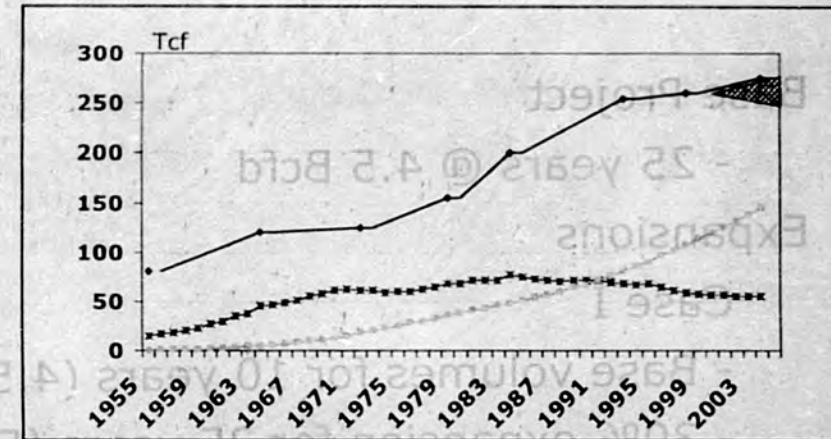
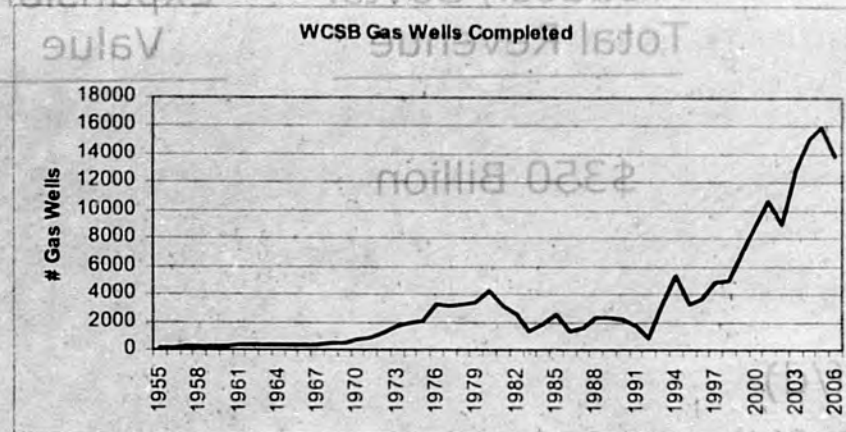


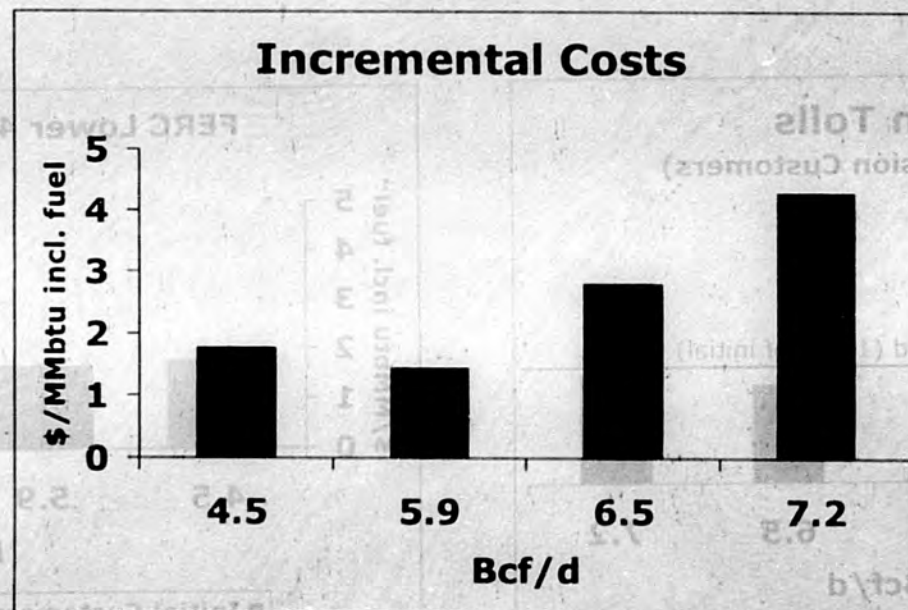
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Ultimate Resource Potential Estimate
 Proven Reserves
 Cumulative Production

- Pipeline expansion can create "virtuous circle"
 - More exploration and drilling
 - If successful, leads to more pipeline expansion
- Exploration and drilling drives service industry and employment over long term

Impact of Rolled-in Tolls?



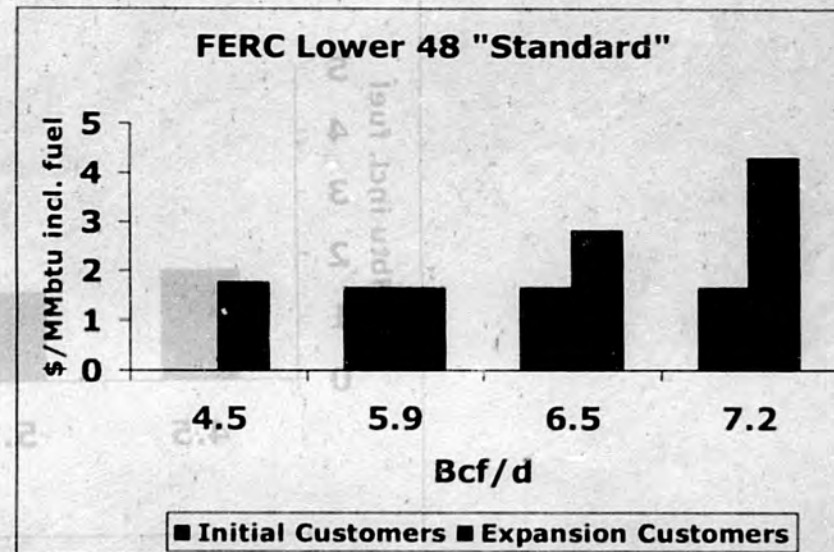
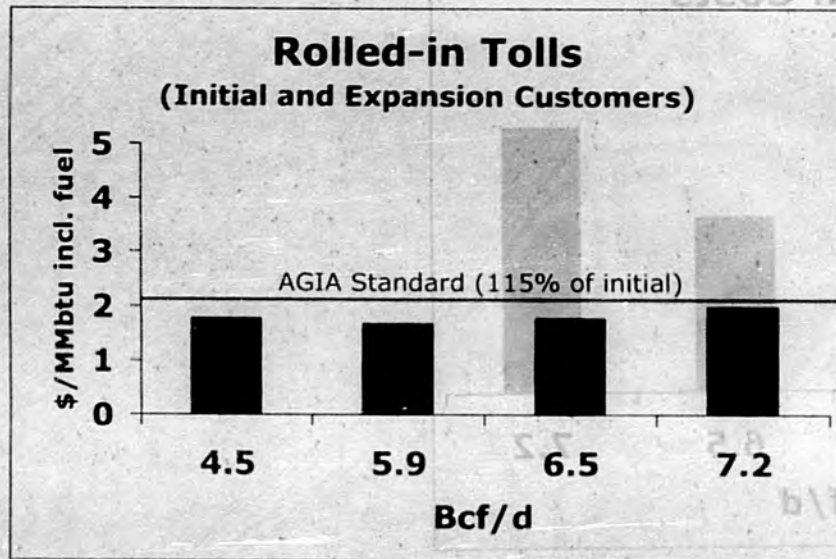
Alaska & Yukon-B.C. sections only

Assumed Volumes:

- 4.5 Bcf/d years 1 & 2
- 5.9 Bcf/d years 3 & 4,
- 6.5 Bcf/d years 5 & 6,
- 7.2 Bcf/d years 7 & beyond



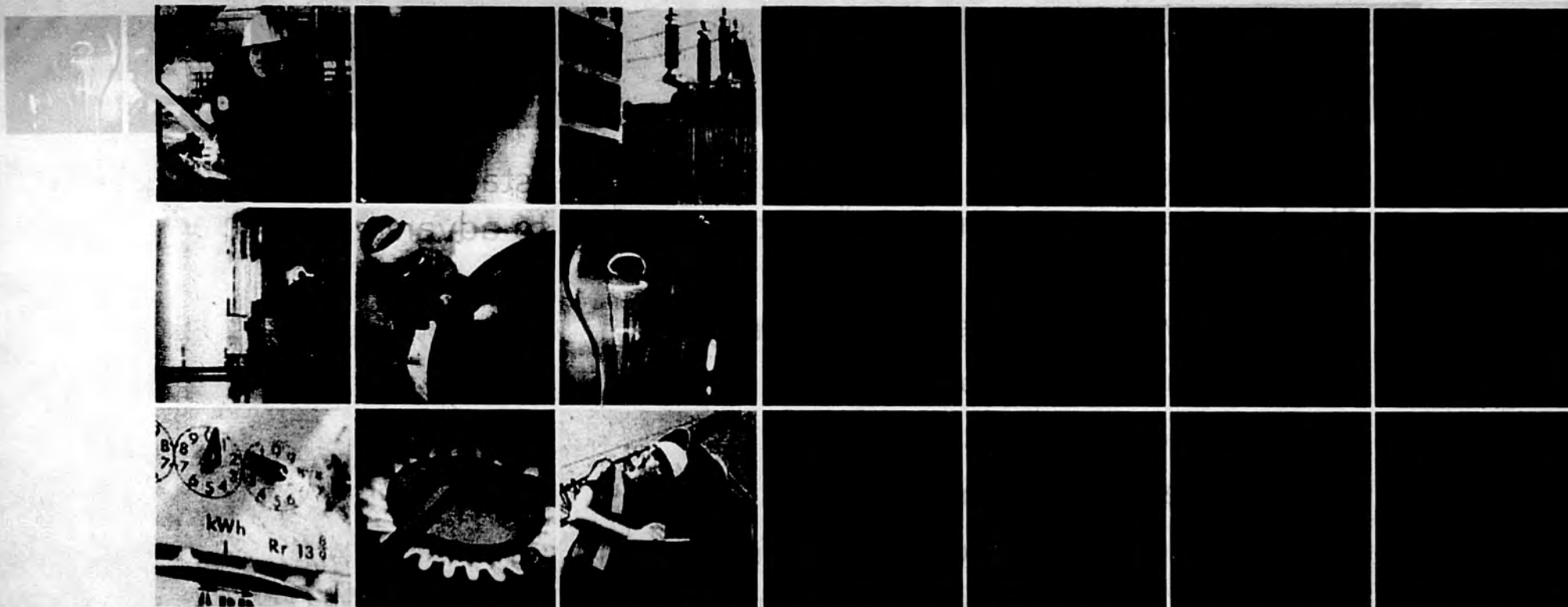
Impact of Rolled-in Tolls?



- Rolled-in tolls increase chance of expansions above 5.9 Bcf/d
 - 35% lower tolls for expansion customers to 6.5 Bcf/d
 - 50% lower to 7.2 Bcf/d

Summary

- Last year, the Administration and Legislature established AGIA as Alaska's transparent and competitive process to advance a gas pipeline project
 - AGIA was structured to encourage:
 - Construction of base project
 - Long-run basin development
 - Open access terms for:
 - Initial and future shippers
 - In-State, Lower 48, and LNG markets
- TransCanada has the credentials and capacity to build, own, operate and expand the project
- TransCanada's objectives are aligned with AGIA
 - Early in-service
 - Long-run basin development
 - Open access – equitable treatment for all customers



Thank You

- TransCanada has the credentials and capacity to lead and expand the project
- TransCanada's objectives are aligned with AGIA
- Early in-service
- Long-run basin development
- Open access equitable treatment for all customers



TransCanada

In business to deliver

TransCanada

SCOMM

155:20

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

Barrow, Alaska

Tuesday July 1, 2008

9:00 a.m.-6:00 p.m.

Joint Meeting AGENDA

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.

