaska had 40 years of experience shipping LNG out of Nikiski. He said Alaska beats the Lower 48 due to lower shipping costs and lower cost to put gas into the pipeline at \$0.26/MMBtu. He noted that the Lower 48's gas was significantly different to get into its pipeline and facility. He stated that the Lower 48 does not have conventional gas and the marketplace preferred Alaska's associated-gas.

He addressed the plan the Governor laid out and noted that Alaska had done everything but step up and do the project itself. He asserted his concern if the ALNGP proposal still relied on somebody else to do what was best for the State and emphasized that only Alaska could do what was best for Alaska.

He stated that Alaska should learn the lessons of TAPS that it was appropriate for the State to step up. He said Alaska did not have two nickels to rub together in 1973, but certainly does now. He remarked that the State should step up, advance ALNGP, and not wait for more fiscal certainty discussion when Alaska cannot and should not change its constitution.

8:32:17 AM

CO-CHAIR BISHOP thanked Mr. Walker and Mr. Richards for their presentation.

8:33:03 AM

There being no further business to come before the Senate In-State Energy Committee, Co-Chair Bishop adjourned the meeting at 8:33 a.m.