AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 155 3291 165

FTC website notice of advance regulation

# FTC on BP in Alaska North Slope

"FTC required BP to divest ARCO's ANS holdings to Phillips (now ConocoPhillips)

The Commission had reason to believe that BP occasionally had exported ANS crude oil to the Far East in order to increase spot prices for ANS crude oil on the West Coast and that BP benefitted from those higher spot prices because of its status as a merchant marketer."

# FTC Advance
# ...tice of Proposed Regulation

...gulated petroleum pipelines may not ...w new shippers a share of a pipeline's ...pacity when historical shippers seek to ...ansport more petroleum products than ...e pipeline is capable of transporting.

The Commission seeks comment on ...ether pre-announcements that pipelines ...approaching capacity constraints may ...conduit for market manipulations or ...s. . . ."

# FTC Advance Notice of Proposed Regulation

- Identifies "Potential Practices" that may constitute market manipulation
- Seeks comments "on the circumstances, if any, under which a firm's decision regarding supplying a market (including whether to reduce, increase, or maintain unchanged the amount it supplies) should be considered manipulative or deceptive."

# Market Manipulation Statues

- Energy Independence and Security Act of 2007
  - Prohibits any manipulative or deceptive device or contrivance in connection with purchase or sale of crude oil or gasoline or petroleum distillates
  - Authorizes FTC to prescribe regulations

# Market Manipulation Statutes

- Energy Policy Act of 2005

  – Gives FERC new enforcement powers over natural gas and electricity markets

  – FERC imposed $200 million penalty in one pending case; nearly $100 in another (in addition to disgorging unjust profits)

9

**Evaluating Natural Gas Gathering Facilities.** On behalf of an interstate pipeline, ICF International estimated the value of a nonjurisdictional gathering pipeline system. The analysis used the EADSS™ to examine the implications of possible new production coming on line, gas market prices on different connecting pipelines, and competition from nearby gathering systems. The analysis showed the expected stream of revenues and the high and low values associated with project uncertainties.

**Pacific Northwest Gas Storage Strategy Study.** ICF International used EADSS™ to evaluate strategies for purchasing or releasing transportation capacity and purchasing gas storage capacity. The work was performed for the owner of a gas-fired generator and thus

**Alaskan Pipeline.** For producers on the Alaskan North Slope, ICF International evaluated the effect of Alaskan and MacKenzie Delta gas on U.S. and Canadian gas markets, prices, and pipeline flows. We evaluated various scenarios to assist the producers in understanding the implications of different assumptions and configurations for bringing frontiers supplies into the market.

TOP

**ENERGY**

Perspectives on Energy

Power Markets

**Fuels Markets**

Alternative Fuels

Liquefied Natural Gas (LNG)

Air Emissions & Environment

Renewable Energy & Green Power

Climate Change & Ozone Protection

Electric Transmission

Energy Efficiency & Demand Management

Water Utilities & Markets

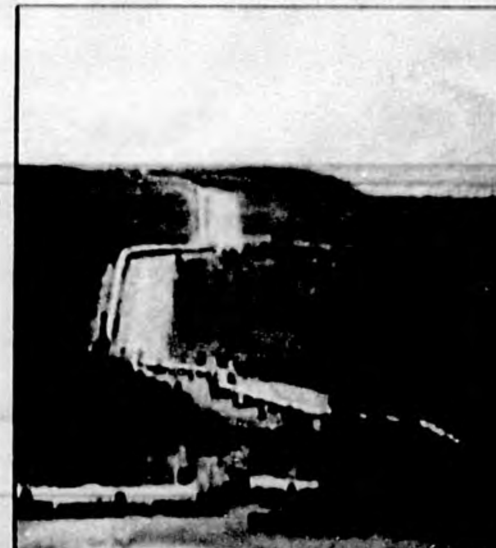
Regulatory & Litigation Support

Home > Markets > Energy > Fuels Markets | Energy Experts at ICF International

# Fuels Markets

To help clients control a critical and potentially volatile component of the energy equation, ICF International assesses and forecasts natural gas, petroleum, and coal markets worldwide using deep industry expertise and proprietary models and databases. Our analyses and valuations have supported the financing of more than US$10 billion in gas assets.

ICF's gas area expertise was augmented in January 2007 with the acquisition of Energy and Environmental Analysis (EEA), a national leader in gas market analysis.



- **Natural Gas Market Analysis**
- **Supply Assessments and Project Evaluation**

**WHAT'S NEW**

» **U.S. Emission & Fuel Markets Outlook**

9

# Broken into "Seven Sisters"

of New (Esso)

Royal Dutch Shell (Anglo-Dutch)

Anglo-Persian Company (APOC)

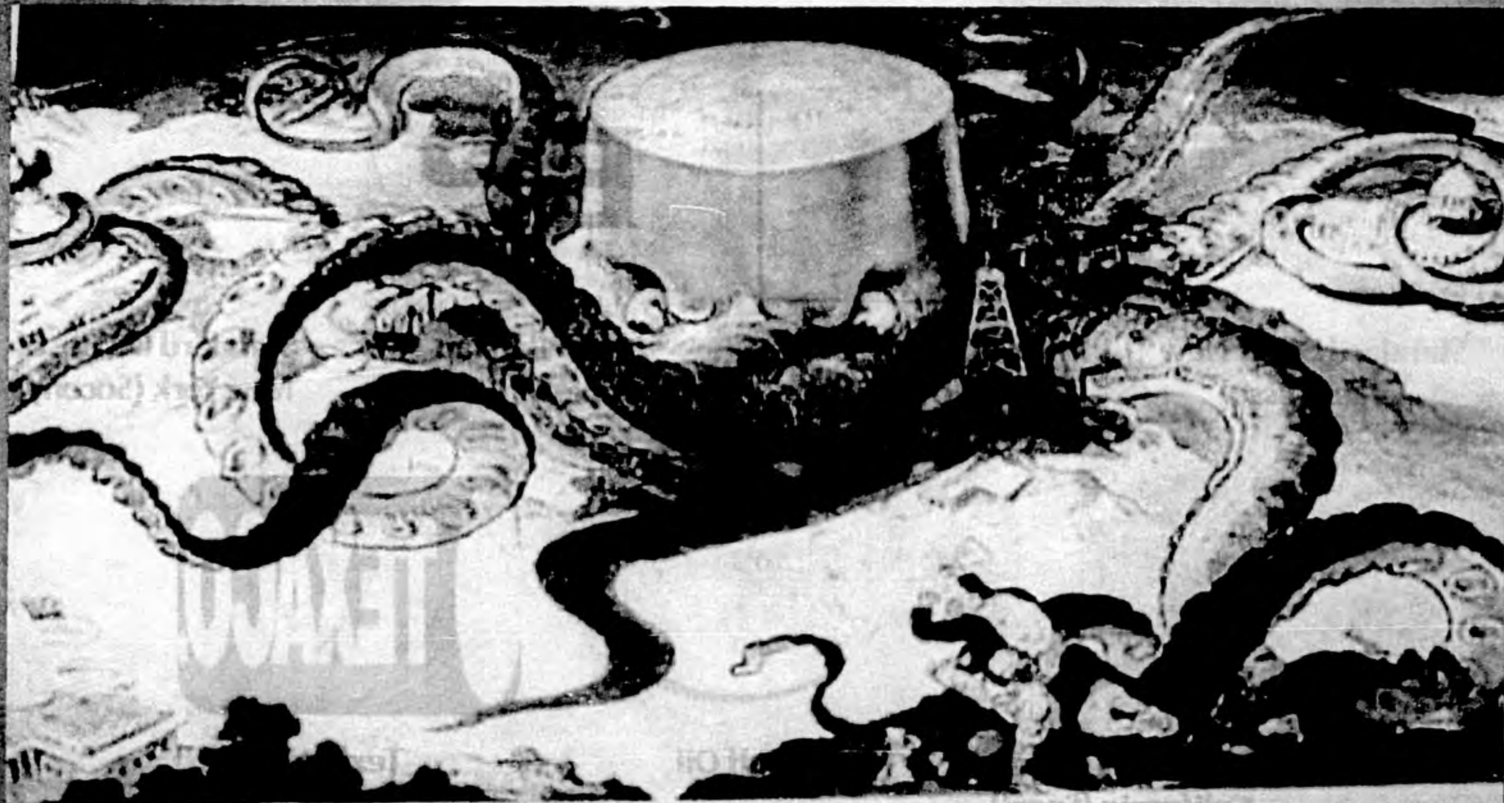
Standard Oil Co. of New York (Socony)