Stedman, Chair; Joubert, Samuels, Olson

➤ 9:00 - 12:00 TransCanada AGIA Application

Tony Palmer, Vice President, Alaska Gas Development

Findings & Determination Summary

Pat Galvin, Commissioner, Dept. of Revenue

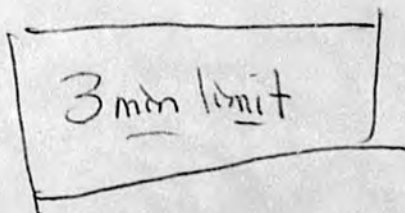
➤ 12:00 - 1:00 Lunch

➤ 1:00 - 2:00 Invited Testimony (continued)

Edward S. Iltis, Mayor
Testimony: By Invitation

➤ 2:00 - 6:00 Public Testimony

Time Limit May Be Set



Teleconference- Listen Only

Draft - Subject
to Change

Legislative Visit to Barrow
June 29 to July 1, 2008

AGENDA

Barrow Weather and Suggested Clothing

Weather in Barrow can change within minutes, so having a warm jacket, hat and gloves is a good idea no matter what the season. If you are planning on a walk on the tundra, bring rubber boots as it is still muddy this time of year; for walking around town comfortable walking shoes. Summer temperatures in Barrow vary widely, but average is about 40 degrees Fahrenheit. It will be light 24 hours a day so sunglasses are a good idea. **Dress in layers** so you can adjust to whatever the temperature may be. Alaska casual dress is appropriate for all events.

Sunday June 29, 2008

7:16pm Arrival Alaska Airlines Flight # 52
 28 legislators and 9 Staff members

Greeting at airport and transportation to Inupiat Heritage Center. Luggage to be picked up and transported by North Slope Borough to Ilisagvik College or hotels.

8:00pm Dinner: Where: Inupiat Heritage Center
 What: Pizza, salad, soup and drinks

Tours of the Whaling Exhibit will be available. The gift shop will be open and local artists have been invited to share their work.

9:30pm Transportation to Ilisagvik College, School District Housing and hotels by North Slope Borough bus.

Monday June 30, 2008

7:00-8:30am Breakfast: On your own. For those staying at Ilisagvik College, the cafeteria will be open. For those staying in town, see the list of restaurants at the end of this agenda.

8:00am Pick up from lobby of King Eider and Top of the World Hotel

NOTE: All visitors not staying at the college may eat at the restaurants listed at the end of the agenda.

8:30-8:45am Meet in the cafeteria for an informal presentation on the mission of Ilisagvik College.

9:00am Tours **Please Bring Your Warm Jackets, Hats and Gloves**

- 1: Point Barrow tour – ATVs available with guide for ride to Point Barrow - Point Barrow or Nuvuk is a headland on the Arctic coast of the U.S. state of Alaska, 9 miles northeast of Barrow. It is the northernmost point of the United States,. The distance to the North Pole is 1,122 nautical miles (1,291 mi/2,078 km) Point Barrow is also an important geographical landmark, marking the limit between the Arctic, the Chukchi Sea on its western side and the Beaufort Sea on the eastern.
- 2: Barrow community tour – Baleen palm trees, Welcome to Barrow sign, football field, gas fields, tundra boardwalk, Browerville, AC Store, Barrow Arch and whaling station, walk down to the ocean, house mounds, ice cellar and ending at the North Slope Borough Building – see attached Barrow Community Tour Sheet

10:18am Arrival Alaska Airlines Flight # 55

12:00-1:00pm Lunch: Where: Available on buses parked at nalukataq area
 What: Box lunches available on buses catered by the Barrow High School Girl's Volleyball team

1:30pm Hospitality Room:
 Available at the North Slope Borough administration building during the afternoon

2:00pm Nalukataq or Tours:

- 1: Point Barrow Van Tour and ATVs available –Point Barrow or Nuvuk is a headland on the Arctic coast of the U.S. state of Alaska,

9 miles (14 km) northeast of Barrow. It is the northernmost point of the United States. The distance to the North Pole is 1,122 nautical miles (1,291 mi/2,078 km) Point Barrow is also an important geographical landmark, marking the limit between the Arctic, the Chukchi Sea on its western side and the Beaufort Sea on the eastern.

- 2: Barrow community tour Baleen palm trees, Welcome to Barrow sign, football field, gas fields, tundra boardwalk, Browerville, AC Store, Barrow Arch and whaling station, walk down to the ocean, house mounds, ice cellar and ending at the North Slope Borough Building – see attached Barrow Community Tour Sheet

Vehicles will be available from the nalukataq to the hospitality room, Ilisagvik College, and hotels during the afternoon.

5:45pm Bus pick up from Ilisagvik College, hotels and nalukataq for dinner.

6:00pm Dinner: Where: Pepe's North of the Border
***Hosted by the North Slope Borough and
Arctic Slope Regional Corporation
What: Mexican buffet

7:16pm Arrival Alaska Airlines Flight # 51

8:00pm Nalukataq

Buses will be available from nalukataq to Ilisagvik and hotels until end of the celebration

Tuesday July 1, 2008

7:45am Transportation from Ilisagvik and hotels to Ipalook Elementary School

After check out, Ilisagvik College to store luggage until picked up by North Slope Shipping and Receiving for transport to the airport. For those staying at the King Eider and Top of the World Hotel luggage will be picked up from the lobby by North Slope Borough staff.

8:00-8:45am Breakfast: Where: Ipalook Elementary School
What: Juice, coffee, tea, water, breakfast sandwiches and fruit

Hospitality suite will be available at the City of Barrow Building throughout the day.

9:00am Legislative Hearing Presentation

10:18am Arrival Alaska Airlines Flight # 55

Snacks available throughout the day at Ipalook Elementary School

12:00-1:00pm Lunch: Where: Ipalook Elementary School
What: Rib lunch catered by Pepe's

Snacks available throughout day at Ipalook Elementary School

1:30pm Public Testimony Begins

**At conclusion of the public testimony buses will be available for
Transportation to the Inupiat Heritage Center and library.**

6:45pm Transport to the Airport for Departure

7:00pm Sandwiches at the airport for departing legislative hearing attendees

8:06pm Departure of Alaska Airlines Flight # 5

Alaska Airlines Daily Flights

Arrivals

Flight AS55 Arrives 10:18am

Flight AS51 Arrives 7:16pm

Departures

Flight AS55 Departs 11:03am

Flight AS52 Departs 8:01pm

Locations in Barrow

Arctic Slope Regional Corp. 852-8633

City of Barrow Offices 852-5211

Ilisagvik College 852-3333
Bldg. 360 Stevenson Street

Inupiat Heritage Center 852-0422
5241 North Star Street

Ipalook Elementary School 852-4711

North Slope Borough 852-0200
1274 Agvik Stree

Hotels in Barrow

Airport Inn 852-2525
1815 Momeganna

King Eider Hotel 852-4700
1752 Ahkovak Street

Top of the World Hotel
1200 Agvik Street 852-3900

Restaurants in Barrow

Arctic Pizza 852-4222
125 Apayauq Street

Browsers Café 852-3456
3220 Brower Hill

Northern Lights Restaurant
5122 Herman Street 852-3300

Thai Restaurant 852-5721
5146 Herman Street

Osaka Restaurant 852-4100
980 Stevenson Street

Pepe's North of the Border 852-8200
1204 Agvik Street

Sam & Lee's Restaurant 852-5555
Bldg. 1052 Kiotak Street

Shogun Teriyaki House 852-2276
1906 Pakpuk Street

Video Bank 852-6776 - has specialty coffee
1069 Kiogak Street

Taxi Cabs

Alaska Taxi	852-3000
Arcticab	852-2227
Barrow Taxi	852-2222
City Cab	852-5050

Taxi Cab Rates

- \$1.00 for any additional stop for 3 minutes or less and \$1.00 more for any additional minutes
- Barrow to Narl, Dewline, Cakeater \$12.00; Round Trip \$24.00
- Browerville to Narl, Dewline, Cakeater \$10.00; Round Trip \$20.00
- Barrow to Browerville \$6.00; Round Trip \$12.00
- Barrow to Barrow \$5.00; Round Trip \$10.00
- Browerville to Browerville \$5.00; Round Trip \$10.00
- Barrow to Ahgeak Street \$7.00; Round Trip \$14.00
- Browerville to Ahgeak Street \$6.00; Round Trip \$12.00
- Barrow to Gas well road \$14.00; Round Trip \$28.00
- Browerville to Gas well road \$12.00; Round Trip \$24.00
- Additional Passenger Rate is \$1.00 per additional passenger
- Charter Rate \$30.00 ½ hour
- Charter Rate \$50.00 1 hour
- Sr. Citizen rate \$2.00 off the posted fare to destination, with govt. issued id
- Sr. Citizen rate \$4.00 off the total round trip posted fare to destination

Legislative Hearing on AGIA

Ipalook Elementary School

Barrow, Alaska

July 1, 2008



Comments of Edward S. Itta, Mayor

North Slope Borough

- We are on the front lines of oil and gas development



- We support the AGIA process



- We have a long record of support for oil and gas development onshore

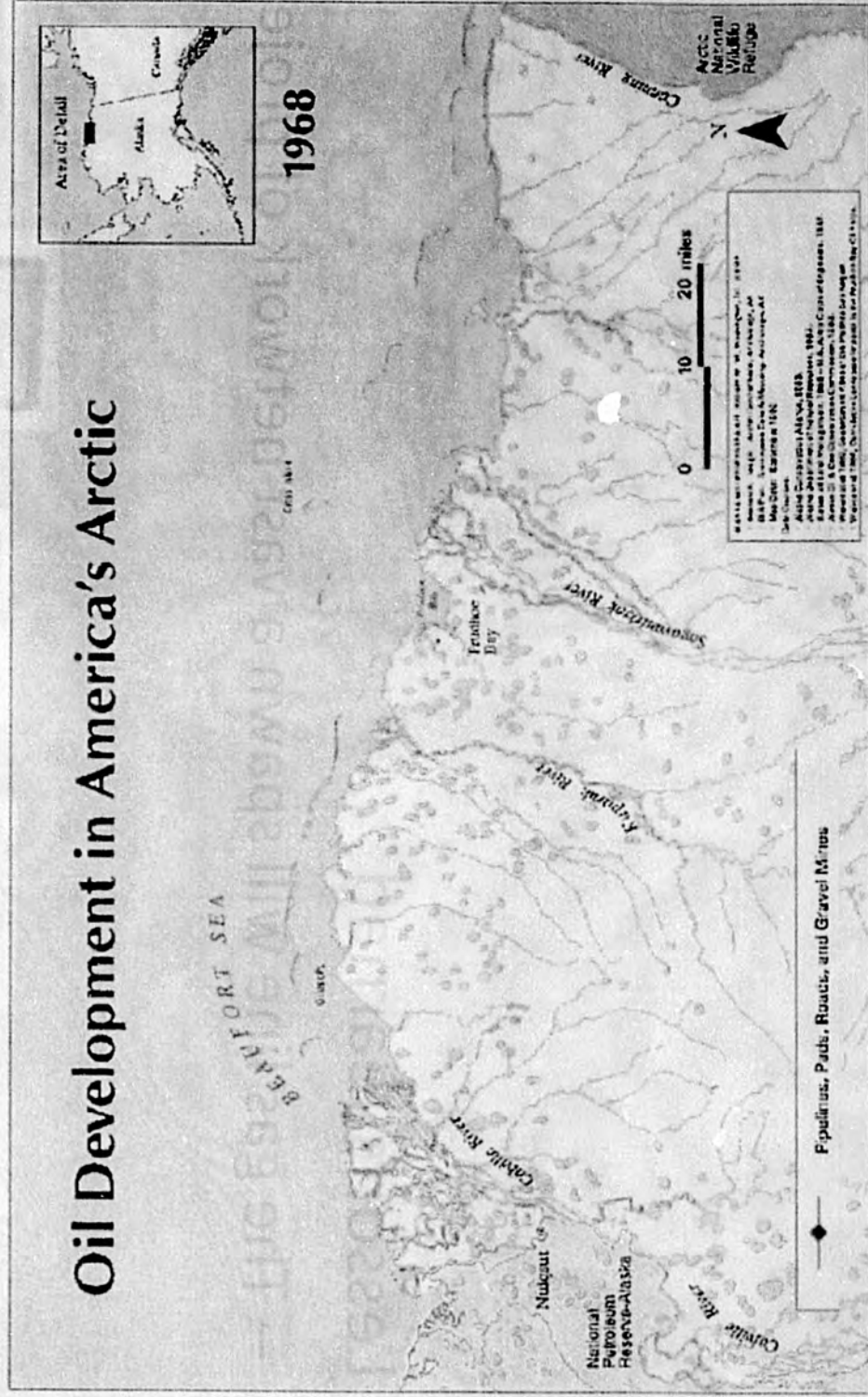


- Lessons learned
 - The gas line will spawn a vast network of projects.

