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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

Howard Johnson Plaza, Anchorage Alaska

Wednesday June 18 2008

9:00 a.m.-8:00 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.

➤ **Introduction: Pat Galvin, Commissioner, Dept. of Revenue**

➤ **Net Present Value Analysis & Results**

- ✓ Scott Smith, Black & Veatch
- ✓ Deepa Poduval, Black & Veatch
- Mike Elenbaas, Black & Veatch
- Paul Bloom, Goldman Sachs

➤ **TransCanada's AGIA Application**

Tony Palmer, Vice President, Alaska Gas Development

1:30 ~~Room~~
→ ACGCC - Cathy Feerster
→ Pt Thompson Panelists
Nan Thompson
Dr. Anil Chopra (phone)
→ Chevron
John Zager
→ ExeM
Craley Haynes

Testimony – By Invitation

➤ **6:00 – 8:00 PM Public Testimony**

Testimony – Time Limit May Be Set

Teleconference – Listen Only

RDC would like to cordially invite you to be our guest at a luncheon, hosted by BP, featuring the

**BP Statistical Review of World Energy with
Mark Finley, General Manager, Global Energy
Markets and US Economics.**

Thursday, June 19, 2008
12:00pm - 1:30 pm
Aft Deck, Captain Cook Hotel, Anchorage

If you're able to attend this event as our guest, please **RSVP by end of business June 18th** by emailing dcrockett@akrdc.org or by calling (907) 276-0700 ext. 3.

Following is background information on this presentation for your review.

For 57 years, The BP Statistical Review of World Energy has provided high-quality, objective and globally consistent data on world energy markets. The Review is one of the most widely respected and authoritative publications in the field of energy economics, used for reference by the media, academia, world governments and energy companies. A new edition is published every June.

Mark Finley is General Manager, Global Energy Markets and US Economics for BP in Washington, D.C. He is responsible for BP's coverage of global energy markets as well as the annual BP Statistical Review of World Energy. He previously served as BP's Head of Energy Analysis in London. Finley has more than 20 years of private and public experience as an energy economist. He is a Phi Beta Kappa graduate of the University of Michigan (economics), and holds graduate degrees from Northwestern University (economics) and George Washington University (finance).

The Review is available online at:
<http://www.bp.com/statisticalreview/>

We look forward to seeing you on Thursday, June 19th.
Sincerely,

The Resource Development Council

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→ Gov. Walter Hickel

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PT Thompson
1:30 Roundtable
DR ANIL Chopra - PetroTel - By phone
Cathy Forester, AOGCC - from Dallas
Craig Haynes, ExxonMobil
Chevron, John Zager
Nan Thompson, DNR
Julie Houle, DNR
Steve Moothart, DNR

→ ~~TransCanada's AGIA Application~~

Tony Palmer, Vice President, Alaska Gas Development

→ 4:45 recess 'til 6:00 PM

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#1

House Rules Standing Committee
Subcommittee
Senate Special Committee on
Energy

HB3001-APPROVING AGIA LICENSE
SB3001-APPROVING AGIA LICENSE

Date: Anchorage
6-18-08

TESTIFY? Y/N	NAME PLEASE PRINT	City, State E-MAIL/PHONE NO.	REPRESENTING (No Acronyms)
✓ Y	Charles McKee	NEW-PI, @CLEARWIRE.NET	self <u>not coherent</u>
✓ U	PAUL LAIRD <small>Eric Tompling Mary Shields</small>	PLAIRD@ALASKAALLIANCE.COM	THE ALLIANCE <u>Against</u>
✓ X	DERRY McKittrick	Anch susitwa@hydronow@yahoo.com	self <u>Against AGIA</u>
✓ Y	MATTHEW FAGNANI <small>(Faunyani)</small>	3230 C STREET	self <u>vote NO</u>
✓ Y	MAYNARD TAPP	MAYNARD @ HAWK PROS.COM	SELF <u>Against as it now stands</u>
✓ Y	MIKE ROGERS	Anchorage, AK mykroxxxx@ yahoo.com	self <u>Against for ALL AK LINE</u>
✓ Y	Barbara Brackmeyer <small>(Brackmeyer)</small>	barbara@brackmeyer.com	self <u>AGAINST- AGIA, TC, & Denali</u>
✓ Y	John Wood	JMWOOD@GCI.NET 495 0700	self
N	Art Freese	2215 7th Ave #311 99501 279-1361 artfreese@gci.net	Self
✓ Y	Kate Troll	Anchorage, AK	ACA <u>supports & TC.</u>
✓ Yes	Camille Conte	anchorage-cc@gci.net	Self <u>supports INI STATE LINE</u>

6-18-2008

Testimony by the Honorable Walter J. Hickel
Legislative hearing on the state's finding
regarding the TransCanada gasline application -
June 18, 2008 - 9 am - Howard Johnson Hotel, Anchorage

Thank you Mr. Chairman.