Standard Oil of California (Socal)

Gulf Oil

Texaco

# Standard Oil Monopoly



5

# Antitrust Statutes

- Sherman Act §§ 1-2
- Federal Trade Commission Act § 5
- Alaska Restraint of Trade and Monopolies AS §§ 45.50.562-596

- Prohibit exclusionary conduct to maintain monopoly power

- Prohibit joint action to withhold supply from the market

# Antitrust/Market Manipulation

- State and Federal Antitrust Laws

- Federal Energy Market Manipulation Laws

HOSIE

# to Develop and Market

of Alaska – Producer Agreement

se Provisions

ska Common Law

e It or Lose It"

Solution

3rd Sp. Session presented 6-08-2008 Sunday 3:45pm Juneau - Terry Miller GYM

AGIA

The Alaska Gasline Inducement Act

# Legal Issues Affecting Producer Participation


Spencer Hosie
Hosie McArthur LLP

Allan Van Fleet
Greenberg Traurig LLP

SCOMM

155:7

**Gavel In & Call to order:**

**I CALL THE JOINT MEETING OF THE SENATE SPECIAL COMMITTEE ON ENERGY and THE HOUSE RULES SPECIAL SUB-COMMITTEE ON AGIA TO ORDER**

**Monday, June 9, 2008**
**(day 7 of the special session)**

**LET THE RECORD REFLECT THAT IT IS ____________P.M.**

**Present at the table are:**

**Schedule for today:** **Back up to where we were yesterday with Mr. Hosie, by teleconference. Take a lunch break around 12:30. Afternoon is scheduled to 5:30 but we can come back after a dinner break if needed.**

**Welcome:** **Trans Canada, administration members and consultants.**

**Welcome to those listening at LIO's and on Gavel to Gavel around the state.**

**5:30 PM: Adjourn. Returning tomorrow @ 10 AM for our last day in Juneau before taking these hearings around the state.**

## FW: AGIA question

Sen. Charlie Huggins

**Sent:** Monday, June 09, 2008 9:40 AM

**To:** Deborah Grundmann

**Importance:** High

Question from April Moore for CH to aoL

---

Question from a constituent which she would like Charlie to address to the group. (FYI: she is also a candidate running against Mark Neuman).

Work:(907)841-8965
Home:(907)733-1458

Karen Sawyer
Staff to Senator Charlie Huggins

---

907-376-4866
907-373-4724 Fax
600 E Railroad Avenue
Wasilla AK 99654
Karen_Sawyer@legis.state.ak.us

-----Original Message-----
From: April Moore [mailto:aprilmoore@starband.net]
Sent: Saturday, June 07, 2008 12:03 PM
To: Sen. Charlie Huggins
Subject: AGIA question

HI, I am currently watching the AGIA meeting, and have a relevant question I would like Senator Huggins to address, if he would.

IF the expansion of gas going through the TC pipeline is suppose to include an "open transport policy" for transporting through the pipeline, does the Administration, or TC for see a problem with the "big three producers" owning the facility on the north slope that prepares the gas
for transport? Will this facility also have an "open processing policy"
in regard to other possible producers, or would THEY or the state have to build a facility that would prepare any other gas Alaska may wish to reach market?

Sincerely,
April Moore
Trapper Creek

# ALASKA STATE LEGISLATURE

**Senator Charlie Huggins, Chair**
Senate Special Committee on Energy
State Capitol, Room 119
Juneau, AK 99801
Phone: 465-3878
Fax: 465-3265

**Representative John Harris, Chair**
House Rules Subcommittee on AGIA
State Capitol, Room 208
Juneau, AK 99801
Phone: 465-4859
Fax: 465-3799

Third Special Session
Twenty-Fifth Legislature

Terry Miller Building, Juneau Alaska
**Monday June 9, 2008**
**10:00-5:30 p.m.**

## Joint Meeting AGENDA ADDENDUM

- Presentations: Review of AGIA Findings and Determination; Natural Gas Pipeline Project as proposed by TransCanada Alaska Company, LLC and Foothills Pipelines Ltd. (TC Alaska) to the State of Alaska.

**Administration and TransCanada**

1:30 PM addition to schedule: **ANCSA CEO's**

- **Vicki Otte**, Executive Dir, ANCSA Association
- **Ken Johns,** President & CEO, Ahtna Inc.
- **Sheri Buretta,** President, ANCSA Regional Association and Chariman, Chugach Alaska Corp.