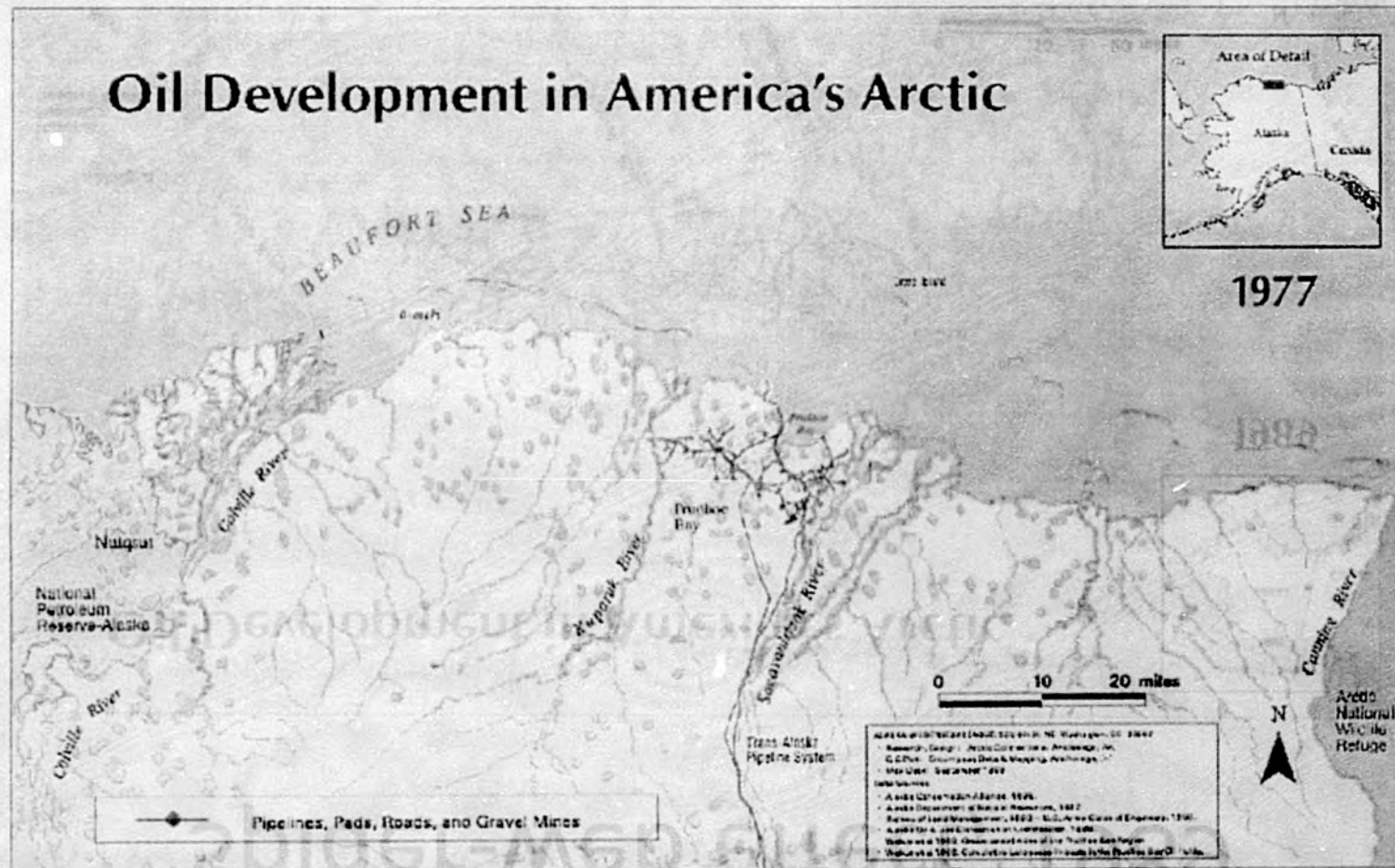


Spider-web effect, 1968

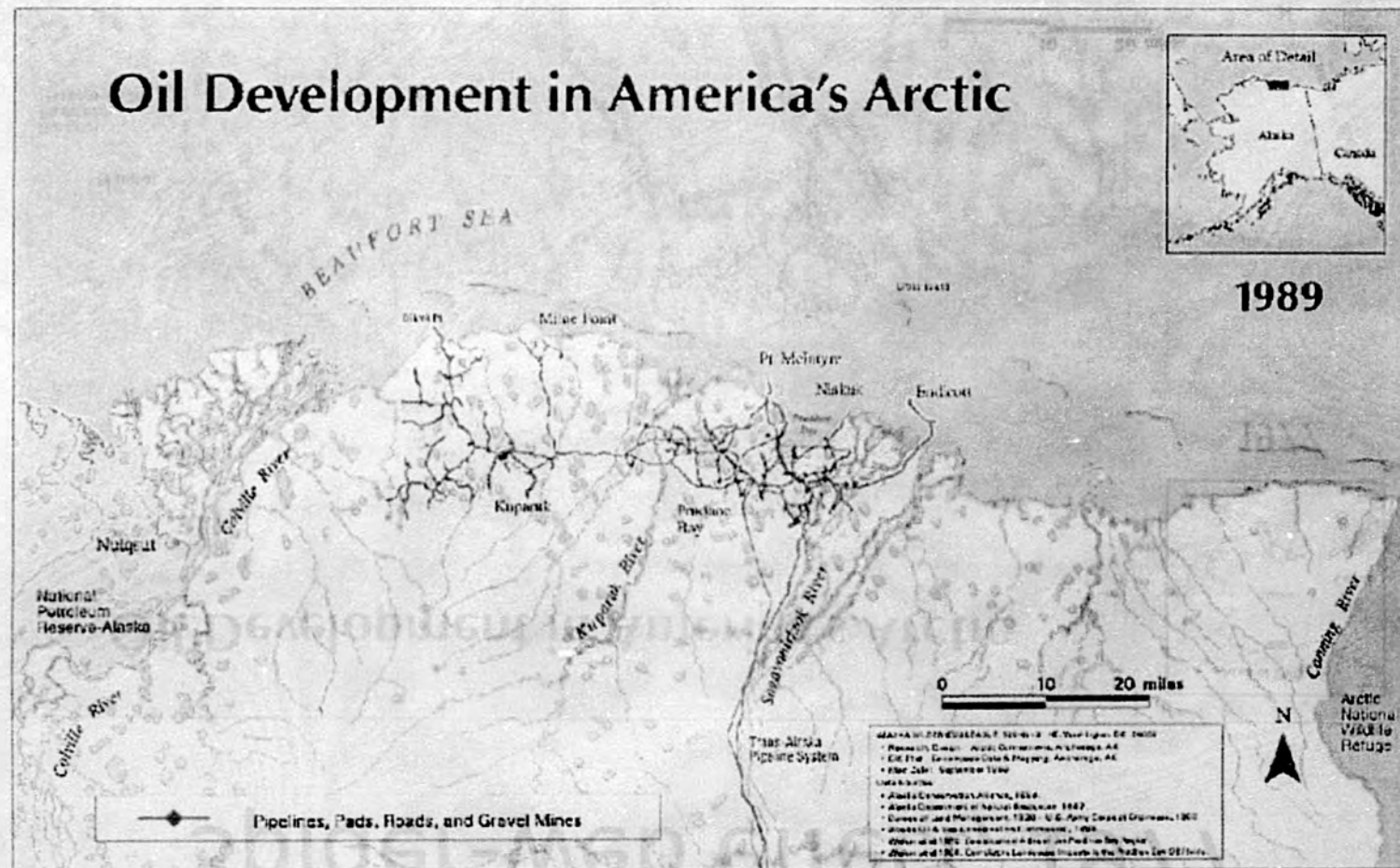
Oil Development in America's Arctic



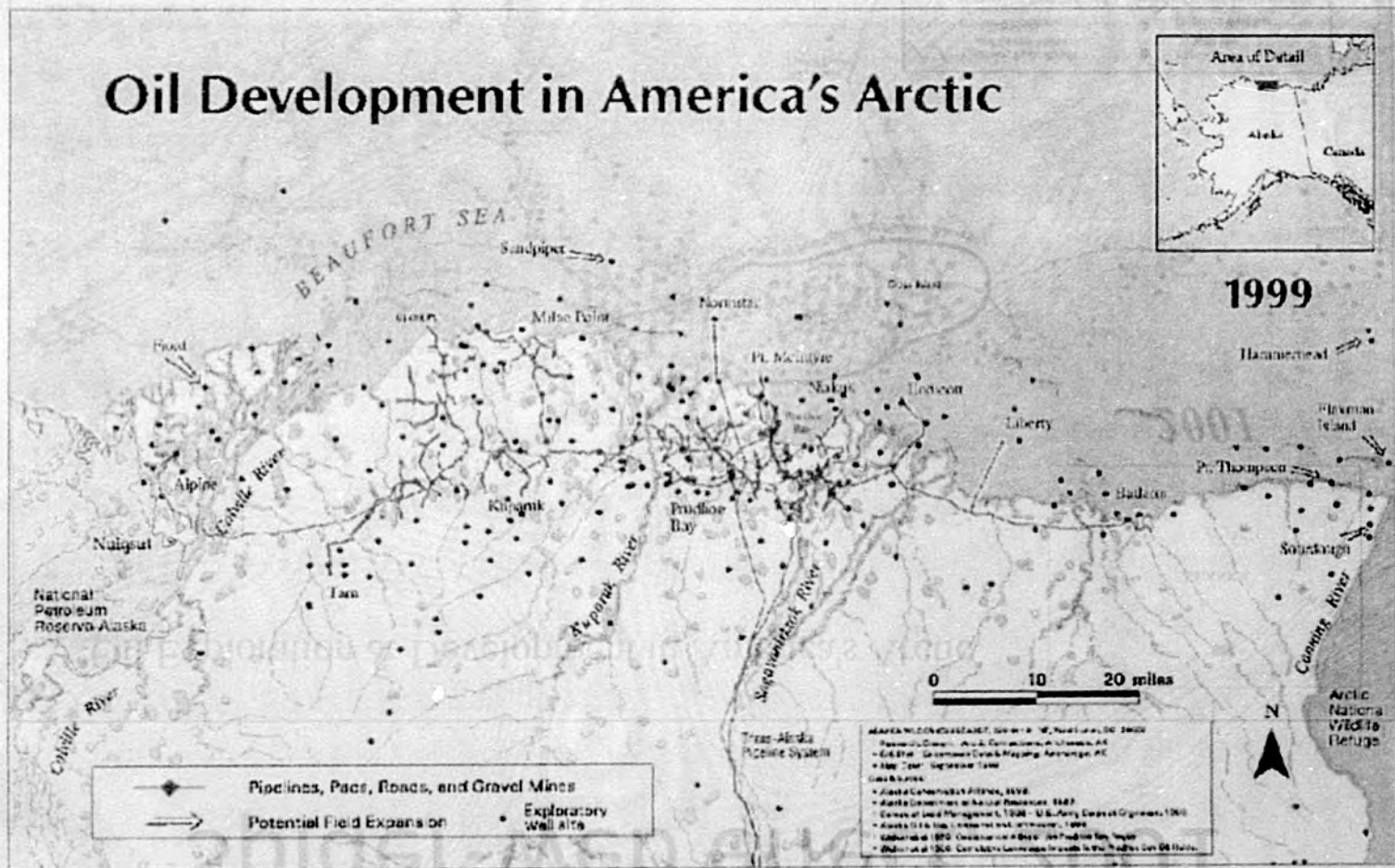
Spider-web effect, 1977



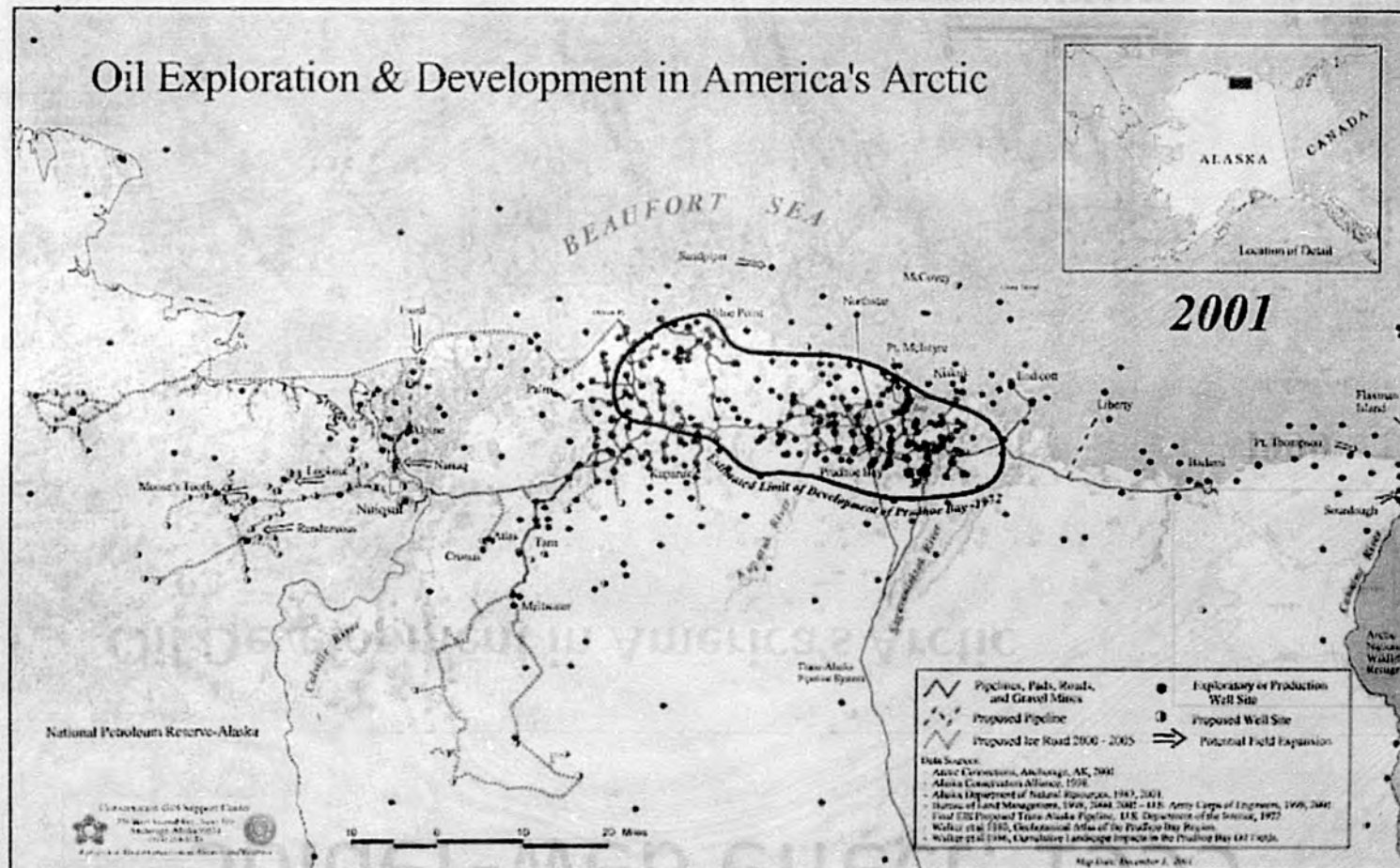
Spider-web effect, 1989



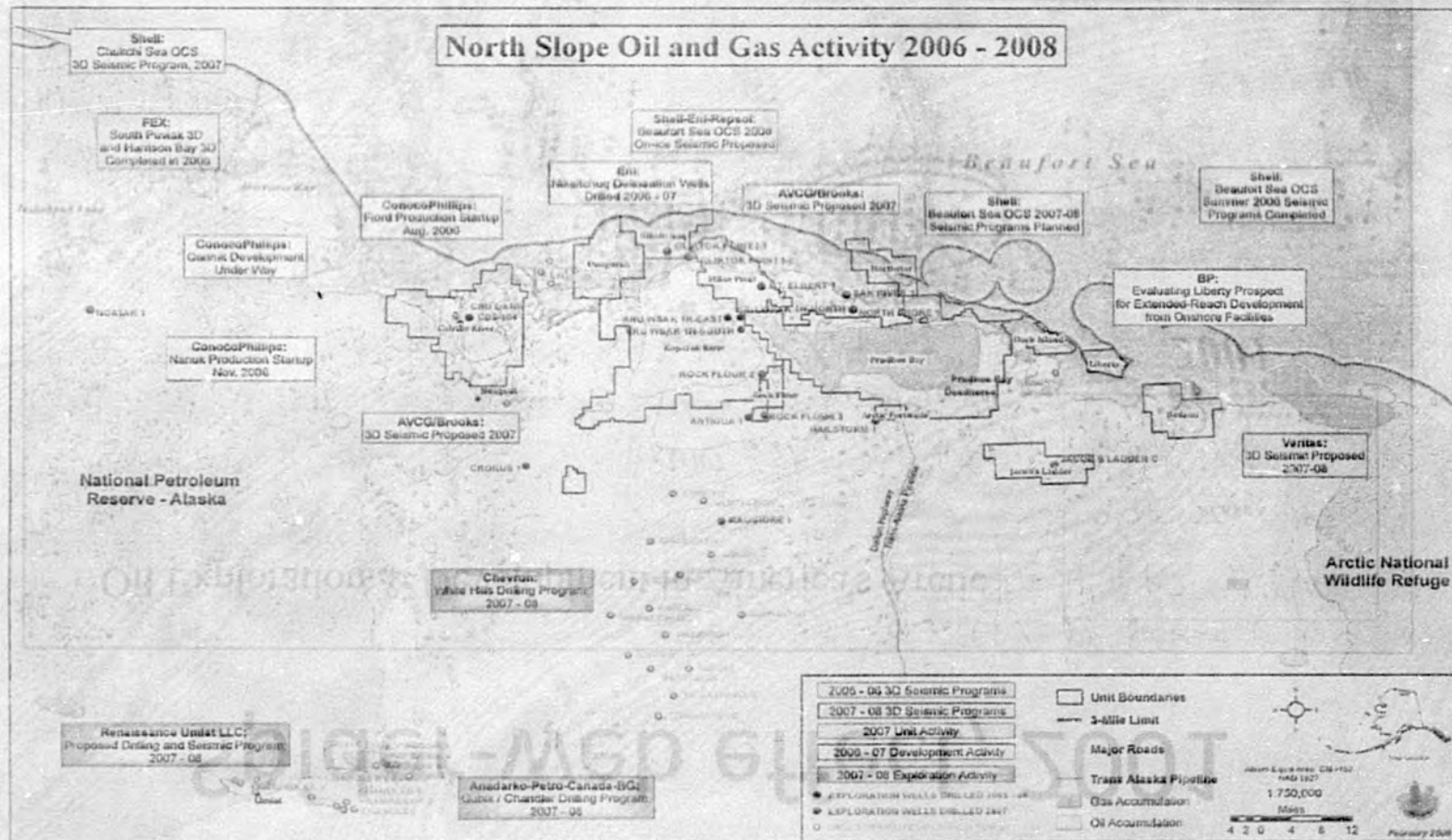
Spider-web effect, 1999



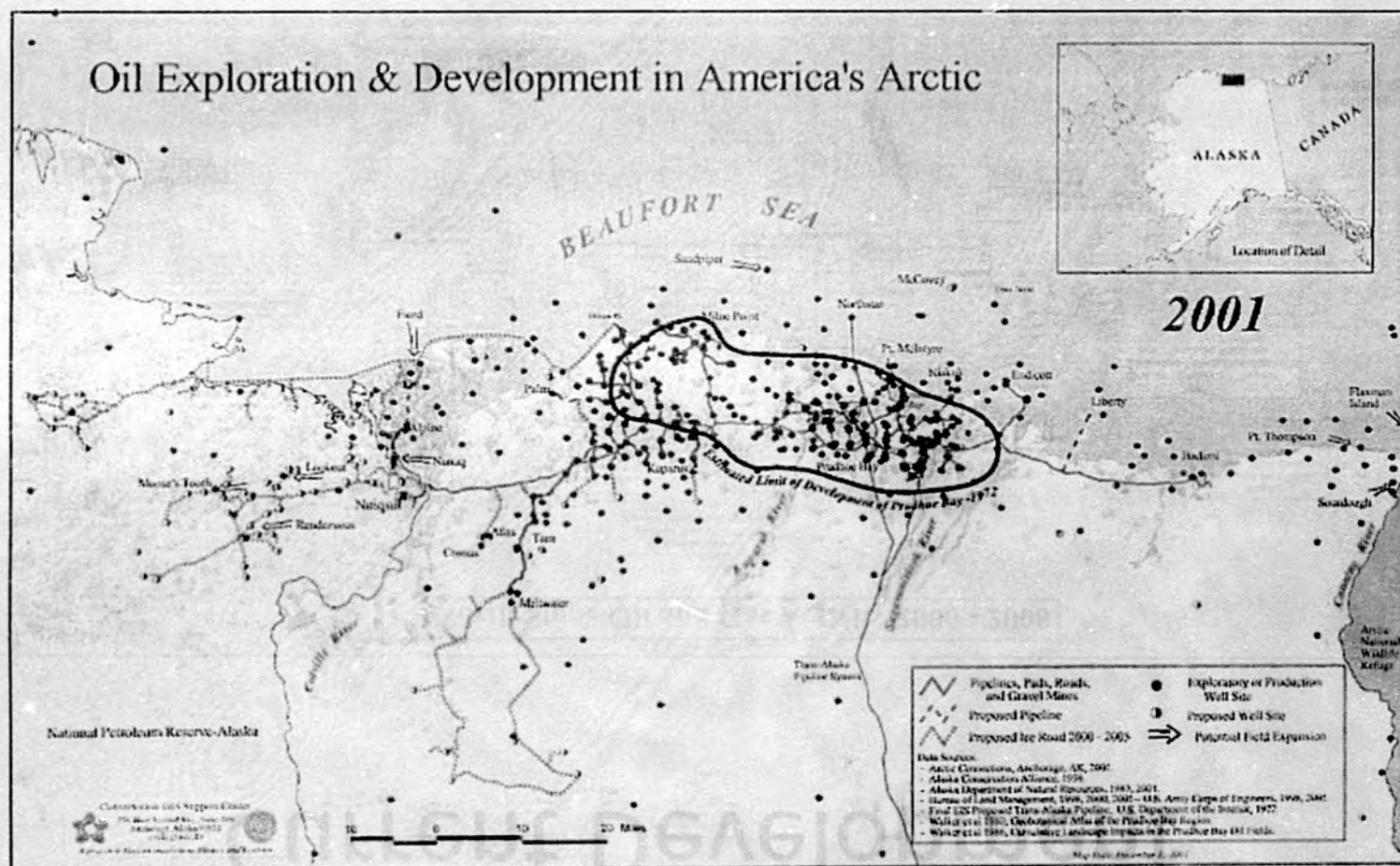
Spider-web effect, 2001



Current Development



Spider-web effect, 2001

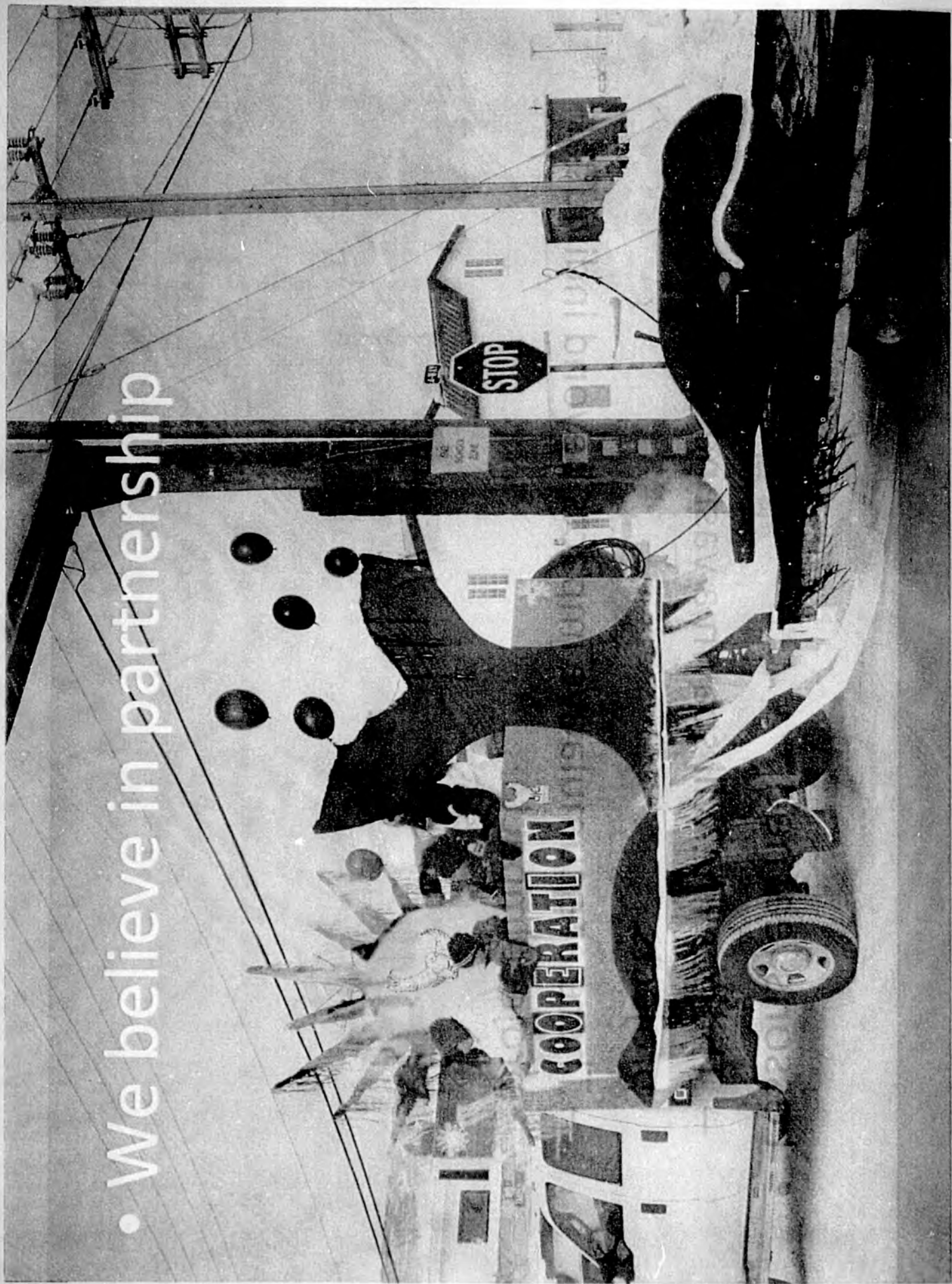


- Lessons learned

- The gas line will spawn a vast network of projects.
- There are cumulative impacts beyond individual project impacts.



• We believe in partnership



TESTIMONY
OF
RICHARD GLENN
VICE PRESIDENT
ARCTIC SLOPE REGIONAL CORPORATION

**

July 1, 2008
Alaska State Legislature
Approving the AGIA License
Ipalook Elementary School
Barrow, Alaska

INTRODUCTION

Good morning. Distinguished members of the Alaska State Legislature, hard-working Administration and Legislative staff, and honored guests; on behalf of the Arctic Slope Regional Corporation ("ASRC") I extend to all of you a warm welcome to Barrow.

My name is Richard Glenn, Vice President of Lands for Arctic Slope Regional Corporation ("ASRC"). ASRC is the largest Alaskan-owned corporation, representing more nearly ten thousand Iñupiat shareholders from Alaska's North Slope. ASRC employs more than 3,000 people in Alaska and more than 6,000 nationwide, and ASRC holds title to approximately five million acres of surface and subsurface estate. Socially, economically, and culturally we have a powerful interest in development that occurs on the North Slope – as any gas line will – and such development will affect our shareholders, our land, and our region.

Although there has been discussion around whether a trip to Barrow was necessary in this process, from our perspective a trip to the North Slope is both necessary and important. The gasline will start in this region. The people, the organizations, and the infrastructure of the North Slope have a lot to offer this project, so we are thankful to have the opportunity for public comment, and welcome you to our home. Today I will share with you ASRC's perspective as it relates to a natural gas pipeline project with an emphasis on our interests in access to capacity, promoting economic development, progressing our workforce training and development initiatives, and assisting industry and the state in creating a legacy that lives long after the last hole is capped.

ACCESS

Our interests related to North Slope natural gas exploration and development are rooted in our desire for access to capacity. Newly discovered gas, over and above the known reserves at Prudhoe Bay and Point Thomson, will be necessary to extend the economic life of the pipeline. Such discoveries will benefit the State and ASRC as landowners, will provide additional tax base for the State and the North Slope Borough, and may promote further oil discoveries as well. We favor provisions that allow access to pipeline capacity on reasonable economic terms.

A significant portion of ASRC's landholdings are in the Central Arctic region of the North Slope, an area that extends from the foothills of the Brooks Range north to the Colville River. ASRC's Central Arctic lands are located between the National Petroleum Reserve-Alaska on the west and the Arctic National Wildlife Refuge on the east.

TESTIMONY
OF
RICHARD GLENN
VICE PRESIDENT
ARCTIC SLOPE REGIONAL CORPORATION