Let me begin with my bottom line.

The State of Alaska representing all of our people, the owners of the resources on the State lands at the North Slope should build the Alaska natural gas pipeline.

We should hire a pipeline company, perhaps TransCanada, and build it and own it. That's the only way we can keep control of this resource that is worth untold billions.

Anytime you yield control of a public asset to a private company, you have to be content to sit and wait. Because they are in control.

And if you yield control to foreign governments and their regulatory agencies, just move to the back of the bus.

Before I expand on that theme, I want to salute you, Mr. Chairman, and your colleagues for holding these hearings. The issue is how to achieve maximum benefit from North Slope natural gas resources.

That's your assignment under the Constitution. As citizens of our Owner State, all Alaskans also have the obligation to follow this issue and make their views known.

Billions upon billions of dollars are at stake.

We need to get Alaska gas to Alaskans...and to make that gas affordable we need to access the world's markets. That means an All-Alaska gasline to Valdez and LNG exports to the world.

Our neighbor nations on the Pacific Rim are ready to pay twice as much as Alberta or Chicago. This week Japan is paying over \$20 per mcf. They are paying \$11.69 in Alberta.

The last time I saw you, Mr. Chairman, was in Beijing where we met with leaders in Chinese oil and gas. That was an important trip. We must understand the world. And we need vision. Vision is the key to a pioneering country. And to me the vision is clear, and it is based on our reality.

For 50 years of statehood, Alaska's political ties have been with America...and thank God for that.....but our economic ties have been with Asia.

We offered our timber, coal, and LNG to the South 48, but we couldn't get them past Seattle. So we made friends and contacts in Japan and Korea, and we built our young economy based on those relationships. In 1969, we pioneered the first LNG shipments to Japan from anywhere...shipments that continue from Kenai today.

Wake up, America! It's a world economy. Check the labels on your T shirt and the names on your TV and automobile. Chances are they weren't made in America.

Our national economy, that means our standard of living, depends on our productivity and our ability to compete. We won't survive by just playing the stock market. There is no wealth without production.

I commend Governor Sarah Palin for introducing a wide-open, transparent process on the gasline issue. For years, the North Slope producers claimed that Alaska natural gas was not economic. They said there was no market. But AGIA produced 5 eager applicants and the producers changed their tune. They cobbled together yet another public relations campaign about a gasline project that I promise you will never be built.

We've seen this before....over and over. And they still bad mouth LNG.

If LNG is so bad, why are they so heavily involved? ConocoPhillips has invested \$60 billion in the largest LNG liquefaction plant in the world in Qatar. BP has an LNG project in Tangguh, Indonesia. And Exxon has a new project in Papua/New Guinea. And that's only part of the story.

Ladies and gentlemen, they don't oppose LNG. They oppose Alaska LNG. Because our LNG competes with their LNG.

And the truth is LNG is changing the world. You can't build a pipeline to Australia, Japan, India or China.

It's no secret that I am opposed to giving an exclusive license to TransCanada. The public thinks that they plan to ship North Slope gas to America. But their goal, and they don't deny it, is to use most of our gas to heat the Alberta tar sands to create synthetic oil.

And they face obstacles and delays beyond our control. And the key word is "control."

They admit that the McKenzie River pipeline, mired in problems, will go ahead of an Alaska gasline. More delay.

The Canadian Supreme Court has ruled, and rightly so, that the Canadian government must "consult and accommodate" even those First Nations that have not resolved their land claims when it comes to issues, such as a pipeline, that impact their traditional territory. More delay.

TransCanada cannot build a 4.5 billion cubic foot per day pipeline without gas from the producers. More delay.

And producer gas carries the bombshell of demands for "fiscal certainty." And you all know what that means.

What's more, without even so much as a mention, TransCanada plans to export millions of barrels of our valuable North Slope gas liquids to Alberta. Those gas liquids should stay in Alaska. Billions of dollars of state revenue and hundreds of value-added jobs for Alaskans for decades rest on this one issue.

There is no reason to hold up the All-Alaska LNG line while we wait for TransCanada to sort out their problems in Canada.