**Testimony: By Invitation**
**Teleconference**

Sharon

# ALASKA STATE LEGISLATURE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### Administration and TransCanada

- How to Get the Gas – **(continued from yesterday)**
  **Spencer Hosie** (by phone), Hosie, MacArthur LLP;

- Pipeline Regulatory and Commercial Issues –
  ✓ **Greg Hopper**, Black & Veach
  ✓ **Don Shepler**, Greenburg Traurig
  pipeline experience & FERC
  ~~**Bill Sparger**, Energy Project Consultants~~
  ~~**Pat Anderson**, Pingo International~~
  ~~**Kevin Banks**, Actng. Dir. Division of Oil & Gas~~

after lunch → → ANCSA CEOs

-LNG: Economics, Likelihood of Success & Path Forward
Commercial & Business Structure
  **Robert Fenton**, Gas Strategies
  Deepa Poduval, Scott Smith, Black & Veach
  ____________, Westney
  **Bill Sparger**, Energy Project Consultants

**Testimony: By Invitation**
**Teleconference**

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AGENDA INSERT

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  **Don Shepler**, Greenburg Traurig
  **Bill Sparger**, Energy Project Consultants
  **Pat Anderson**, Pingo Internationak
  **Kevin Banks**, Actng. Dir. Division of Oil & Gas

AFTER LUNCH
ANCSA Assoc of CEO'S

-LNG: Economics, Likelihood of Success & Path Forward
Comm & Bus Structure
  **Robert Fenton**, Gas Strategies Commercial & Business Structure
  Deepa Poduval, Scott Smith, Black & Veach
  ____________, Westney
  **Bill Sparger**, Energy Project Consultants

**Testimony: By Invitation**
**Teleconference**

June 9, 2008 – morning presentation 3rd Sp Session AGIA license

# AGIA
# Legislative Special Session

# Incentives and Mandates for Pipeline Expansions

Greg Hopper
Black & Veatch
June 9, 2008

# "Must Haves" Regarding Expansion

- Bi-annual Open Season Offerings
  - Allows shippers to plan, reduces risk premiums
- Capital Structure Certainty (debt & equity within pjct)
  In AGIA minimum of 70/30 required
  - Helps to lower rates for shippers
- Rolled-in Rates
  - Shares the benefits of scale economies, level playing field

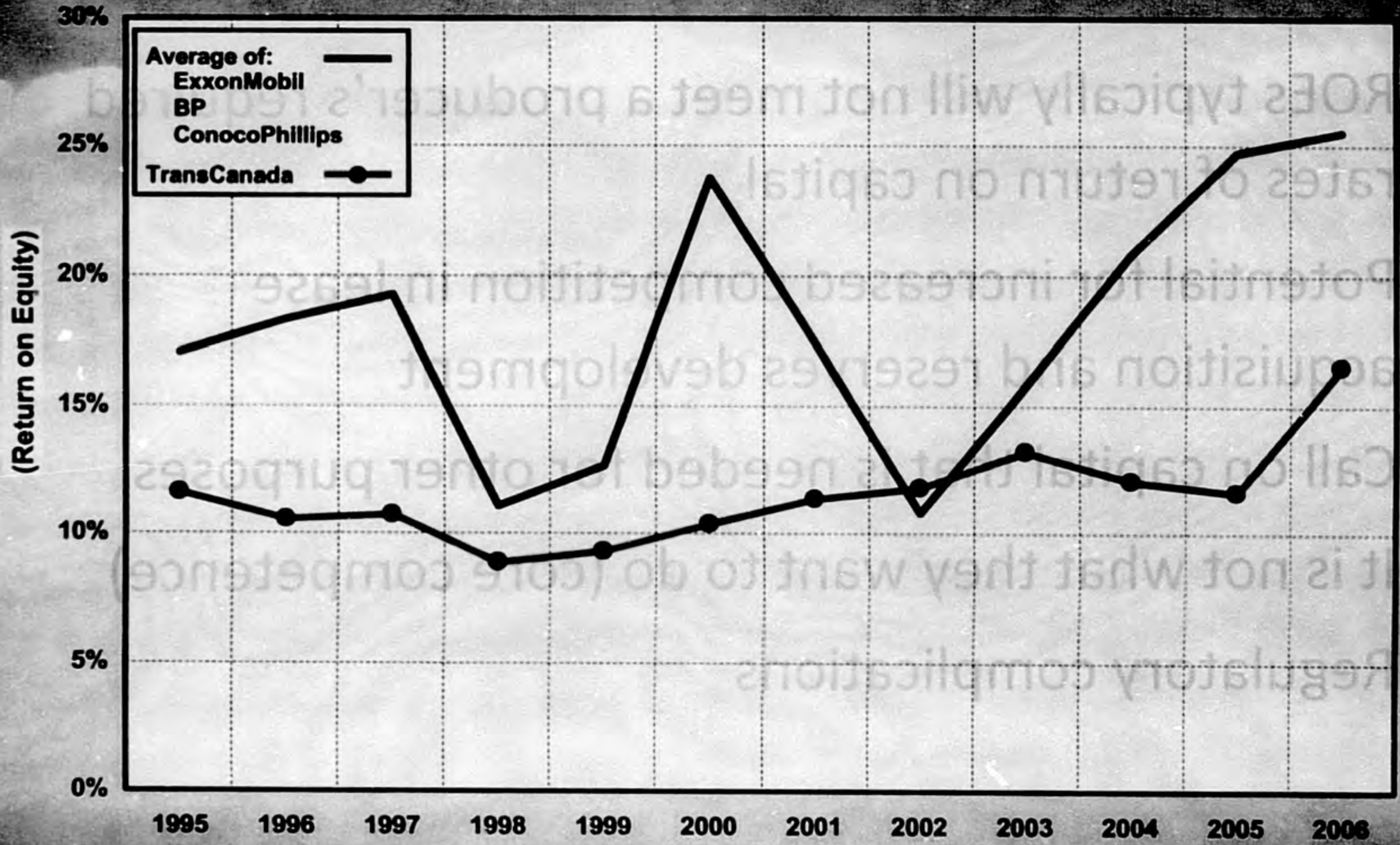
**Development**

- Cost control
- Operating control
- Capacity certainty
- Expansion timing
- Strategic

**Expansion**

- Outlet for increased equity production
- ?

- Gas pipeline regulated rates of return on equity (ROE) generally recognize lower levels of operating risks than other industries
  - FERC ROEs of 14% or less are common
  - ROEs granted to pipelines prior to in-service are often reduced in subsequent rate cases
- Exploration and Production company shareholders require relatively higher (15% – 20%+) ROEs to compensate for higher perceived risks




Source: Value Line (March 16, 2007).

## ... expand pipeline capacity for non-owners?

- ROEs typically will not meet a producer's required rates of return on capital
- Potential for increased competition in lease acquisition and reserves development
- Call on capital that is needed for other purposes
- It is not what they want to do (core competence)
- Regulatory complications

June 9, 2008 - Meeting presentation 3rd Sp Session AGIA License
(3rd Speaker) (after Hosie & Hopper)

# AGIA
The Alaska Gasline Inducement Act

# Producer Incentives to Expand Pipeline for Third-Party Shippers

Don Shepler
Greenberg Traurig LLP

# [illegible] as Producers May Conflict [illegible] Interests as Pipeline Owners

"[illegible]ing to deny the fruits of their monopoly [illegible]er to nonowner shippers, the [producer-owned] pipeline would have to deny pipeline access to nonowner shippers. . . . The analysis above should make it clear that producer-ownership of the pipeline creates incentives to deny or impede such future capacity expansion."

Report of the Attorney General to Congress Pursuant to The Alaska Gas Transportation Act [illegible]-59.