This is an area that is highly prospective for natural gas. Together with State-owned lands in the central Arctic, there are 11 million acres of land there which could contain trillions of cubic feet of natural gas. This gas needs to have access to a pipeline on economic terms that encourage pipeline expansion.

While we support a tariff structure that provides for expansion, we also support provisions that prompt initial shippers to sign up for the capacity necessary to get the project started. In this regard, we believe that tax certainty for shippers may need to extend beyond the term currently contemplated, perhaps up to the term of the shipping commitment made for the volume of gas.

ECONOMIC DEVELOPMENT

ASRC undertakes many activities designed to promote sustainable economic development in our region. For ASRC, sustainable economic development means partnering to foster healthy local economies. More business results in more jobs, leading to more independence throughout our region. ASRC desires continued involvement in this process to facilitate and empower our communities. A natural gas pipeline project that is real and ready to construct contributes to our goals.

ASRC owns businesses that can provide superior service in connection with this project. Our areas of expertise in the Arctic include permitting and fieldwork, engineering, construction, pipeline services, and local content. Our family of companies are capable and experienced Arctic providers; in fact no company has installed more North Slope pipeline than ours have. Alaskan companies, including ours, should be looked to first in terms of contracting, partnerships, and training and employment opportunities.

Our region has accommodated natural resource development for over thirty years. With the construction of the natural gas pipeline and the significant resource potential in our region, it is fair to say we will continue this relationship for many years to come. We seek continued participation in the design, construction, and future operations of this major development project. Our companies are experienced and competent, they have proven themselves with industry, they put North Slope residents and thousands of other Alaskans to work, and their profits stay here in Alaska and circulate through the Alaskan economy.

WORKFORCE TRAINING AND DEVELOPMENT

All parties interested in the pipeline have expressed support for local hire and business opportunities. This is something that we should expect for any industry doing business in our state. Further, we are pleased to see the proactive approach being taken by the Alaska

TESTIMONY
OF
RICHARD GLENN
VICE PRESIDENT
ARCTIC SLOPE REGIONAL CORPORATION

Department of Labor and Workforce Development in anticipation of the workforce needs. As this gas pipeline project progresses, we look forward to more details from this department on how private businesses can partner with the State of Alaska to put our people to work.

ASRC invests every year a significant amount of time, money, and effort in the training and development of our shareholders and employees. We have spent millions of dollars in our own region on programs to identify, train and develop the careers of our shareholders and employees in industries directly applicable to this project, which is one of the reasons why ASRC is the employer of choice for hardworking Alaskans. Our experience is aligned with the plans being developed in this regard by the Alaska Department of Labor and Workforce Development.