Last week Commissioner Pat Galvin and others from the Palin gasline team informed me that TransCanada is prepared to hold a "simultaneous Open Season." This means that those who control North Slope gas will be invited to reserve space at the same time in either a Canadian pipeline. Or in an All-Alaska pipeline to Valdez.

If the market wants to ship LNG first, TransCanada will build the All-Alaska line first. They didn't mention, by the way, to which route the state will dedicate its gas.

→ But I was somewhat encouraged by what the Commissioner said, only to learn this week that TransCanada has refused to clarify any such commitment to hold a "simultaneous Open Season."

This illustrates and underlines my message today. If TransCanada is granted a license by the state, the State will lose control.

Alaska appears to be caught between the producers on one side and a bad deal on the other. So what do we do?

Fortunately, there is another option.

Ever since the people of Alaska voted six years ago in favor of an All-Alaska gasline, they have been waiting. And now, with a crisis in Alaska fuel and energy costs, they are getting frustrated. How much longer can they wait?

In Fairbanks last week, you heard loud and clear that we need Alaska's gas for Alaska's people now! And the crisis in rural Alaska is worse. But it's no good to have Alaska gas if its costs are sky high. The way to lower the price is through volume.

We must move our gas in a pipeline big enough to serve large markets. The best way to do that is with an All-Alaska gasline to Valdez.

And the state should own it.

Without the Canadian government or FERC making us jump through a thousand hoops, in 5 to 6 years we can get gas to Alaskans. And the entire project can be completed soon thereafter.

If you will hold a hearing on how the state can build and own our own gasline, please invite me back. It is not rocket science.

So I urge you to deny the TransCanada plan.

If you don't, we will lose control of our gas, and Alaska will be locked into the market at the end of that pipeline in Alberta.

As we meet here, there is a rush going on for new gas plays in Pennsylvania, West Virginia, Texas and the Rockies. Alaska gas in the South 48 will face severe competition in a few years time.

That means that our gas, instead of serving America as Gov. Palin sincerely hopes it will, will stay in Alberta and be used to heat the tar sands.

So let's take the faster, better and more beneficial alternative.

Let's build and own the Alaska gasline ourselves.

With LNG, we will serve the world. We will move our gas to the highest and best markets, and we will keep the jobs here at home.

That's "maximum benefit" for our people. And that's your responsibility. Your opportunity. And the mission of this generation.

Thank you.



presented 6-18-2008
AGIA License hearings

on SB 3001 & HB 3001

P PetroTel
Leaders in Oil and Gas Technology

Response to Testimony and Q/A Discussions Held on June 17, 2008

Do we have enough data in Point Thomson to define a Full Field Plan of Development for both the oil and gas reserves?