# Stranded Gas Development Act History

- Draft SGDA contract included the 10 ANGPA requirements for expansion and added 20 more conditions

- Explorers objected that they were better off with no contract expansion terms

- Draft LLC agreement provided that pipeline board representatives owed fiduciary duties not to the pipeline, but to producers that appointed them.

# AGIA History

- ConocoPhillips alternative proposal provided for expansion at higher cost to new shippers than AGIA requires

- Denali proposal makes no expansion commitments

JUNE 9, 2008
additional handout: Shepler

RM05-01

1

**FEDERAL ENERGY REGULATORY COMMISSION**
WASHINGTON, DC 20426

SENR: Hearing
1:30 PM
JUNEAU

OFFICE OF THE CHAIRMAN

January 28, 2005

The Honorable Ethan Berkowitz
Minority Leader
House of Representatives
Alaska State Legislature
Alaska State Capitol
Juneau, Alaska 99801-1182

Dear Representative Berkowitz:

Thank you for your January 4, 2005 letter expressing concerns regarding the ownership and operation of a future Alaskan natural gas pipeline. The successful licensing and completion of such a project is of primary national importance.

In your letter, you observe the three largest producers of Alaskan oil – BP, ConocoPhillips, and ExxonMobil – also hold more than 90 percent of the proven North Slope natural gas reserves. These three parties own the existing Trans Alaska Pipeline System (TAPS) oil transportation pipeline, and you express the concern that if they are permitted to also own a new gas transportation pipeline, they could act to frustrate the development of Alaska's energy resources. You ask whether an Alaskan gas pipeline project proposed pursuant to the Alaska Natural Gas Transportation Act (ANGTA), will be subject to regulatory oversight sufficient to identify and remedy practices prohibited under antitrust provisions. You also similarly question whether an Alaskan gas pipeline developed outside of ANGTA's authority will conform to the antitrust laws.

An Alaskan gas pipeline proposed pursuant to ANGTA, or developed outside of ANGTA to bring Alaskan gas to other states, will be subject to the Commission's jurisdiction under the Natural Gas Act (NGA). The Commission has acted under its NGA authority to promote competition in natural gas transportation by requiring open access, nondiscriminatory treatment, and the timely construction of new gas facilities. In authorizing an Alaskan gas pipeline under the NGA, the Commission will seek to promote investment in and the development of Alaskan gas reserves to expedite the delivery of these reserves to markets in and out of Alaska, in conformity with antitrust laws. In doing so, we will be mindful of the congressional and presidential pronouncements you referenced in your letter.

(2)



In the Alaska Natural Gas Pipeline Act of 2004 (ANGPA), Congress directed the Commission to prescribe open season and other rules applicable to any new Alaskan pipeline intended to transport gas from the North Slope to the contiguous states. The Commission has initiated a proceeding in RM05-1-000 to address the open season rules and is currently considering comments from the public on how to manage requests for pipeline capacity, how to price mandated capacity expansion on a new pipeline, and the issue of tying capacity allocations to other gas services. Comments submitted by prospective pipeline sponsors and shippers, and by other interested parties, identify means by which market power might be exercised, and suggest how the industry and the Commission might prevent and respond to such abuses. These comments, as well as the concerns you raise regarding the potential for gas producers to exert undue control in the event they build a producer-owned gas pipeline, will be discussed and addressed in the rulemaking proceeding.

Currently, the Commission does not have before it any application for authority to construct an Alaskan natural gas transportation pipeline. Thus, it is not possible to respond specifically to issues, including antitrust matters, which may arise once such an application is filed. However, all such issues will be carefully assessed by the Commission when an application is submitted for a pipeline project, and the Commission will do everything it can to preclude antitrust abuses and promote competition in the authorization, construction, and operation of a future Alaskan natural gas pipeline. In response to your immediate concern, it would be prudent to conclude that the antitrust issues which concerned Congress and the President over twenty years ago are still valid and will be addressed by our Commission in our proceedings.

I will place your letter and my response in our open access rulemaking docket (RM05-01). If I can be of further assistance in this matter, please do not hesitate to contact me.

Best regards,

Pat Wood III

Pat Wood, III
Chairman

June 9, 2008
additional handout: Shepler

SENR Sp. Sess. AGIA license
Hearing 1:30 PM

3

AS 43.90.130(6)(B):
"reasonable engineering increments" means the amount of additional capacity that could be added by compression or a pipe addition using a compressor size or pipe size, as applicable, that is substantially similar to the original compressor size and pipe size;

RFA
2.4.1.4 General Expansion Provisions
For purposes of determining the reasonable engineering increment of capacity that can be added by the addition of pipe (commonly referred to as "looping") the Licensee shall base its calculations on: (1) the addition of a full valve section based on the original pipeline Mainline valve locations; and (2) pipe diameter that would be required were a full loop of the pipeline to be undertaken.

3rd Special Session: AGIA License JUNEAU June 9, 2008
3 PM - 4:30

GAS STRATEGIES

# The Challenges in Building an Alaskan LNG Chain

**June 2008**

**Presented by Rob Fenton – Managing Consultant Gas Strategies Consulting**

# Dr. Robert Fenton

- **27 years experience with Shell**
- **12 years in Gas and Power**
- **Commercial Management, Business Development, Strategy Formulation**
  - UK North Sea,
  - Turkmenistan to Turkey and Europe gas pipeline
  - USA – LNG import projects
  - Mexico LNG import
  - Shell LNG Strategy
- **4 years with Gas Strategies**
  - Principally LNG
  - Market evaluation and gas development strategies
  - Business models and strategies

## LNG as an alternative to a pipeline

- **Not just a choice between LNG and a pipeline but between:**

- **LNG to the illiquid, long-term contracted and in China's case developing, gas markets of Asia**

**And**

- **Pipeline to the deep, liquid, short term contracted market of USA**

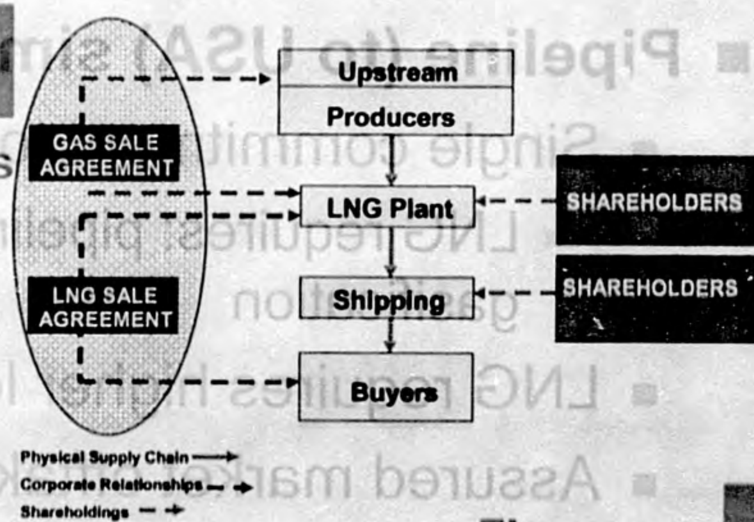
# Putting an LNG chain together is complex, it varies by market and is challenging in Asia