Further, our local post-secondary education institution, Ilisagvik College, is poised to provide important elements of training and development. Ilisagvik not only has the expertise, but the experience in providing the credentials and certifications that may be required either by law or the five operating crafts on the North Slope. We support providing education institutions like Ilisagvik College with the necessary resources to provide training opportunities to Alaskans.

CONCLUSION: LEGACY

Today the natural gas pipeline is closer to reality than it has ever been. The efforts of the Governor and her team in this regard are to be commended.

Alaskans are watching the prospect unfold that two project sponsors will advance what in the end of the day can only be one actual construction project. There are elements of each of these competing projects that have merit and could contribute to the successful development of the natural gas pipeline.

Over the years, ASRC has participated in many resource development projects that have had to reconcile disparate interests and points of view in order to come to fruition. We have had to balance – and to the greatest extent possible learn to harmonize – such powerful principles as the economic benefits of resource development and the cultural imperatives of subsistence hunting. We know from deep and long experience that careful thinking, listening, and decision making can bring people and institutions together for a common purpose. A number of Alaskans have asked whether the two projects on the table now are destined to compete until there is a winner, or whether the best elements of both may be brought together in one broadly supported effort. ASRC stands ready to bring our experience to bear at the appropriate time to help move the gas pipeline forward.

TESTIMONY
OF
RICHARD GLENN
VICE PRESIDENT
ARCTIC SLOPE REGIONAL CORPORATION

The task before you is historic. It is important to consider the economic legacy that will be left behind by the oil and gas industry, and whether it results in lasting benefits for the indigenous people of this region, this state and all Alaskans measured by good faith, sustainable economic development, and training and development opportunities.

ASRC is positioned to foster workforce development, provide capable services, invest in infrastructure and businesses related to a natural gas pipeline project, and utilize our good will and experience to help bring parties together and develop common ground for the success of the project. We welcome discussion on how those involved with this development can support these missions to advance this legacy.

We encourage you to get to know this town, one that has virtually grown up on natural gas. Study the issues related to small town energy needs, necessary infrastructure support, and the quality of life improvements that come with the presence of a safe, reliable natural gas supply. Our people and our organizations wish to be a part of the process as natural gas development progresses. When you return to the great debates that surely will ensue regarding Alaska's natural gas, please do not fail to appreciate the regional resources we provide: our people and our land, and the promise that they both hold for all Alaskans. Welcome to Barrow.

SCOMM

155:21

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

Gymnasium
Terry Miller Building, Juneau Alaska
Wednesday July 9, 2008
1:30-8:00 p.m.

Joint Meeting AGENDA

- SB 3001/HB 3001 Approving AGIA License for Natural Gas Pipeline Project as proposed by TransCanada Alaska Company, LLC and Foothills Pipelines Ltd. (TC Alaska) to the State of Alaska.