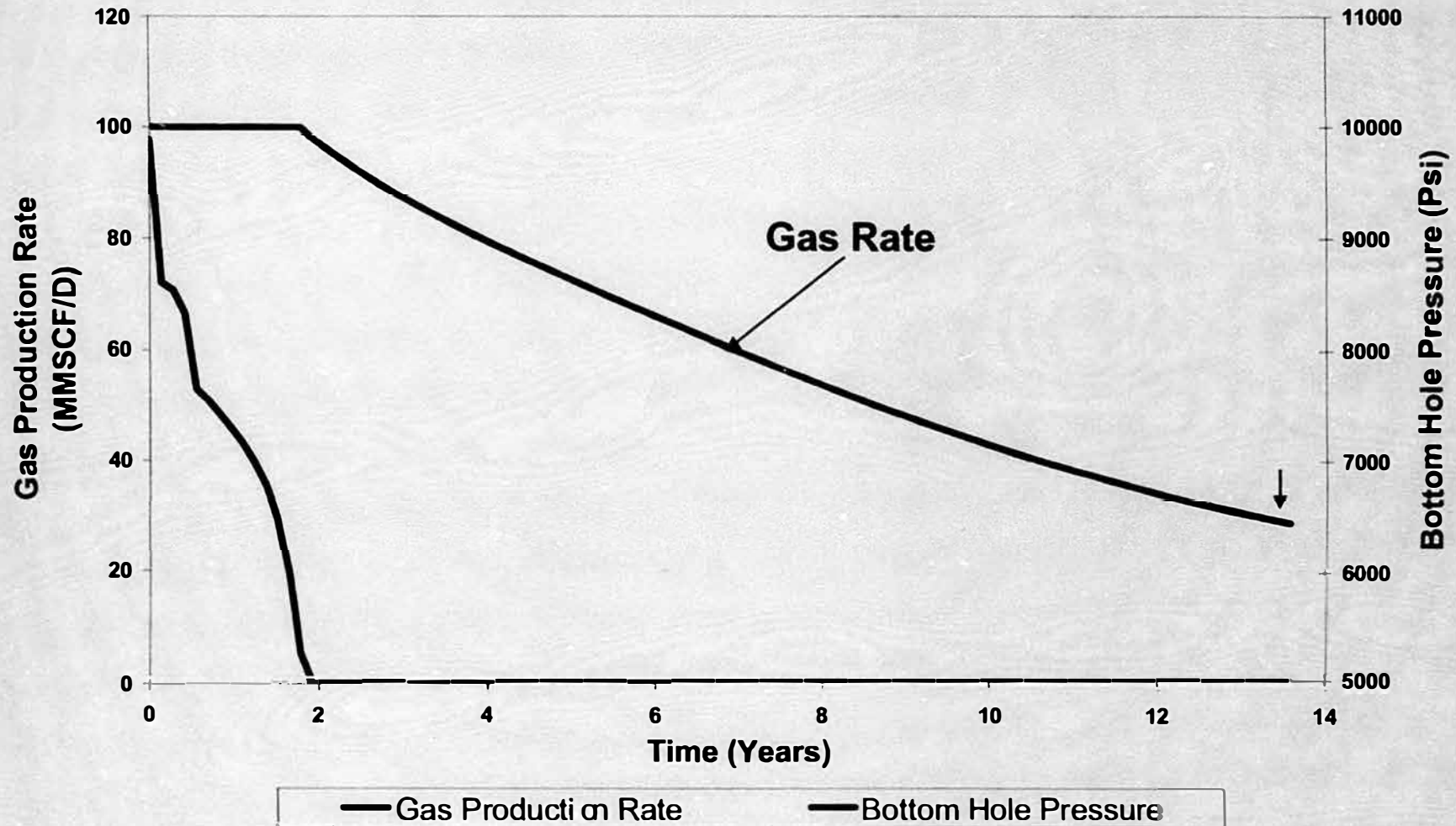
- 19 wells have been drilled
- 14 wells penetrated Point Thomson reservoirs
- 3600 ft of high quality core has been taken and analyzed
- 20 well tests have been completed, defining rates and pressures
- Eight 3D seismic surveys have been acquired and interpreted
- Multiple fluid samples have been taken and fluid property evaluations have been conducted
- Conclusion: The type and amount of reservoir data is sufficient to develop a Full Field Plan of Development for oil and gas development at the Point Thomson Field

Response to Exxon Presentation

- Exxon presented yesterday that they did not see a reduction in Pt Thomson well productivity due to condensate dropout.
- Their own published work on the Arun Field in Indonesia (with a condensate yield of 65 STB/MMSCF shows a 50% reduction in well productivity occurring during blowdown.
- As a result, Exxon initiated lean gas injection in Arun, as soon as production began, to minimize liquid drop out and to maximize condensate recovery.
- In a blowdown scenario, 2 to 3 times the number of wells will be required to maintain the same rate. Producing oil earlier, will require fewer number of wells in the long term.
- Condensate will be trapped in the reservoir in a blowdown scenario, thereby reducing liquid recovery.

Point Thomson Well Productivity During Blowdown

Drainage Area 3400 Acres, $k=120$ md, thickness = 200 ft,
Initial Pressure = 10,200 psi





