

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 ask

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

ALASKA STATE LEGISLATURE

Sharon

Senator Charlie Huggins, Chair
Senate Special Committee on Energy
State Capitol, Room 119
Juneau, AK 99801
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- How to Get the Gas – (continued from yesterday)

Spencer Hosie (by phone), Hosie, MacArthur LLP;

- Pipeline Regulatory and Commercial Issues –

✓ **Greg Hopper**, Black & Veatch

✓ **Don Shepler**, Greenburg Traurig

Bill Sparger, Energy Project Consultants

~~**Pat Anderson**, Pingo International~~

~~**Kevin Banks**, Actng. Dir. Division of Oil & Gas~~

~~**ANCSA CEOs**~~

- LNG: Economics, Likelihood of Success & Path Forward

Robert Fenton, Gas Strategies

after lunch → → →
Deepa Poduval, **Scott Smith**, Black & Veatch

, Westney

Bill Sparger, Energy Project Consultants

*> pipeline expenditures
- PERC*

*Commercial &
Business Structure*

Testimony: By Invitation
Teleconference

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Pat Anderson, Pingo International
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AGENDA
INSERT

AFTER LUNCH
ANCSA ASSOC
of CEO'S

- -LNG: Economics, Likelihood of Success & Path Forward

Robert Fenton, Gas Strategies

Deepa Poduval, **Scott Smith**, Black & Veatch

Westney

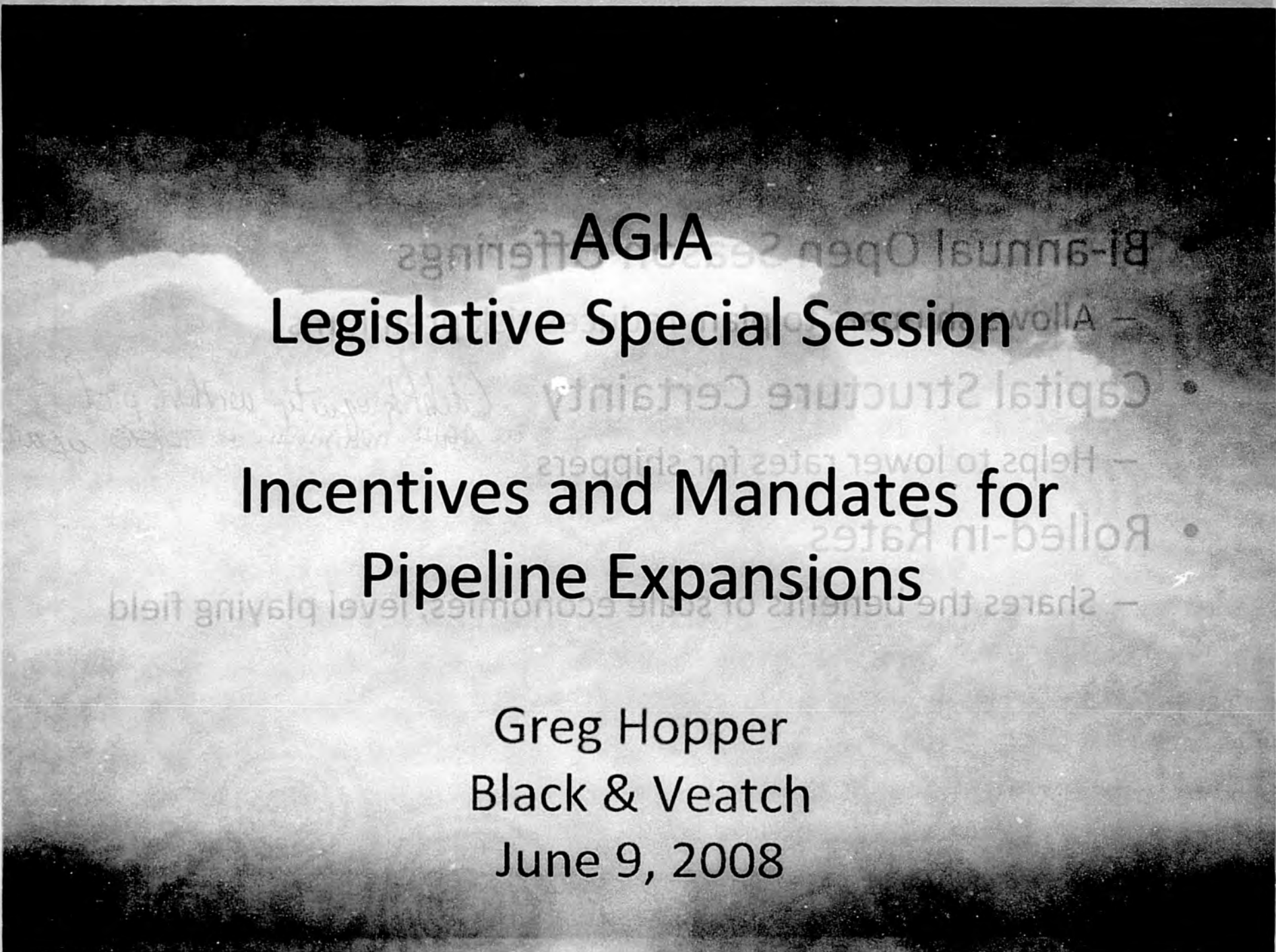
Bill Sparger, Energy Project Consultants