- 1:30 – 4:30 Round Table Discussion of In-State Gas *No opening statements - Paupert*
ANGDA – Harold Heinze, CEO
AGPA – Bill Walker, Project Director
Radoslav Shipkoff, Financial Advisor, Greengate LLC

TransCanada – Tony Palmer, VP AK Business Development
Enstar – Colleen Starring, Regional VP
Gene Dubay, Sr. VP, SEMCO

LB&A – Steve Porter
Dan Dickinson

Administration – Pat Galvin, Commissioner of Revenue

- 6:00 – 8:00 Presentation – Point Thompson
Steve Porter – LB&A Consultant

Testimony: By Invitation

Steve Porter
6-8 PM 7-9-2008

The Point Thomson Dilemma

A problem to be solved
or
A war to be won

Steven Porter, Consultant to LB&A

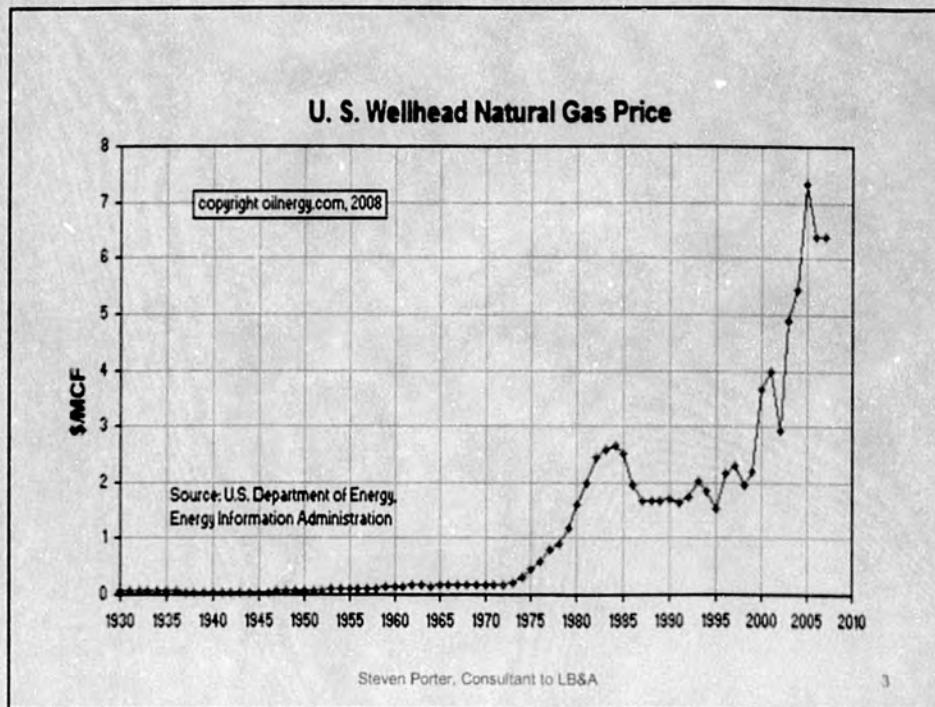
1

Plains All American L.P.'s WTI Crude - Posted Price



Steven Porter, Consultant to LB&A

2



Point Thomson Unit Status prior to Director's Decision

- 21 Plans of Development
- State's continuing desire to move to production
- Point Thomson owners unwillingness to move to production

Director's Decision

- 22nd POD disapproved because it does not provide for the reasonable delineation and timely development of the unit.
- Failure to submit an acceptable POD is grounds for termination of the Unit
- Individual leases with certified wells must commence production by October 1, 2009

Steven Porter, Consultant to LB&A

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Commissioner's Decision

- Rejects Plan of Development because it does not commit to put the unit into production
- Terminates the Point Thomson Unit
- Revokes the certifications of the PTU wells.

Steven Porter, Consultant to LB&A

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May 1 Decision

- Will allow the process to move forward
- "the undisputed fact remains that the Department certified these wells pursuant to 11 AAC 83.361, and that as a result of these certifications, the wells "will be considered capable of producing hydrocarbons in paying quantities" for purposes of 11 AAC 83.374"
- DNR failed to follow its own statutes and regulations when it decertified the wells

Steven Porter, Consultant to LB&A

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Dec 26 Court Decision

- Plan of Development
 - DNR has broad authority to accept or reject POD
- Unit Termination
 - DNR has the authority to terminate the Unit but not without a hearing to determine the appropriate remedy for rejection of the POD
- Consider appropriate remedy for rejection of POD
 - Termination of unit is only one possible remedy
 - "consider the import of Section 21 of the PTUA, as amended in 1985, in determining the appropriate remedy."
- Certified wells
 - See our May 1 comments

Steven Porter, Consultant to LB&A

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Point Thomson Unit Agreement

- Section 21
 - See handout Section 21 detail
 - “and shall not be exercised in a manner that would (i) require any increase in the rate of prospecting, development, or production in excess of that required under good faith and diligent oil and gas engineering and production practices; . . . or (iii) prevent this agreement from serving its purpose of adequately protecting all parties in interest hereunder, subject to the applicable conservation laws and regulations.”

Steven Porter, Consultant to LB&A

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23rd POD

- Phased development proposal
 - Met or exceeded DNR prior request and positions to the court.
 - Did not propose penalties as an alternative to compliance with obligation

Steven Porter, Consultant to LB&A

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Commissioner's Decision on Remand

- Rejected Point Thomson 23rd POD
 - Proposal was either unpersuasive or incredible
 - “credibility is most persuasively established by actions, not words.”
 - “promise to commit gas from this unit to the first open season of a gas pipeline is of no value.”
 - Most importantly, the public's interest would not be protected if I approve the 23rd POD because I do not believe, based on this record, that the Appellants will perform as promised this time.”
- Terminated the Unit

Steven Porter, Consultant to LB&A

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Probable Outcome

- Unit termination and certified wells
 - State Success on both points (low probability)
 - Timing of new development – 10 year delay
 - State partial success (equally as probable as next possible outcome)
 - Timing of new development – 10 year delay
 - Point Thomson retains leases with certified wells.
 - Court overturn of state decision (equally as probable as previous outcome)
 - Point Thomson proceeds ahead on schedule
 - Gas condensate and oil production
 - Earlier participation in gas pipeline (gain of 10 years)

Steven Porter, Consultant to LB&A

12

State's Obligation under Contract

- Principles of Prevention in Contract Law
 - Actions of one party prevents another party from complying with contractual obligations
 - Cannot benefit from own wrongful acts
 - Failure to act prevents another party from complying with the contract
 - act in "good faith" and cooperation toward other contracting party
 - Cannot benefit from the omission to act

Steven Porter, Consultant to LB&A

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State's Obligation under Point Thomson Contract

- Good faith participation to resolve the problem
- Contractual Relationship when you don't trust the other party
 - Make the damage provision match the potential breach
- Point Thomson obligation
 - Propose alternative that would meet the state's concerns
 - Comply with the intent of 11 AAC 83.343(b)

Steven Porter, Consultant to LB&A

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DNR's responsibility under regs.

- 11 AAC 83.343(b) The commissioner will approve the unit plan of development if it complies with the provisions of 11 AAC 83.303. If the proposed unit plan of development is disapproved, the commissioner will, in his discretion, propose modifications which, if accepted by the unit operator, would qualify the plan for approval.

Point Thomson Unit Agreement

Section 21

21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to state law or does not conform to any statewide voluntary conservation or allocation program which is established, recognized and generally adhered to by the majority of operators in such state, such authority being hereby limited to alternation [sic] or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alternation or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time at his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alternation or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable state law.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than ~~fifteen (15)~~ thirty (30) days from notice, *and shall not be exercised in a manner that would (i) require any increase in the rate of prospecting, development or production in excess of that required under good faith and diligent oil and gas engineering and production practices; or (ii) alter or modify the rates of production from the rates provided in the approved plan of development and operations then in effect or, in any case, curtail rates of production to an unreasonable extent, considering unit productive capacity, transportation facilities available, and conservation objectives; or (iii) prevent this agreement from serving its purpose of adequately protecting all parties in interest hereunder, subject to applicable conservation laws and regulations.*

The language that is struck out in Section 21 above was deleted, and the italicized language in Section 21 was added in 1985 amendments to the Point Thomson Unit Agreement.

Before the
Alaska State 25th Legislature Third Special Session

Regarding the
**TransCanada Application Pursuant to the
Alaska Gasline Inducement Act**

Statement of

Prof. Joseph P. Kalt

**John F. Kennedy School of Government
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and
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Introduction

My name is Joseph P. Kalt. I am the Ford Foundation Professor of International Political Economy at the John F. Kennedy School of Government, Harvard University, and a Visiting Professor at the Eller College of Management at the University of Arizona. The Kennedy School is Harvard's graduate school for the study of public policy and public administration. I also work as a senior economist in the Cambridge, Massachusetts, and Tucson, Arizona, offices of Compass Lexecon, an economics consulting firm. I have attached my biography as Attachment I.

I hold B.A., M.A., and Ph.D. degrees in economics and am a specialist in the economics of competition, antitrust, and regulation, with particular emphasis on the transportation, energy, communications, and financial sectors. Throughout my professional career I have conducted research, published, taught, and testified extensively on the economics of market structure, competition, antitrust policy, regulation, pricing, and strategic

performance in the energy industries (including natural gas transportation and marketing) and various other segments of the economy.

Of particular relevance, I have extensively studied the production and pipeline transportation of oil and gas resources throughout North America and, specifically, in Alaska. I have testified as an expert in various state and federal proceedings concerning the valuation of Alaskan North Slope crude oil and natural gas for purposes of royalty and taxation, and I have studied and testified as an expert regarding the regulation of the Trans Alaska Pipeline System.

I have now been asked by ExxonMobil Corporation to analyze key elements of the AGIA license application filed by TransCanada Alaska Company, LLC, and Foothills Pipe Lines Ltd. (together "TransCanada") to build and operate a natural gas pipeline. In particular, I have been asked to assess the economics of TransCanada's AGIA application from the perspective of the State's and producers' interests as direct or indirect shippers on the proposed TransCanada pipeline.

Key Findings

Based on my analysis of the economics of TransCanada's proposal to build and operate the critical pipeline infrastructure upon which North Slope gas development now depends, I find that four key aspects of the proposal bear particular attention:

- **The State's Interests:** Certainly, at least at this stage of project development, the State's interests are aligned with those of a North Slope gas producer. Alaska has abiding interests in (1) maximizing the ultimate magnitude and value of North Slope gas production; (2) expeditious completion of the major pipeline system upon which such development depends; and (3) minimization of dispute and litigation with the pipeline owner/operator over the life of the system.

- **TransCanada's Shifting of Risk:** The TransCanada proposal shifts substantial risk away from TransCanada and to producer-shippers and, in turn, to the State of Alaska. Unless subjected to appropriate, negotiated contractual risk-reward protections, this is markedly contrary to each of the State's interests noted above.
- **Threats to Producers' Economics:** In light of TransCanada's aggressive shifting of risks to producers (and the State) via the significant long-term, non-cancelable obligations of producers anticipated in the TransCanada proposal, claims of "robust" producer returns are dangerously overstated in the analysis of the State's consultant (Black and Veatch).
- **Need for Contract Negotiations and Conditioning:** In the presence of the very large risks that producers and the State are being asked to assume under TransCanada's proposal, it is in the producer-shippers' and State's best interests that contracting with TransCanada for long-term transportation be approached in a standard, businesslike manner. This means negotiating contracts and conditioning "open seasons" on pipeline capacity so as to strike sustainable agreements that reflect balanced allocations of risk.

Let us examine these findings in detail.

The State's Interests: What Should It Care About?

The question of whether the TransCanada proposal sufficiently protects and maximizes the benefits to Alaskans is one that will have significant ramifications for the State's ability to fully realize its return from the development of the State's resource. The State's direct monetary interests, derived from the payment of royalties and severance and income taxes, are very much the same as those of a prospective producer-shipper on the pipeline. Gas will not flow and revenues will not be earned if pipeline development is delayed by inflexibility in project contracting or by the shifting of so much risk to producers, without offsetting protections and rewards, as to threaten the economics of producers' investments. The cost, delay, and disruption that can plague such an expensive and long-lived project will not be held at bay over the project's life if initial contracting does

not undertake best efforts to arrive at fair and balanced allocations of risks and rewards. With the only certainties about the future decades in world energy markets being that they are uncertain and will be volatile, contractual *imbalance* as risk converts itself to reality is a recipe for maximizing conflict among the stakeholders.

**Project Risks Cannot Be Eliminated:
Where Does TransCanada Put Them?**

With daily reports of world crude oil prices hitting ever-higher peaks and pulling up natural gas prices in the process, it is easy to believe that there is and will continue to be an endless supply of investment dollars ready and willing to flow into development of North Slope gas. But, as Figure 1 should remind us, we have been here before – and billions of dollars were lost betting that the price run-ups of the 1970s and early 1980s would not turn into two decades of prices substantially below their peak.