Take Home Point

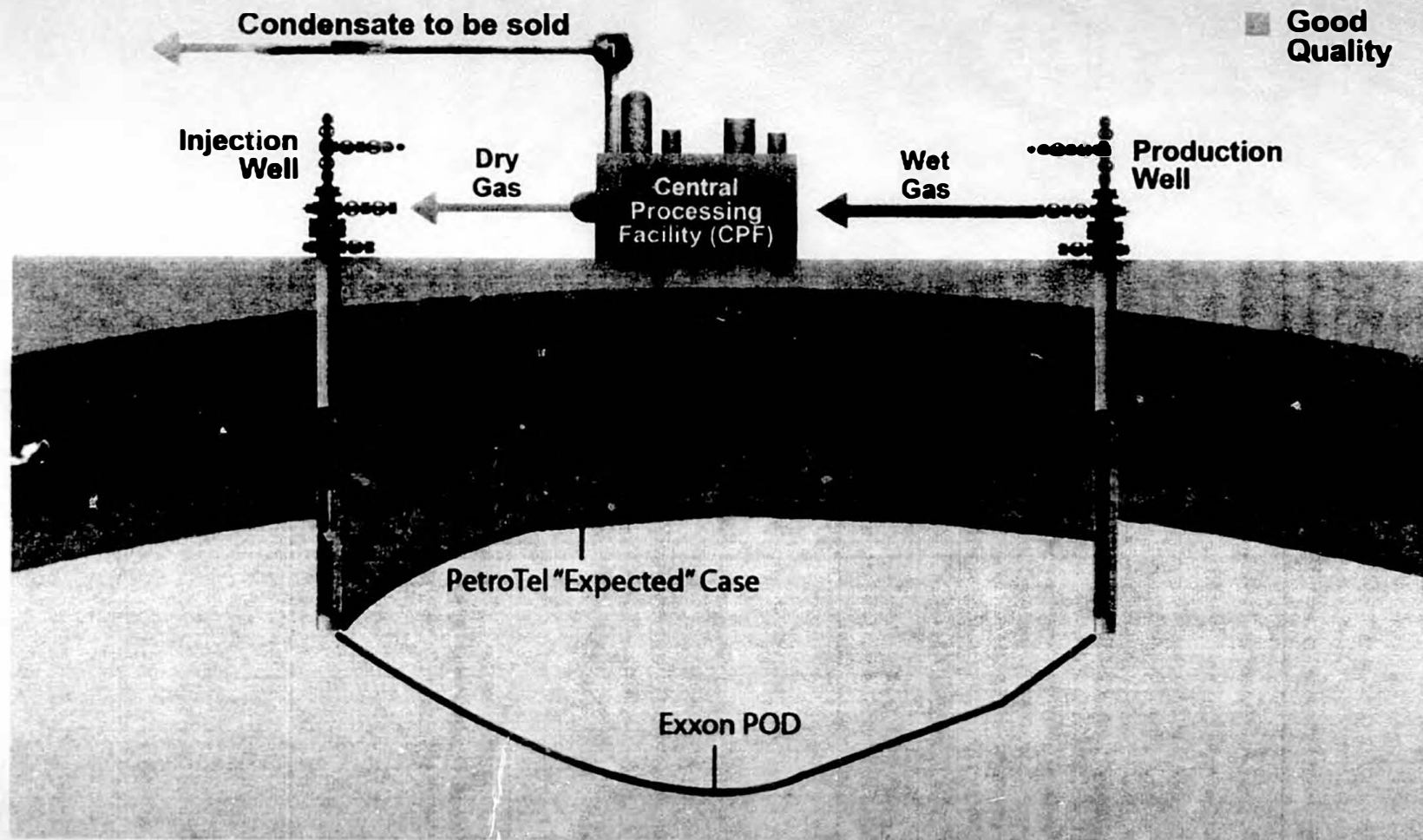
Point Thomson Blowdown

- It will require very aggressive additional drilling schedule (\$100 Million/well) for up to 50 wells to maintain a stable gas rate for the pipeline for the next twenty-five years.
- This is because of the condensate dropout and the drop in reservoir pressure over time.

Exxon Description of Gas Cycling

- “What do we mean by cycling gas to produced condensate? The cycling of gas requires two wells; a production well and an injection well. These wells will be placed four miles apart in the heart of the reservoir to provide a true test on the effectiveness of cycling gas at Point Thomson....”

Gas Cycling



What is Gas Cycling?

- Exxon's gas cycling description is NOT a gas cycling project by industry definition. Their depiction of fluid movement is wrong by laws of physics. The dry gas will go to the top and gravity tongue. It will breakthrough to high permeability zones to the producing well resulting in poor sweep. They show dry gas which is lighter going to the bottom of the reservoir.
- In PetroTel's design of gas cycling, the injectors are placed at the apex or at the highest points in the structure to maximize sweep.
- Exxon's 4 miles distance (per their written testimony) is too long a distance to observe pressure support in a reasonable amount of time

Prudhoe Bay Gas Requirements

- Prudhoe Bay is undergoing a major APEX water injection program to maintain pressure
- The purpose of water injection project was to facilitate gas sales.
- AOGCC have quantified the effect of different gas offtakes based on modeling work.
- This work was used to justify the offtake in 2019 for AGIA pipeline requirements from Prudhoe Bay.
- Black and Veatch study shows the AGIA pipeline is still robust without Point Thomson gas.