Comm & Bus Structure

Commercial & Business Structure

Testimony: By Invitation

Teleconference



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
 - Helps to lower rates for shippers
- Rolled-in Rates
 - Shares the benefits of scale economies, level playing field

(debt & equity within pct)
in AGIA minimum of 70/30 required

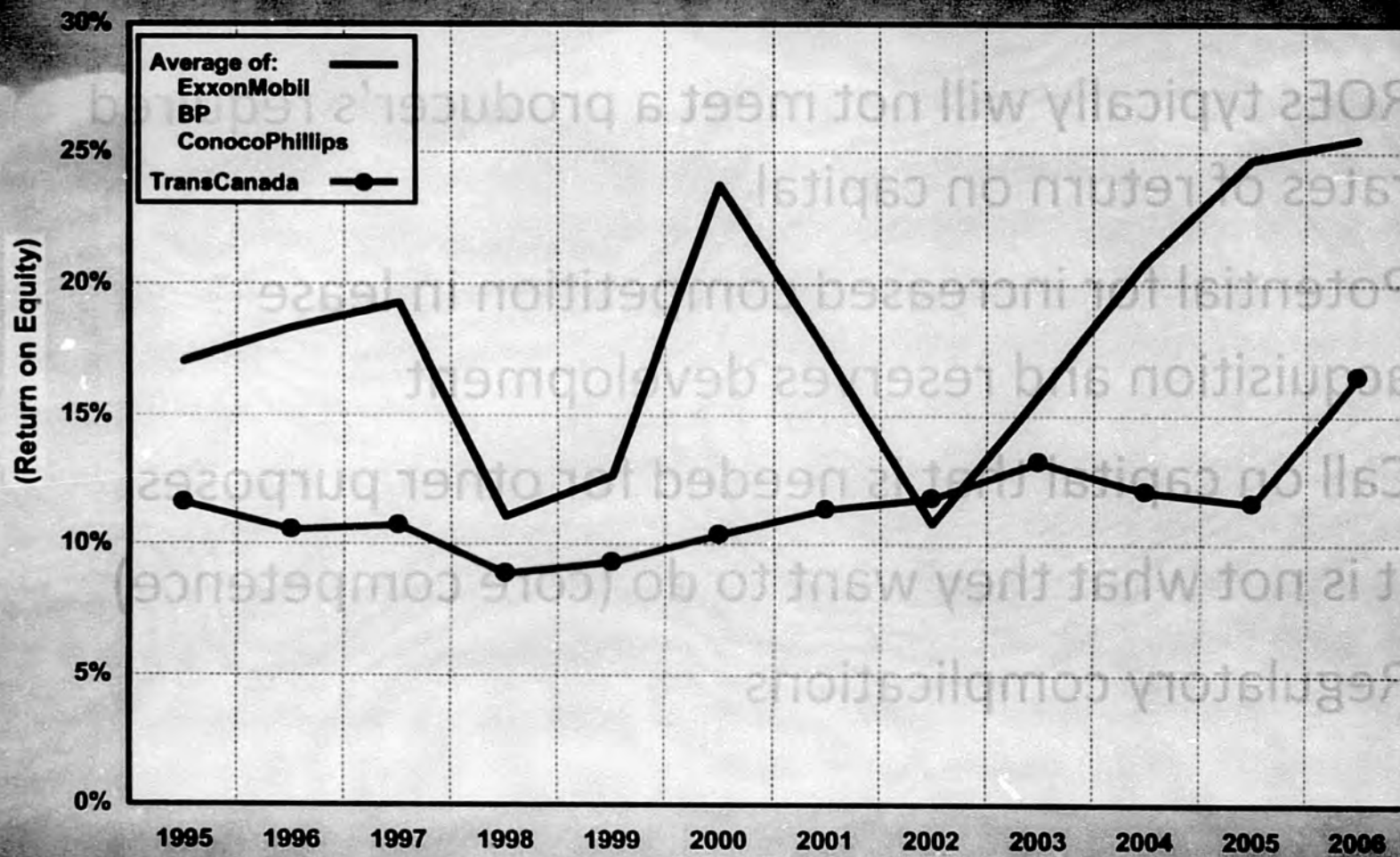
Development

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

Expansion

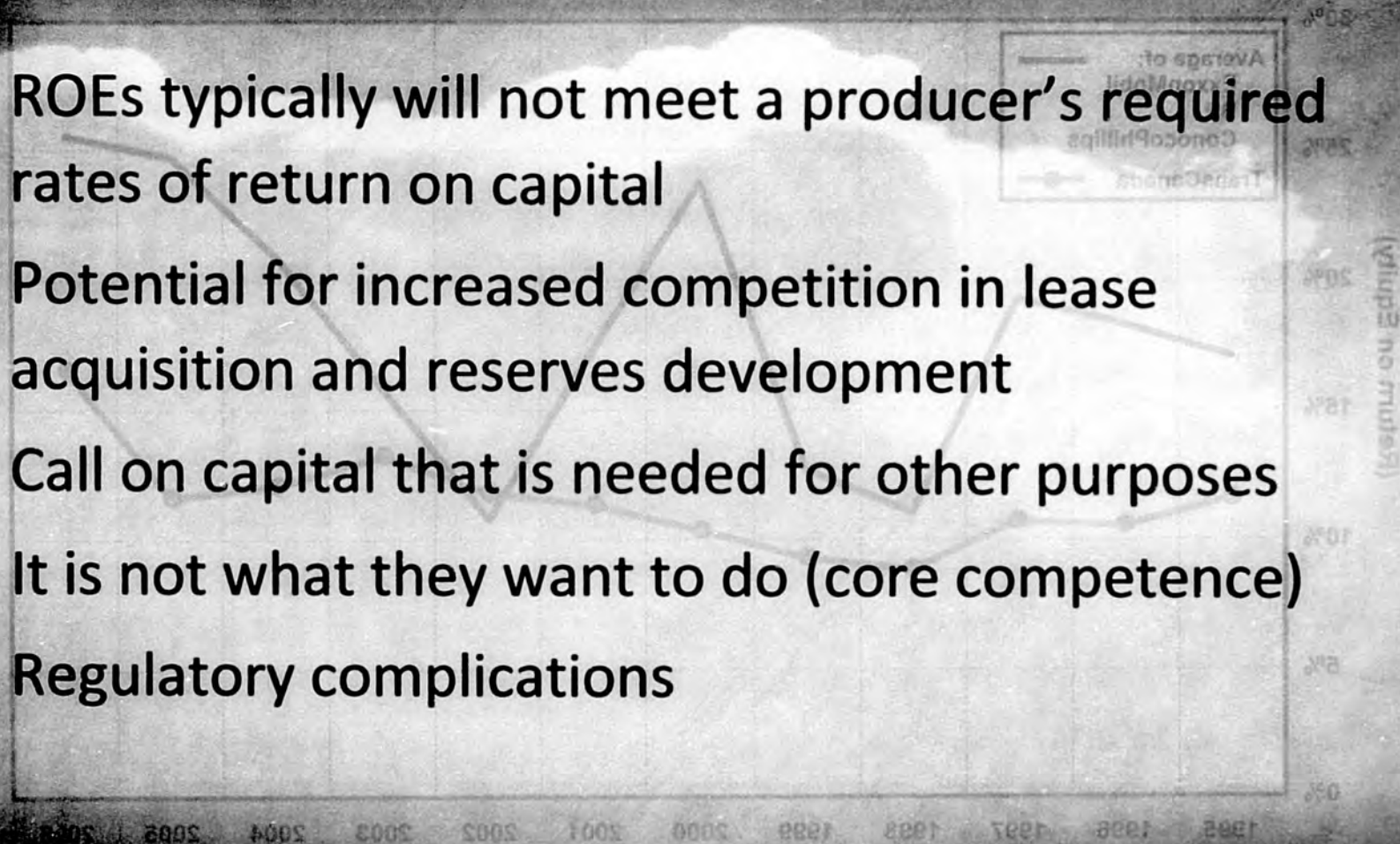
- Outlet for increased equity production
- ?