- **Gas is not oil**
  - Oil is a truly global commodity in which demand can be assumed - price varies
  - Oil Projects easy to launch on this basis
  - Gas is more costly to transport and more rigidly fixed to regional markets – often with a single buyer
  - Assuring demand means securing a long term buyer
  - And then building the whole delivery chain to the specific buyer
- **The US gas market is different from others**
  - US gas market is very similar to the global oil market – offtake is assured, price varies
  - Transparent gas price index
  - New gas development relatively straightforward
- **LNG is challenging- especially into Asia Pacific markets**
  - Costs are higher
  - All elements of the chain need to be connected with legal agreements to ensure the LNG once produced will be sold over the life of the project (ca. 20 years)
  - Asian markets not liquid – greater volume risk
  - Price for long term contract depends on market conditions at time of negotiation
  - The scale of projects usually means several companies will be involved (plus governments).
  - Getting and retaining alignment where there are competing projects and negotiating all agreements can be difficult.

# Commercial contracts critical for viability of LNG chain to ensure financing and construction

1

Contracts


3

Construct

Finance

2

- **All elements of chain need to be connected with legal agreements to ensure the LNG produced will be sold over the life of the project (ca. 20 years) to support investment risk**
  - Before finance can be raised
  - Before construction starts
- **Makes LNG development complex**
  - Liable to delays and occasionally failure

## Producers view of risk and reward

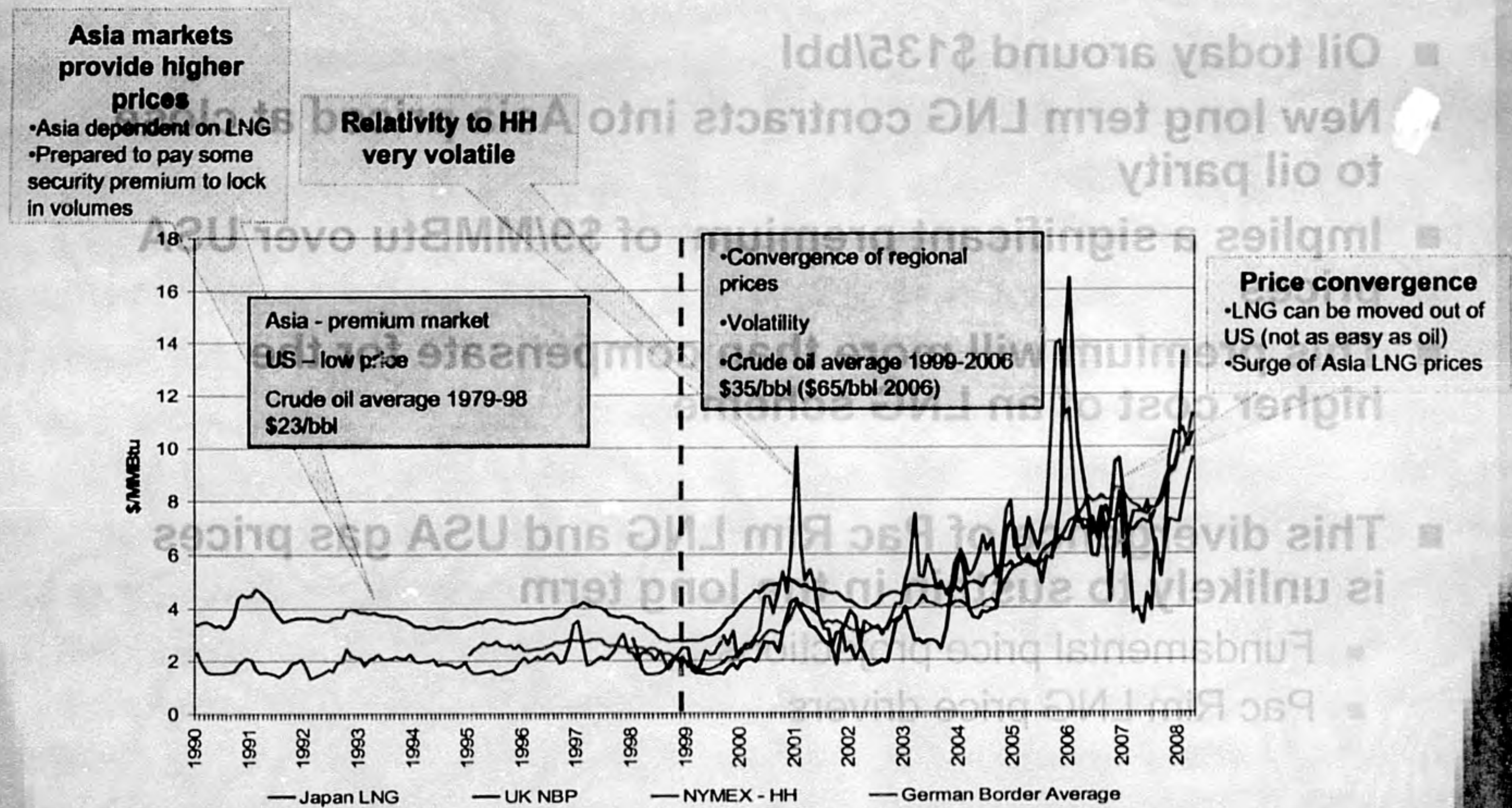
- **Pipeline (to USA) simpler by comparison:**
  - Single commitment to pipeline capacity
    - LNG requires: pipeline, liquefaction, ships, re-gasification
  - LNG requires higher level of reserves assurance
  - Assured market offtake
  - Transparent pricing
  - Single gas quality and blending
  - Producers can act independently and integrate with the rest of their North American gas sale

## Are today's prices a basis for commitment to LNG for the long term?

- **Oil today around $135/bbl**
- **New long term LNG contracts into Asia priced at close to oil parity**
- **Implies a significant premium of $9/MMBtu over USA prices**
- **This premium will more than compensate for the higher cost of an LNG scheme**

- **This divergence of Pac Rim LNG and USA gas prices is unlikely to sustain in the long term**
  - Fundamental price projections
  - Pac Rim LNG price drivers