In fact, North Slope gas development, itself, was a victim of these risks. As everyone here is likely aware, during the early development of the State's crude oil resources, the expectation was that natural gas resource development would soon follow. However, dramatically declining worldwide energy prices subsequently rendered such natural gas projects uneconomic in light of the very high costs associated with providing transportation from such a remote area. The extremely high costs of TransCanada's proposed pipeline – estimated at \$31.5 billion by the State's consultant, Black and Veatch ("B&V") – are no less a source of potential risk and impediment to North Slope development today. In fact, the cost of the proposed pipeline would far exceed the cost of any recent majority privately financed infrastructure development anywhere in the world (see Figure 2). TransCanada's proposal is approximately three times more expensive than the next largest "mega" project. Furthermore, the risk burden these figures

imply is only magnified by the remarkable size and length of TransCanada's proposed pipeline, the remoteness of the resource base, the arctic environment, and the existence of multiple state, provincial, national, and Native governmental jurisdictions along its path.

In light of the risks, it is readily understandable that TransCanada has assiduously sought to protect its economic interests by minimizing the risks it bears. In the process, however, TransCanada has shifted the lion's share of the project's risks to producer-shippers and those (like the State) with a producer's interests. This risk shifting is most starkly seen in TransCanada's proposal that producer-shippers be expected to sign long-term non-cancelable commitments to provide the pipeline developer with a steady stream of cash flows over the project life span. The mechanisms by which this would be achieved include:

- 25-year, firm ship-or-pay contracts for pipeline capacity;
- The absence of a project completion guarantee from TransCanada (leaving risks on producers and taxpayers);
- Cost recovery guarantees that leave TransCanada with a minimal cost at risk of about \$125 million out of \$31 billion.

Risk, Risk Shifting, and Producer Economics

The costs to the producer-shipper of risk-shifting elements of the TransCanada proposal can be easily illustrated by the fact that TransCanada is looking for 25-year producer ship-or-pay contracts for essentially the entire capacity of the pipeline. Such 25-year, firm ship-or-pay contracts create fixed obligations that are payable to TransCanada over the next 25 years whether or not the producers ship gas on the system and whether or not producing and selling Alaska North Slope gas is actually profitable. For all intents and purposes, producer-shippers are being asked to take on the economic equivalent of a long-term stream of mortgage or lease payments that would

effectively finance and pay for the pipeline. In the process, producer-shippers would be taking on the risks of the system, but without acquiring any ownership and control. It's like putting up the financing to pay for a new house or a new condominium, but then letting the builder remain as perpetual landlord.

The fundamental economic character of producer-shippers' financial obligations have not been accurately characterized in B&V's analysis of the economics that *producers* face in developing and selling Alaskan gas. Since the producer-shippers would have to pay TransCanada the stream of mortgage-like payments over the next 25 years regardless of other market and/or project changes, these obligations shift gas price, cost, and geologic risk to producer-shippers. The pipeline developer, meanwhile, would receive a stream of payments that are effectively guaranteed by the financial capability of the producer-shippers signing the long-term ship-or-pay contracts.

Critically, TransCanada's ability to raise the financing in this case is not dependant on TransCanada's financial capabilities. Rather, it is based almost exclusively on the financial capabilities of the parties signing the ship-or-pay contracts. TransCanada is essentially a pass-through middleman in the financing chain. For these reasons, it is the producers' balance sheets and debt-carrying capacity, not TransCanada's, that are the keys to the financial markets' willingness to finance the pipeline.

The financial implications of this risk shifting for the producer-shippers are not properly recognized by the net present value ("NPV") and rate of return calculations of the State's consultant, Black & Veatch. In its analysis, B&V treats the ship-or-pay contracts as an operating expense ("OPEX") of the producer-shippers, rather than as a fixed commitment that

must be paid regardless of other market developments. This is economically incorrect: The ship-or-pay contracts are actually capital commitments whose basic payment obligation does not vary with operations (throughput). Financial markets (and economics) properly treat such commitments as upfront debt of the producer-shippers¹ – especially under the huge costs and unique risks of an Alaskan gas pipeline. TransCanada ends up bearing the relatively low risk that very large and financially sound producer-shippers like ExxonMobil, BP, and ConocoPhillips will not be able to pay their debts. The producer-shippers, meanwhile, end up bearing the very substantial risks of volatility in world energy markets, the uncertainties of geologic unknowns in the arctic, and the vagaries of domestic and international politics and regulation affecting development costs and pricing. Failure to account for this leads B&V to overstate the risk borne by TransCanada and understate the risk borne by producers.

The Threat to Producers' Economics

Under proper treatment of ship-or-pay commitments, B&V's characterization of producers' economics of investing in and developing North Slope gas as "robust" evaporates. With project risk shifted overwhelmingly to producer-shippers under TransCanada's proposal, it is inappropriate to discount the costs of the pipeline tariff at the overall project risk rate since that payment stream is guaranteed by the producer's debt-bearing capability. Using a 6% discount rate (as a measure of the producer's weighted average cost of debt) for the projected stream of tariff costs, B&V's claim of an NPV project worth of \$13.5 billion collapses to worse than breakeven (see Figure 3). That is, the overall project does not generate enough risk-adjusted revenue to cover producers' costs of capital. The State cannot have security

¹ See, e.g., Standard & Poor's, *Operating Lease Analytics, Corporate Ratings Criteria 2006*; and Brealey, Richard A., Stewart C. Myers, and Franklin Allen, *Principles of Corporate Finance*, 9th edition, McGraw-Hill Irwin, 2008, at 706.

that the TransCanada proposal will enable the development of the State's gas resources.

But is there really much risk being borne by producers, in light of the very high prices and go-go investment environment we now see in energy markets around the world? History says there is. While describing the producer returns as "robust," even the B&V sensitivity analysis acknowledges that positive producer returns evaporate if prices fall 40-60% from the B&V base case of steadily rising prices.² While world energy prices are likely to be on an upward trend over the very long term, history tells us that such trends can be upended for sustained periods of time.

Consider the actual case of the 1980s and 1990s shown in Figure 1. World oil prices peaked in 1982, and then embarked on a long period in which prices were far below the peak. It was not until 2004 that prices once again exceeded the 1982 level. At the peak in the early 1980s, "consensus forecasts" (see Figure 4) of rapidly rising prices implied "robust," positive economics for a multitude of potential projects (including a natural gas pipeline from the North Slope). Given the subsequent decline in world energy prices, however, investors in many of those projects, if they had moved forward, would have regretted their decision. Billions of dollars were lost as expectations were dashed. Accounting for the possibility that price forecasts may turn out to be significantly overly optimistic is clearly relevant to the discussion of the "robustness" of producer economics. If history repeated itself, based on the pattern of percentage declines shown in Figure 1 – which it could – B&V's framework indicates that the Alaskan producers' NPV would be reduced to approximately *negative* \$1.5 billion.

² Black & Veatch, AGIA NPV Analysis Report Prepared for the State of Alaska, May 22, 2008, at 222.

Producers bear risks not only of price decline. Mega projects can also experience significant cost overruns, especially in new and untested environments. For example, the cost of the TAPS crude oil pipeline was originally estimated at \$900 million, but eventually ballooned to over \$8 billion in the 1970s.³ That represents a ninefold increase in project cost and subsequent tariffs. Such cost escalation on large energy projects is not unique to the TAPS project. More recently, even smaller, faster-to-market projects have exhibited significant increases in costs. For example, press reports indicate that the Nabucco Gas Pipeline (serving Europe) is over budget by 60% due to increasing materials cost and the Sakhalin-2 project has exceeded early cost estimates by over 100%.⁴

Other important factors that can affect producer profitability include the fiscal regimes under which they operate. While the B&V analysis assumes a certain set of governmental fiscal policies over the life of the pipeline, the chance that these policies may change over time creates an additional layer of uncertainty that must be considered in the context of existing price and cost risks faced by the producers. As so many countries around the world have learned, uncertainty regarding fiscal regimes raises producer risk and deters investment and development in otherwise well-functioning marketplaces.

³ Testimony of Monte Canfield, Jr., Director, Energy and Minerals Division, GAO, before the Senate Committee on Energy and Natural Resources, *Planning and Construction of the Trans-Alaska Pipeline*, September 26, 1977.

⁴ "Sakhalin Energy Projects Face Reality Check", *Eurasia Daily Monitor*, July 27, 2005, http://www.jamestown.org/edm/article.php?article_id=2370064; and "Nabucco natural gas pipeline over budget as steel prices soar", *International Herald Tribune*, June 3, 2008, <http://www.ihf.com/articles/2008/06/03/business/pipe.php>.

Protecting the State and Producer-Shippers through Negotiation and Conditioning

As I have discussed above, the risk-shifting contained in the TransCanada proposal is understandable from TransCanada's perspective. At the same time, however, it is eminently rational for the producers and the State to work to protect their interests. It is not in producers' or the State's interests to treat the TransCanada proposal as "take it or leave it." As in any case of a business proposal involving substantial risk and huge cost, producer and State interests here should be protected by allowing parties to negotiate over key terms and conditions that define the project's risk-sharing relationships.

It is standard practice for prospective shippers to "condition" their bids in a new pipeline's "open season" for capacity contracting on contractual provisions and terms that protect their interests. Similarly, it is standard practice that prospective shippers engage in extensive negotiations and discussions with the pipeline developer. This often leads to extensive changes in what the developer might originally propose – changes that ultimately result in a sustainable, viable project that all parties can enter into and live with over the long term. In this context, North Slope producer-shippers should be expected to condition "open season" offers to TransCanada and to negotiate with TransCanada. Doing so is consistent with their interests and ultimately serves to protect the State's interests.

While it is up to the parties to define the key elements of their negotiations, there are several aspects of the TransCanada proposal that are reasonable candidates for possible negotiation and conditioning as part of the pipeline capacity contracting and development process. These include measures to provide:

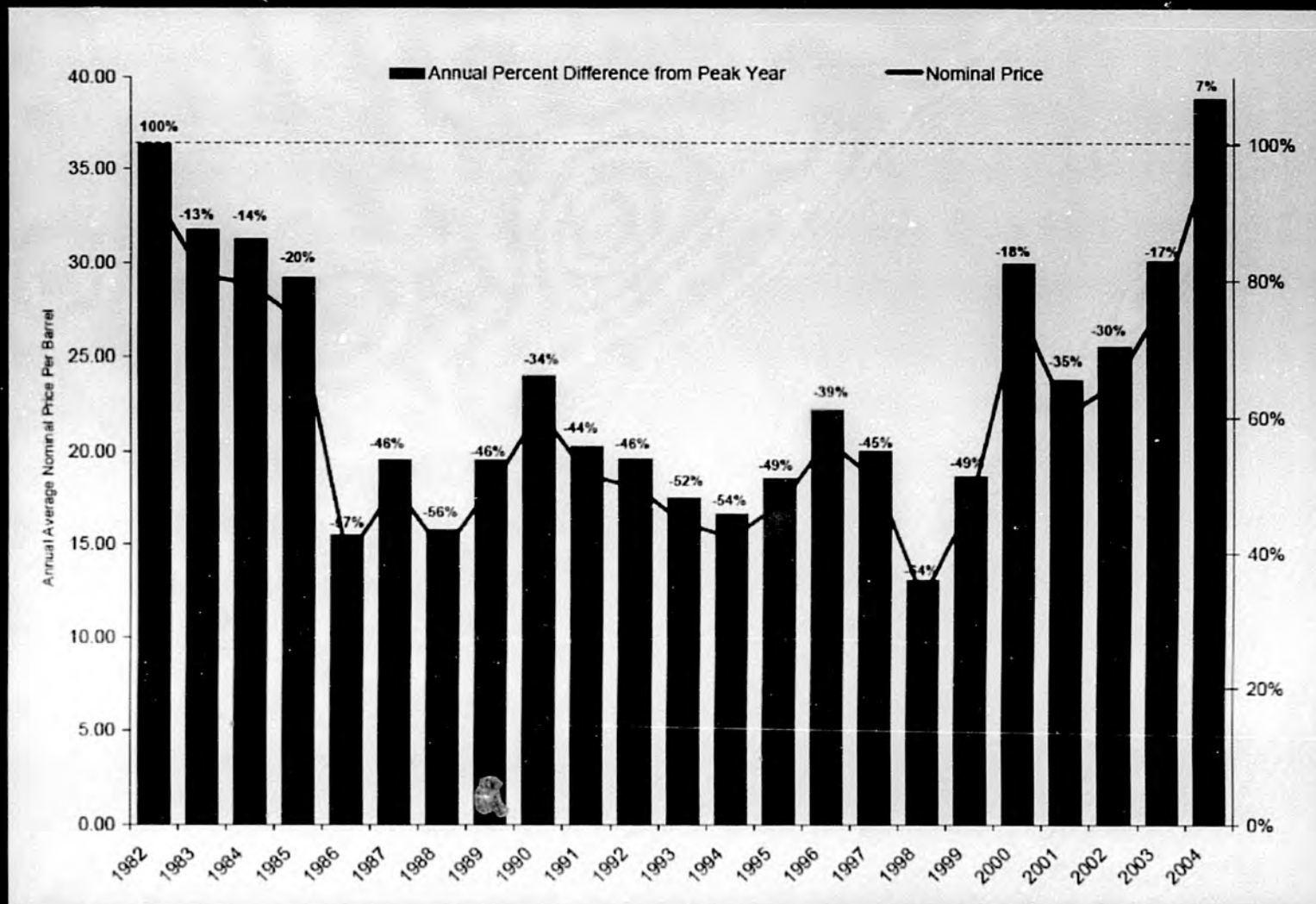
- Tariffs commensurate with risk allocation between TransCanada v. the State and producer-shippers;
- Matching of risk and control via producer-shippers holding ownership interest in accord with expected throughput⁵;
- Conditioning and/or modifying such provisions as downstream TransCanada exclusivity, withdrawn partner liability, and cost overrun responsibility (all of which now are tilted strongly in TransCanada's favor).