Steel Gas Applications

Advanced features
 GE's Oil & Gas Business has pioneered the manufacturing and testing of very high pressure sour gas centrifugal compressors. The Karachaganak compressors that were full load tested in 2000 and early 2003 operate at a nominal discharge pressure of 560 bar with gas containing 5% H₂S. They are the first in the world to be used in this challenging application. To achieve this high technological capabilities, a

substantial research & development effort on materials, growths, rotor dynamics and dry gas seals was necessary. Since then we have achieved another milestone with a compression train with a nominal discharge pressure of 630 bar operating on gas with a H₂S content of greater than 15%. Recently we have tested a new re-expansion train at a discharge pressure of 800 bar for compression of extremely sour gas (18% H₂S, 5% CO₂).

Safety is built in
 GE's compressors are designed with special focus on rotor dynamics and gas testing to avoid flow reversal or overpressure situations. Vibration is minimized at all operating conditions by using very rigid shafts. Gas seals for both the casing and shaft are designed to maximize redundancy and with the greatest possible consideration to safety.

Karachaganak Re-expansion Train with 800 bar



Application of work

GE's Oil & Gas Business has pioneered the manufacturing and testing of very high pressure sour gas centrifugal compressors.

Oil & Gas



High Pressure Gas Re-injection

Premium Technology Enhancing Oil Recovery while Protecting the Environment



GE's Oil & Gas Business is a world leader in a compression of natural gas for high pressure re-injection with over 30 years of experience in the field. The industry's first full scale test with a discharge pressure of 477 bar was validated by GE's Nevada Pipeline division in the

early 1970s at the Hesse Processed Plant in Algeria. The extensive design experience, the advanced testing capabilities and the high reliability demonstrated in all installations have positioned us as the leading manufacturer of compressors for this type of

application. The excellent customer loyalty with research and development aimed at designing compression trains with discharge pressures of 1000 bar and higher associated with high content of acid gas



Market sets

Over 200 high pressure compression trains with more than 850 compressor stages have been produced by GE's Oil & Gas Business in the last 30 years. About half of these

train configurations are driven by GE 100,000 gas turbines and more than 10 have nominal discharge pressures greater than 1000 bar. Other heavy duty gas turbine drivers have

generally been used for compression trains for structure capabilities. The majority of our high pressure efficiency installations use GE gas turbine drivers.



High pressure sour gas re-injection train, Nevada Pipeline, 477 bar



High pressure sour gas re-injection train, Hesse Processed Plant, 477 bar



High pressure sour gas re-injection train, Karachaganak, 630 bar

presented 10 AM
@ Anch AK

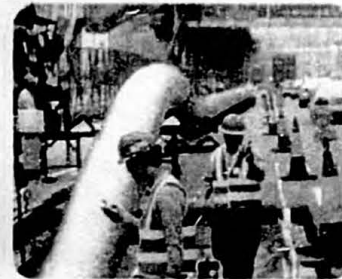
Scott Smith (Black & Veatch)

6-18-2008



BUILDING A WORLD OF DIFFERENCE®

BLACK & VEATCH



Overview of the Methodology Utilized to Determine the Net Present Value to Stakeholders

State of Alaska – Anchorage Special Session

June 18, 2008

BUILDING A WORLD OF DIFFERENCE®

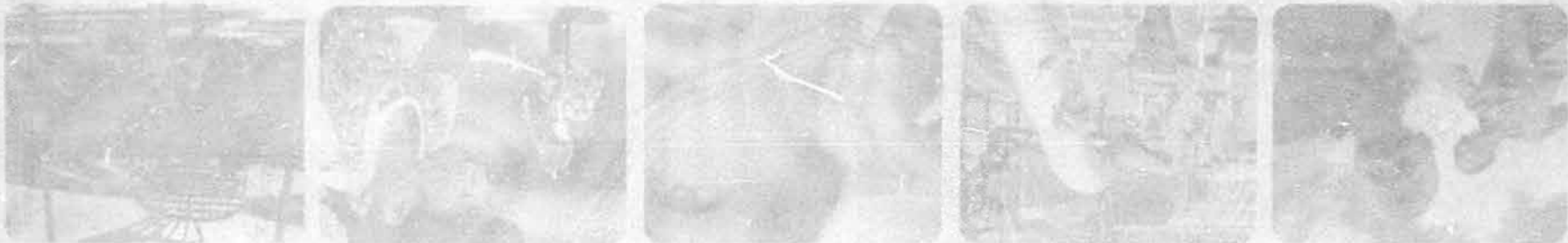
BLACK & VEATCH





What are the key factors to determine NPV?

1. An estimate of cash flows, net, by year:
 - Includes capital expenditures, operating expenses and revenue
2. An assumption about the discount rate.