# Asian contract prices normally sit above HH; but in some periods they do not.

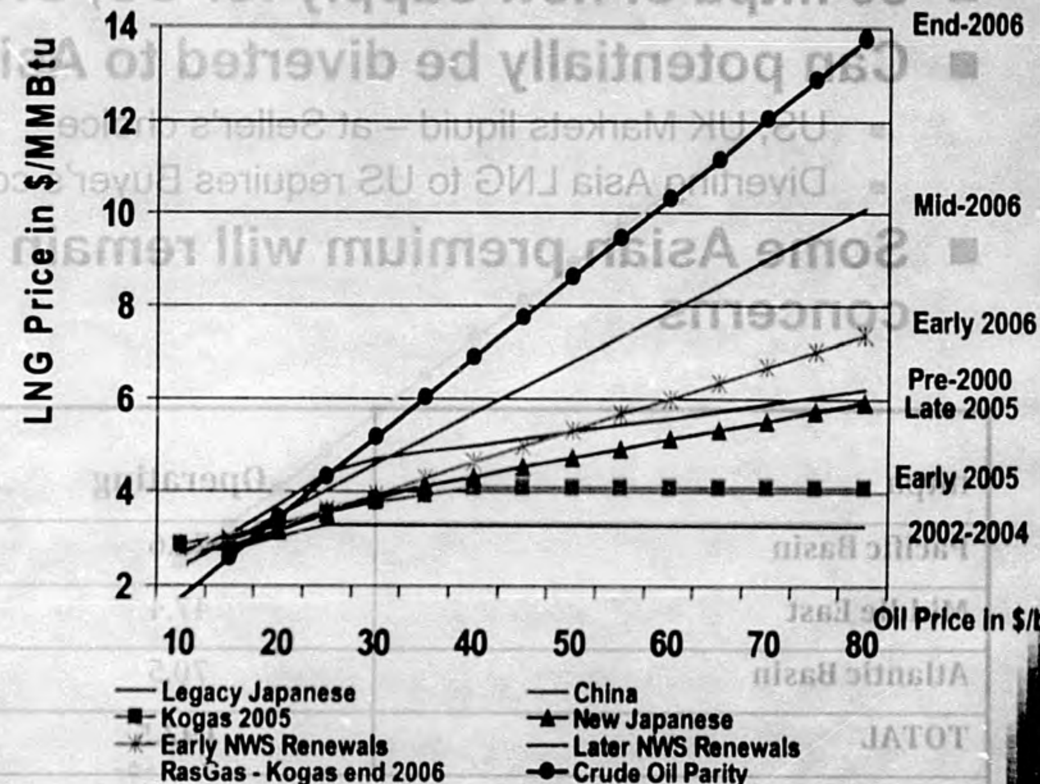



*Source: Gas Strategies Consulting*

# Rapid market changes lead to scatter of prices and renegotiation

### 2001 - 2004

- Over 10 suppliers and potential producers were offering supply
- Buyers achieved lower prices and a reduction in the oil price linkage
- Price ceilings at around $25/Bbl oil prices in some contracts
- Result was much lower LNG price at high oil prices in new contracts




### 2005+

- Return to "sellers' market" has strengthened position of producers
- Qatar has pushed the LNG price to crude oil parity at $100/Bbl oil in its most recent deals
- Wide scatter of price opened up by the sudden rise in oil price
- Virtually all legacy contracts renegotiating

mt = million tons

# Asian premium is limited by growing flexible supply

- **2007 US supply 16 mtpa**
- **50 mtpa of new supply for US, UK under construction**
- **Can potentially be diverted to Asia**
  - US, UK Markets liquid – at Seller's choice
  - Diverting Asia LNG to US requires Buyer's concurrence
- **Some Asian premium will remain driven by security concerns**

| mtpa | Operating | Under Construction | Total |
|---|---|---|---|
| Pacific Basin | 74.6 | 27.4 | 102.0 |
| Middle East | 47.4 | 53.5 | 100.9 |
| Atlantic Basin | 70.5 | 12.1 | 82.6 |
| TOTAL | 192.5 | 93.0 | 285.5 |

Source: Gas Strategies Consulting

## Key Messages

- **LNG project carries significantly greater cost and risk of delay or failure than the pipeline project**
  - Sales negotiations complex
  - Quantity and quality constraints
  - Producer alignment hard to retain
- **Current level of Asian price premium unlikely to sustain**
- **Producers have substantial competing LNG interest in the Pacific region.**
- **Producers' perception of this risk likely to drive preference for the pipeline**

SCOMM

155:8

**Sharon Long**

**From:** Laing, Ian M (DOR) [ian.laing@alaska.gov]
**Sent:** Tuesday, June 10, 2008 12:16 AM
**To:** Sharon Long
**Subject:** Re: Tomorrow's schedule

Sharon,
The senator should be made aware that that will make for a very confusing order for the rest of the members. You'll be bouncing back and forth between pipeline economics and LNG and back to pipelines. We have worked the risk assessment information he requested into the presentations in a way that makes sense, but the order he has requested puts things quite out of context. Is he willing to reconsider? It will be unfortunate not to cover the NPV analysis.

----- Original Message -----
From: Sharon Long <Sharon_Long@legis.state.ak.us>
To: Laing, Ian M (DOR)
Sent: Mon Jun 09 21:12:21 2008
Subject: Re: Tomorrow's schedule

Thanks Ian,
Senator wants to start w/Pat and the admins 1. synopsis of a Risk Analysis Comparisons and 2. explanation of how the Parol Evidence clause applies to elements of the AGIA license. Then, starting where we left off this afternoon(slide 8) wrap up the LNG slides before moving in to TC project financing and NPV. Same stuff; different order.
Sharon

----- Original Message -----
From: Laing, Ian M (DOR) <ian.laing@alaska.gov>
To: Sharon Long
Sent: Mon Jun 09 20:42:35 2008
Subject: Tomorrow's schedule

Sharon,

Here's what it is! Sorry for the late delivery as usual..

Tuesday June 10

LNG Cost and Schedule – Kieth Dobson (Westney Consulting) / Bill Sparger (Energy Project Consultants

LNG NPV (Resumed from Monday) – Scott Smith (Black & Veatch) / Deepa Poduval (Black and Veatch)

Lunch Break

Parol Evidence – Commissioner Pat Galvin

Financing TC Alaska Project – Paul Bloom (Goldman Sachs) / Timothy Romer (Goldman Sachs)

NPV/LOS Panel – Scott Smith (Black and Veatch) / Deepa Poduval (Black & Veatch) / Bill Sparger (Energy Project Consultants) / Loyola Keough (Bennett Jones)

Lih

Ian Laing

State of Alaska

Department of Revenue

ANC tel 907.375.7747

JNU tel 907.465.3665

cell 907.382.9449

# ALASKA STATE LEGISLATURE

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### Administration and TransCanada

- Administration responses:
  - Risk Assessment Comparison
  - 3 "Parol Evidence"

**Continued from yesterday ( starting on slide # 8)**

- -LNG: Economics, Likelihood of Success & Path Forward
  - **Robert Fenton**, Gas Strategies
  - 2 **Deepa Poduval**, Black & Veatch
  - **Scott Smith**, Black & Veatch
- -LNG: Cost & Schedule
  - 1 **Keith Dobson**, Westney Consulting
  - **Bill Sparger**, Energy Project Consultants
- -Financing TC Alaska Project
  - 4 **Paul Bloom**, Goldman Sachs
  - **Timothy Romer**, Goldman Sachs
- NPV & Likelihood of Success
  - **Scott Smith**, Black & Veatch
  - 5 **Deepa Poduval**, Black & Veatch
  - **Bill Sparger**, Energy Project Consultants
  - **Loyola Keough**, Bennett Jones

**Testimony: By Invitation**
**Teleconference**

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Presentations: Review of AGIA Findings and Determination; Natural Gas Pipeline Project as proposed by TransCanada Alaska Company, LLC and Foothills Pipelines Ltd. (TC Alaska) to the State of Alaska.