Finally, conditioning and negotiation over these kinds of matters should not be viewed as setbacks to the process of establishing a pipeline project in a reasonable timeframe. Given the possibility that the lack of flexibility around key risk and control provisions could create a "one size fits none" outcome, the ability to condition bids and engage in negotiations of key terms and conditions can enhance the chances for the State's resources to be developed sooner rather than later. And, developing a pipeline with a balanced sharing of risk and reward will promote a pipeline system that is sustainable and subject to fewer disputes and disruptions over its life. This is clearly in the State's interest.

⁵ With access by future expansions and producer-shippers now being protected by new FERC access rules pursuant to recent federal legislation.

Figure 1

DESPITE FORECAST MADE AT A PEAK, WORLD ENERGY PRICES CAN KILL PRODUCER ECONOMICS



Source: EIA

Figure 2

THE TRANSCANADA PIPELINE IS EXTREMELY COSTLY

Project Name	Amt. (\$B)	Country	Sector	Year
TCPL Alaska Gas Pipeline Proposal	31.5*	United States	Natural Gas Pipeline	N/A
Saudi Kayan Petrochemical Complex	10.00	Saudi Arabia	Petrochemical/Chemical Plant	2008
Rabigh Petrochemical Expansion Project	9.90	Saudi Arabia	Petrochemical/Chemical Plant	2006
Abu Dhabi Aluminium Smelter	7.05	United Arab Emirates	Processing Plant	2007
Liaoning Nuclear Power Plant Project	6.94	China	Power	2008
Jamnagar Petrochemicals Refinery Complex	6.00	India	Petrochemical/Chemical Plant	2006
Qatargas 4	5.71	Qatar	Oil Refinery/LNG and LNG Plants	2007
Fujian Refining and Ethylene Joint Venture Project	5.60	China	Petrochemical/Chemical Plant	2007
YanSab Petrochemical Complex	5.00	Saudi Arabia	Petrochemical/Chemical Plant	2006
Indiana Toll Road	4.83	United States	Road	2006
Qatar Aluminum Trust	4.74	Qatar	Processing Plant	2007
QCTC Nakilat LNG Vessels	4.74	Qatar	LNG	2006
FARAC Toll Road PPP	4.28	Mexico	Road	2007
Ambatovy Nickel Project	3.70	Madagascar	Mining	2007

Note: * In 2008 dollars according to Black Veatch NPV₁₀ analysis at 9.

Source: Project Finance and Infrastructure Finance, Issues 288 and 277.. Dealogic

Figure 3
**PURPORTEDLY "ROBUST" PRODUCER ECONOMICS
v. REALITY OF RISK SHIFTING**

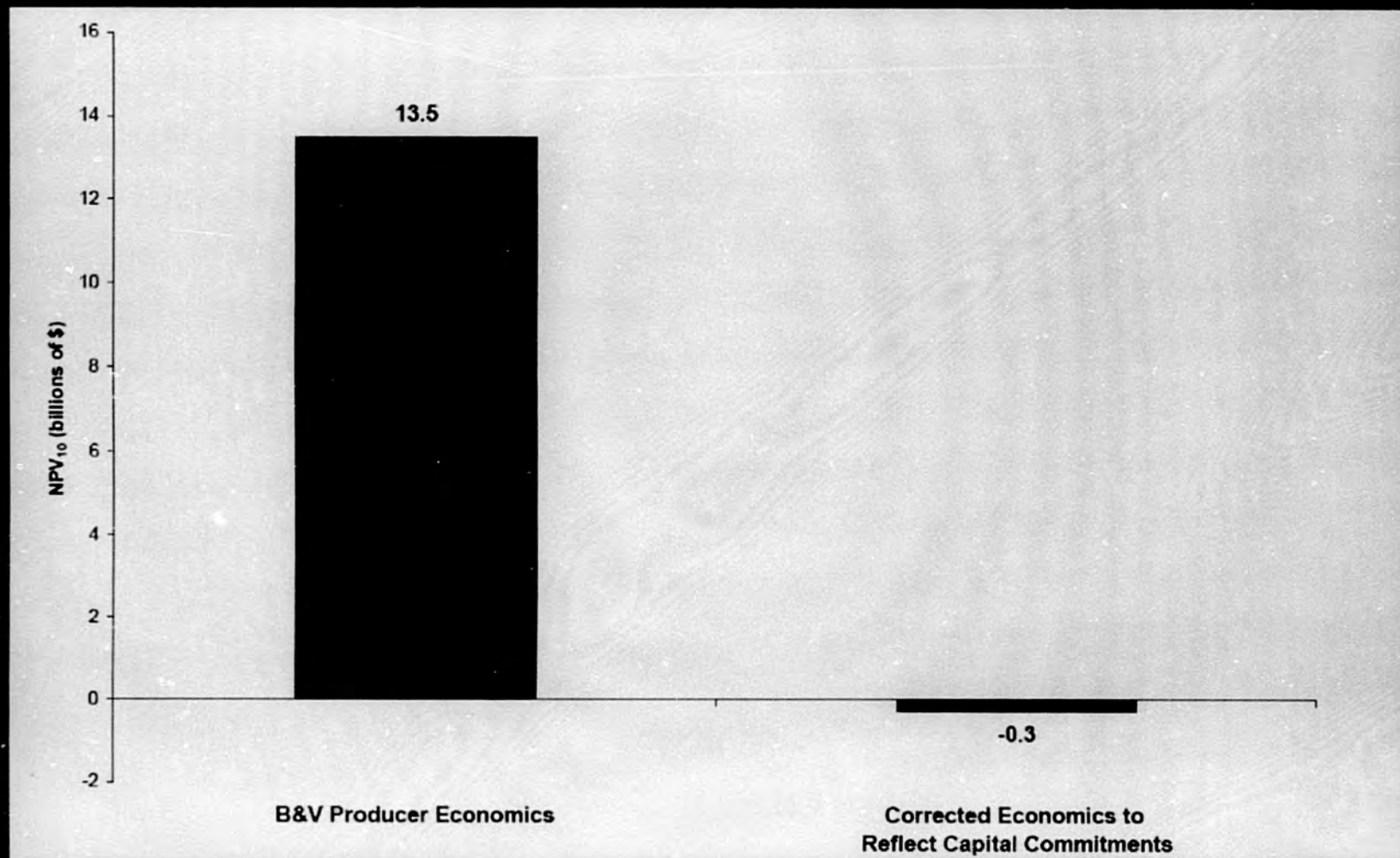
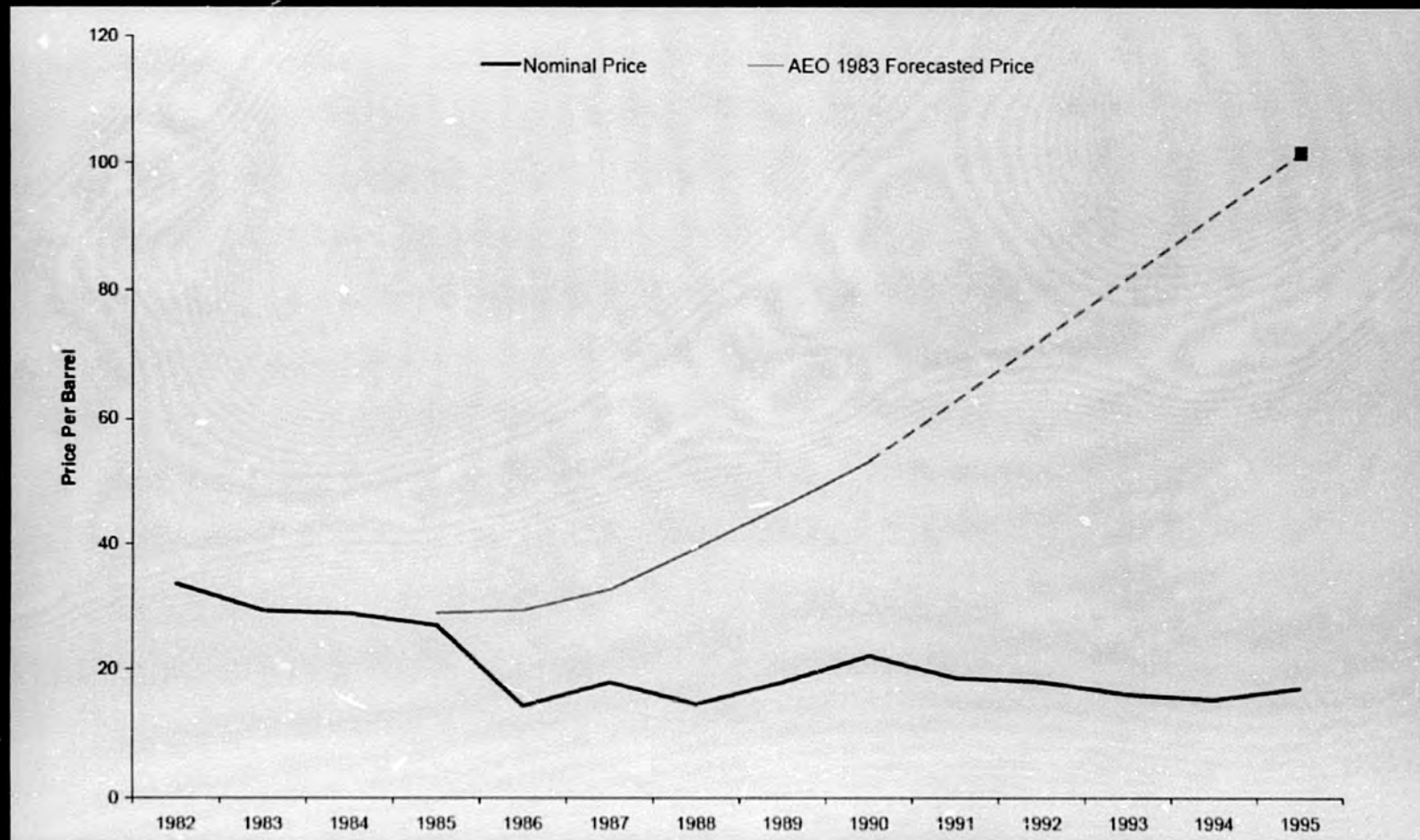


Figure 4
**THE PRICE PER BARREL OF OIL v. THE AEO 1983
FORECASTED PRICE PER BARREL OF OIL**



Source: EIA