Handwritten notes at the bottom of the slide, including "6/18/2008" and "B&V-2".

a dollar today is worth more than a dollar tomorrow



A discount rate is needed to calculate NPV for each project stakeholder.

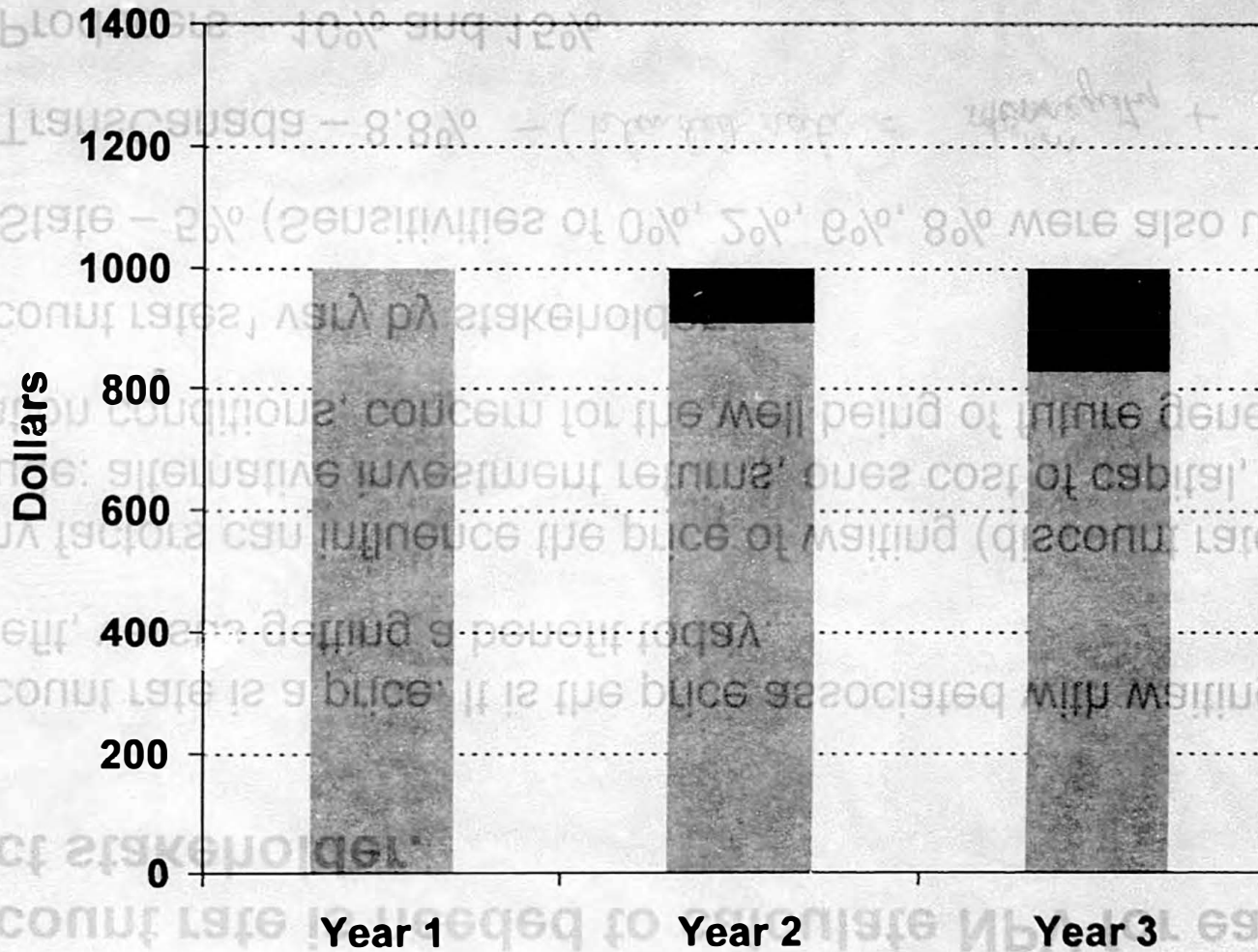
- Discount rate is a price. It is the price associated with waiting to get a benefit, versus getting a benefit today.
- Many factors can influence the price of waiting (discount rate). These include: alternative investment returns, ones cost of capital, general inflation conditions, concern for the well being of future generations
- Discount rates¹ vary by stakeholder:
 - State – 5% (Sensitivities of 0%, 2%, 6%, 8% were also used)
 - TransCanada – 8.8% – (blended rate = $\text{risk-free rate} + \text{equity}$)
 - Producers – 10% and 15%

Discounting Example

¹ See Section 4.1 of NPV Report for discussion of discount rates used in NPV analysis.