### Administration and TransCanada

- Administration responses:
  Risk Assessment Comparison
  3 "Parol Evidence"

**Continued from yesterday ( starting on slide # 8)**

- -LNG: Economics, Likelihood of Success & Path Forward
  **Robert Fenton**, Gas Strategies
  2 **Deepa Poduval**, Black & Veatch
  **Scott Smith**, Black & Veatch
- -LNG: Cost & Schedule
  1 **Keith Dobson**, Westney Consulting
  **Bill Sparger**, Energy Project Consultants
- -Financing TC Alaska Project
  4 **Paul Bloom**, Goldman Sachs
  **Timothy Ro[illegible]er**, Goldman Sachs
- NPV & Likelihood of Success
  **Scott Smith**, Black & Veatch
  5 **Deepa Poduval**, Black & Veatch
  **Bill Sparger**, Energy Project Consultants
  **Loyola Keough**, Bennett Jones

**Testimony: By Invitation**
**Teleconference**

# ALASKA STATE LEGISLATURE

**Senator Charlie Huggins, Chair**
Senate Special Committee on Energy
State Capitol, Room 119
Juneau, AK 99801
Phone: 465-3878
Fax: 465-3265

**Representative John Harris, Chair**
House Rules Subcommittee on AGIA
State Capitol, Room 208
Juneau, AK 99801
Phone: 465-4859
Fax: 465-3799

Third Special Session
Twenty-Fifth Legislature

Terry Miller Building, Juneau Alaska

**Tuesday June 10, 2008**

**10:00-5:00 p.m.**

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The RFA says (@ pg 40, #4.3 "license as integrated document")

" The provisions of the license may not be explained, supplemented or qualified through parol evidence"

Can you explain in layperson's terms what this means?

The reason I ask is that the RFA will be part of a license. You are giving us assurances about what some of the terms of the license mean. But if we end in court arguing about just those points, does this provision mean that these assurances won't matter? They would not be something that the court looks at? Under the terms of the license, we are <u>not</u> building a record here as to what these provisions mean or even what the state thought they meant?

## 4. LICENSE TERMS AND CONDITIONS

Applicant agrees that the terms and commitments in this section are incorporated into the License that is awarded to the Applicant, if any, under this RFA.

### 4.1. COMMITMENTS AND OBLIGATIONS

All Required Commitments and Additional Commitments specified in the Licensee's Application are part of the License. If a Required Commitment or an Additional Commitment is contingent or conditional, each contingency and condition will be considered to be part of the commitment. Applicant shall file a list of its Required and Additional Commitments with its application as required in Appendix D.

### 4.2. LICENSE INCORPORATES AGIA

AGIA, AS 43.90.010-AS 43.90.990 [SCS for CSHB 177 (FIN)], as codified on the date that this RFA is issued (attached as Appendix B) is incorporated in its entirety into the License and shall apply, unchanged, to this RFA, Applications accepted under this RFA and an AGIA License awarded pursuant to this RFA.

### 4.3. LICENSE AS INTEGRATED DOCUMENT

Standard practice for a well written contract

can't ambiguities by looking outside the license

The License constitutes the final contractual agreement between the state and the Licensee. All prior draft agreements, notes, understandings and clarifications of the state and the Licensee on the subject matters provided for in this AGIA License are superseded by the License. The provisions of the License may not be explained, supplemented, or qualified through parol evidence.

The License is an integrated document comprised of AGIA, Certificate of License, accepted Application, RFA, and Terms and Conditions constituting one instrument.

### 4.4. EQUAL EMPLOYMENT OPPORTUNITY

The Licensee may not discriminate against any employee or applicant for employment because of race, religion, color, national origin, age, physical handicap, sex, marital status, changes in marital status, pregnancy, or parenthood. The Licensee shall post in a conspicuous place, available to employees and applicants for employment, a notice setting out the provisions of this paragraph.

The Licensee shall state, in all solicitations or advertisements for employees to work that will be reimbursed by the state, that it is an equal opportunity employer (EEO) and that all qualified Applications will receive consideration for employment without regard to race, religion, color, national origin, age, physical handicap, sex, marital status, changes in marital status, pregnancy or parenthood.

June 10, 2008 10 AM 3rd Special Session AGIA License

# LNG Project Costs/Schedule

AGIA Analysis Technical Team

June 9, 2008

Bill Sparger
Energy Project Consultants, LLC

Keith Dodson
Westney Consulting Group, Inc

# LNG Cases

- **Case 1** – 2.7 or 4.5 bcf/d to Valdez - 48"/42" pipeline - 19.0mmtpa LNG

- **Case 2** – **TransCanada's Y line** - 6.5 bcf/d to Delta Junction, 4.5 bcf/d to Alberta and 2.0 bcf/d to Valdez - 48" pipeline to Alberta and 30" pipeline to Valdez – 13.9mmtpa LNG