- 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



Expanded 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 - Morning presentation 3rd Sp Session AGIA License
(3rd Speaker) (after Hostie & Hopper)

AGIA

The Alaska Gasline Inducement Act

**Producer Incentives to Expand
Pipeline for Third-Party Shippers**

Don Shepler

Greenberg Traurig LLP

Producers May Conflict with Interests as Pipeline Owners

...ing to deny the fruits of their monopoly
power 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
1958-59.

Expanded 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

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

Phillips proposal makes no expansion
commitments

JUNE 9, 2008
additional handout: Shepler

RM05-01

(1)

SENR: Hearing
1:30 PM
JUNE 11

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

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)

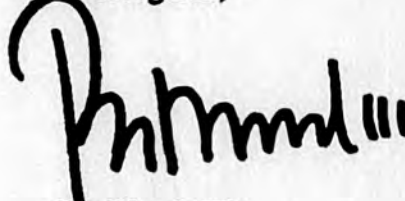
- 2 -

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,

A handwritten signature in black ink, appearing to read 'Pat Wood, III', with a large, stylized initial 'P'.

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.



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



Dr. Robert Fenton

- **27 years experience with Shell**
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- **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
- 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

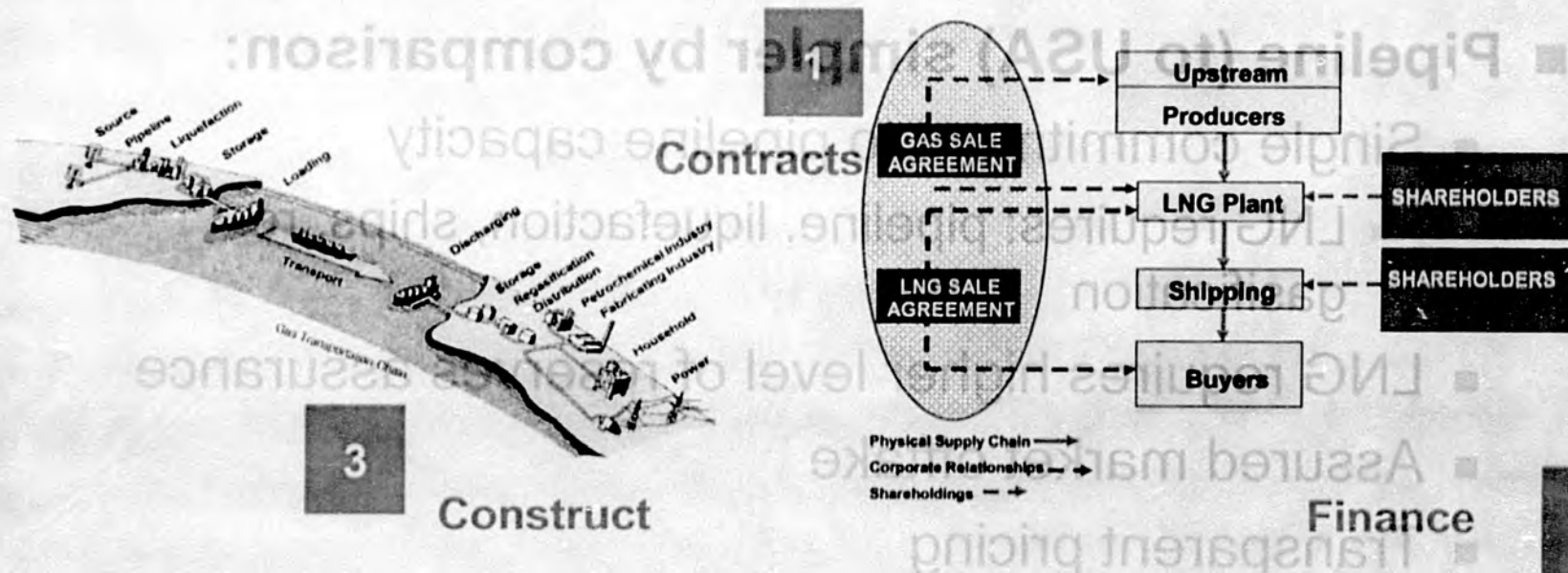
- US gas market is very similar to the global oil market – offtake is assured, price varies
- Transparent gas price index
- New gas development relatively straightforward