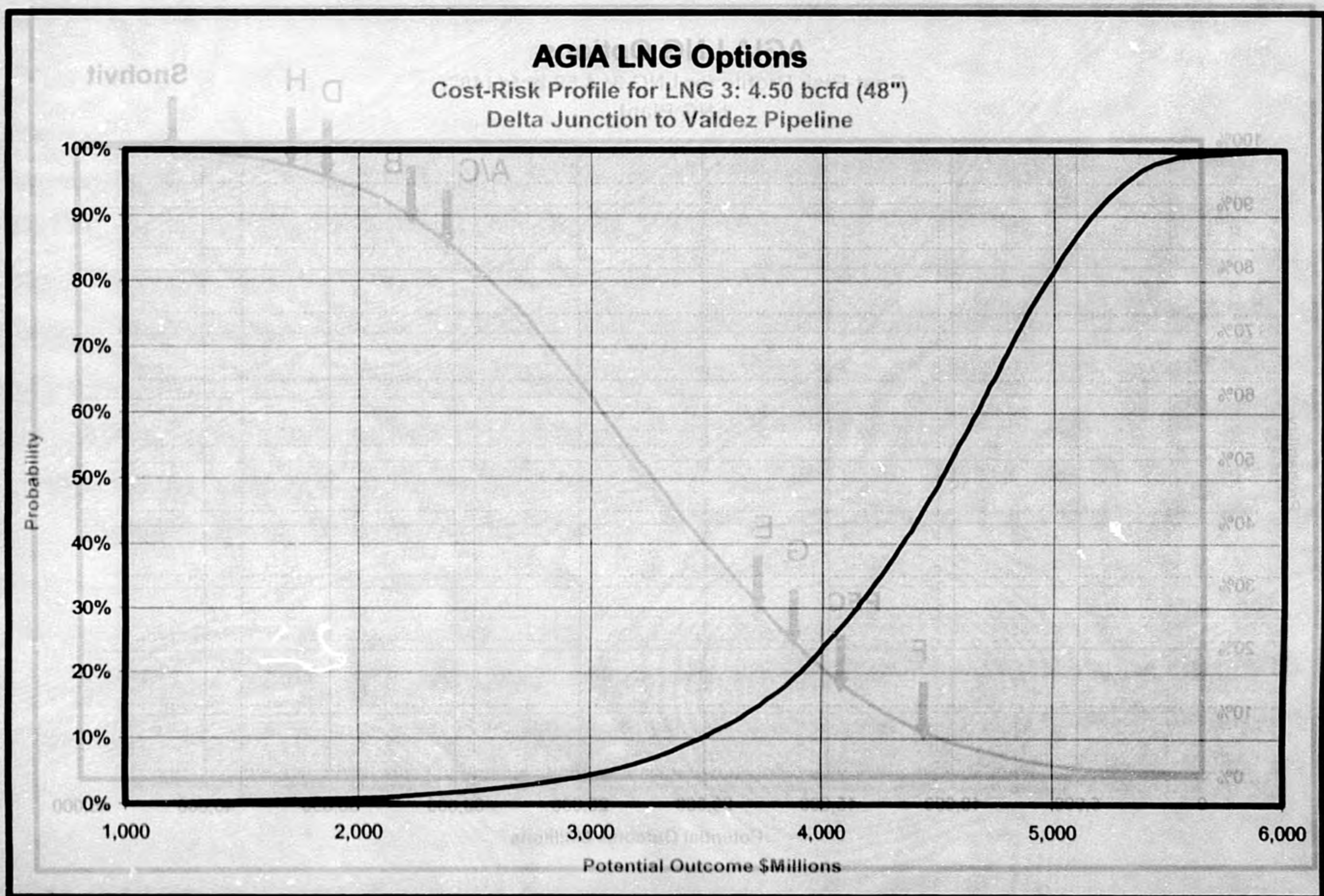
- **Case 3** – 4.5 bcf/d to Valdez - 48" pipeline – 31.5mmtpa LNG

# Analysis Results

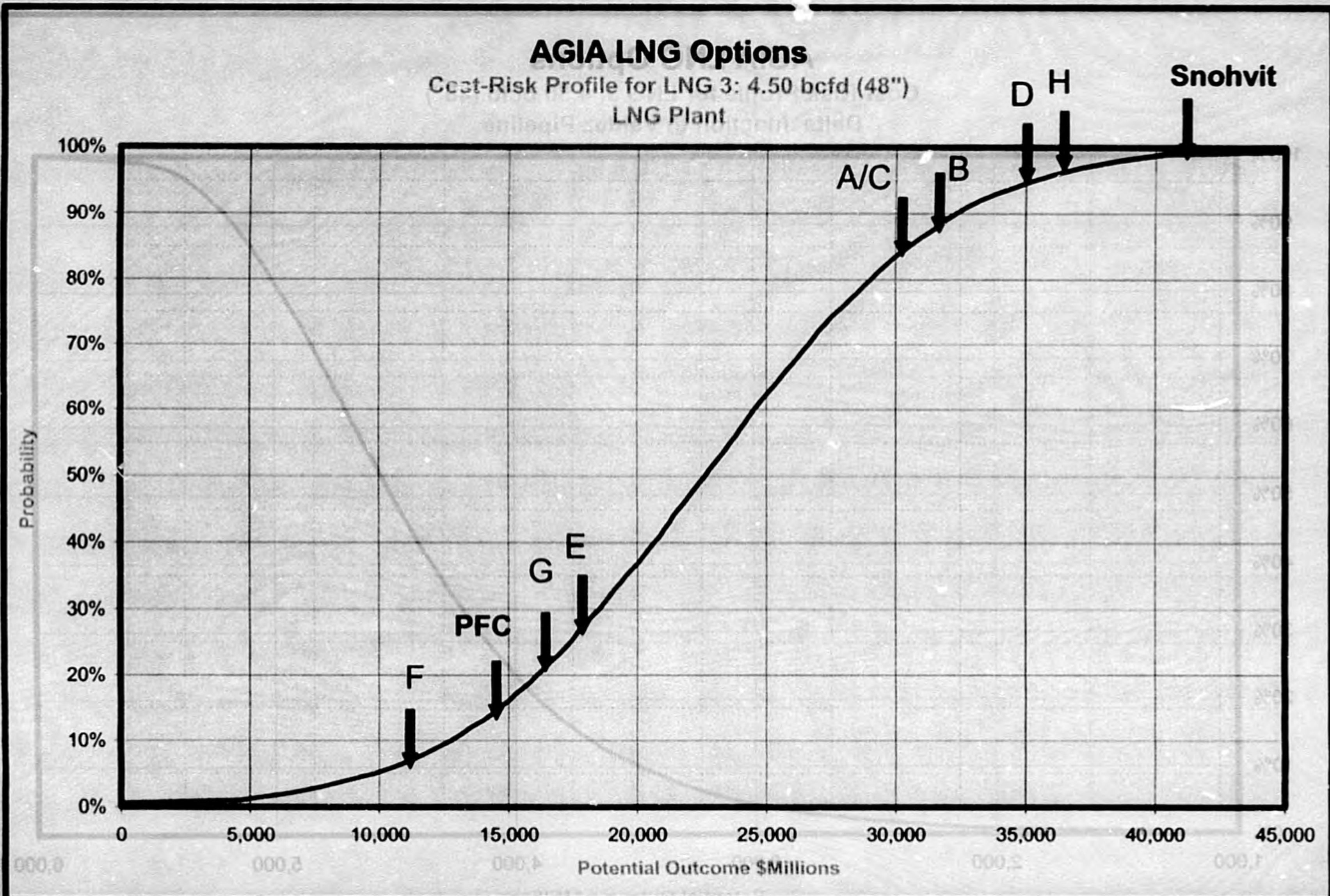
- Higher capital cost
- Similar schedule duration
- Later project start
- Higher cost/schedule risk

# LNG Analysis Assumptions/Methodology

- LNG plant costs developed from recent comparable worldwide projects
- GTP and pipeline schedule and cost factored from TransCanada's proposed project
- Miscellaneous and development phase costs factored from TransCanada application analysis
- Start of LNG project one year later than TransCanada project



AGIA LNG Options
Cost-Risk Profile for LNG 3: 4.50 bcfd (48")
Delta Junction to Valdez Pipeline
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Probability
1,000
2,000
3,000
4,000
5,000
6,000
Potential Outcome $Millions



AGIA LNG Options
Cost-Risk Profile for LNG 3: 4.50 bcfd (48")
LNG Plant
Snohvit
D
H
B
A/C
E
G
PFC
F
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Probability
0
5,000
10,000
15,000
20,000
25,000
30,000
35,000
40,000
45,000
Potential Outcome $Millions