■ 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



- 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

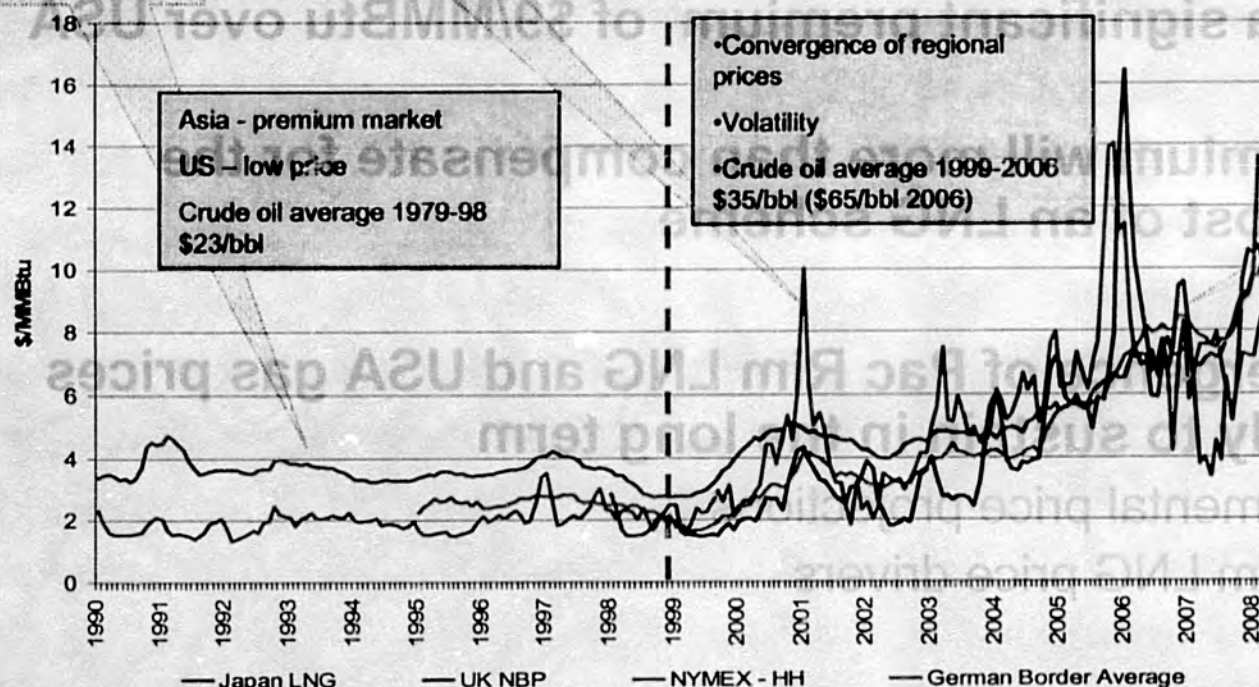


Asian contract prices normally sit above HH; but in some periods they do not.

Asia markets provide higher prices

- Asia dependent on LNG
- Prepared to pay some security premium to lock in volumes

Relativity to HH very volatile



Source: Gas Strategies Consulting



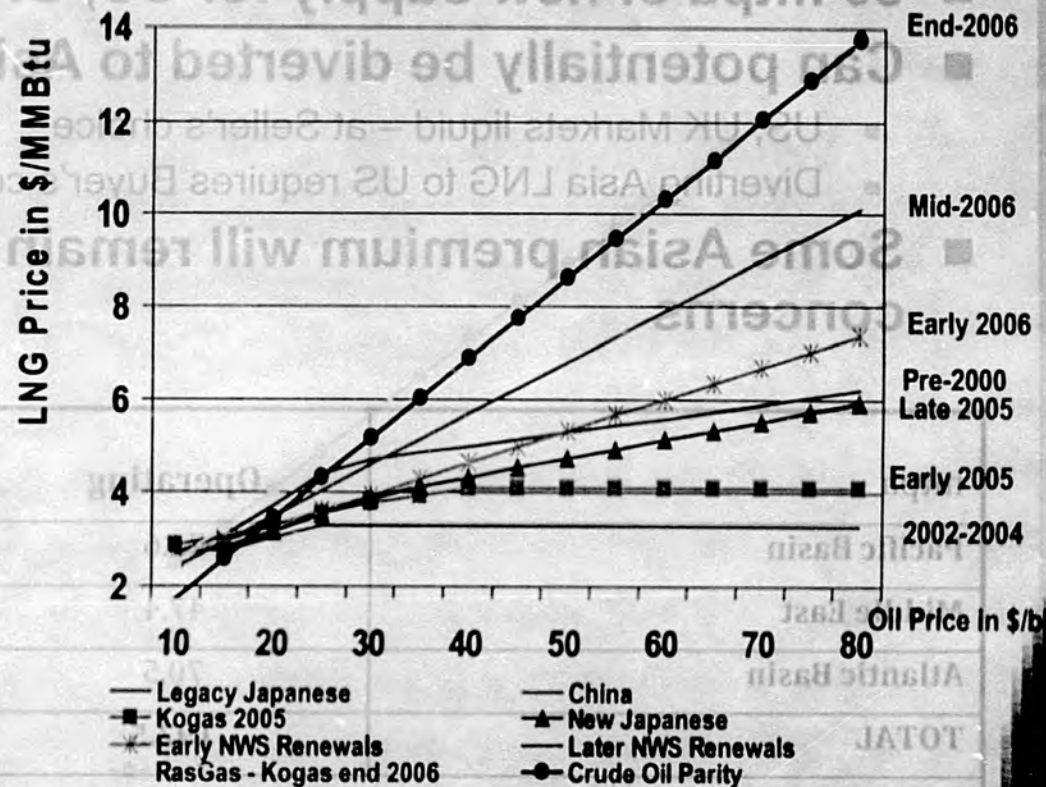
Rapid market changes lead to scatter of prices and renegotiation

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**