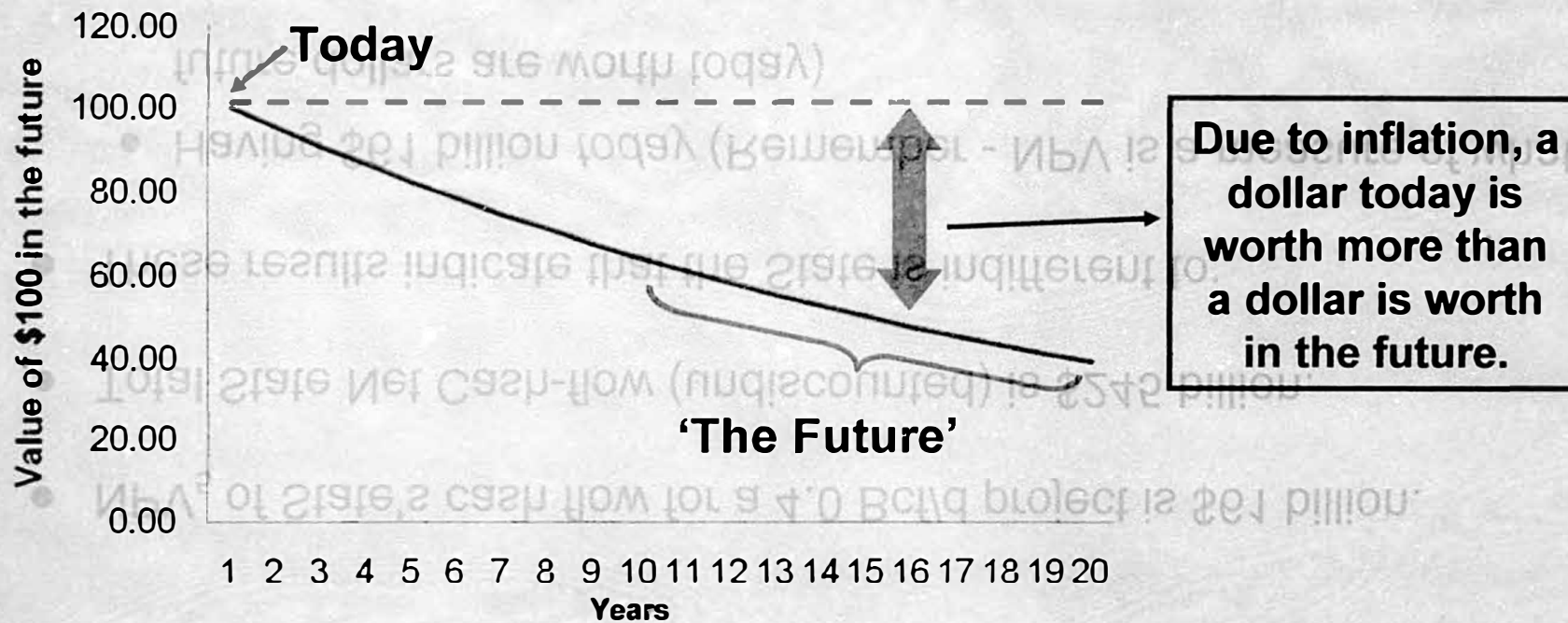


Discounting Example



Net Present Value (NPV) calculates how much a stream of future cash flows are worth today.

Present Value of \$100 Cash Flow in Future
Discount Rate = 5%



\$245 billion of Cash Flow → \$61 billion of NPV₅

- NPV₅ of State's cash flow for a 4.0 Bcf/d project is \$61 billion.
- Total State Net Cash-flow (undiscounted) is \$245 billion.
- These results indicate that the State is indifferent to:
 - Having \$61 billion *today* (Remember - NPV is a measure of what future dollars are worth today)
 - and having \$245 billion of cash flow starting in year 2020 extending through 2044.

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For 50 years of statehood, Alaska's political ties have been with America...and thank God for that.....but our economic ties have been with Asia.

We offered our timber, coal, and LNG to the South 48, but we couldn't get them past Seattle. So we made friends and contacts in Japan and Korea, and we built our young economy based on those relationships. In 1969, we pioneered the first LNG shipments to Japan from anywhere...shipments that continue from Kenai today.

Wake up, America! It's a world economy. Check the labels on your T shirt and the names on your TV and automobile. Chances are they weren't made in America.

Our national economy, that means our standard of living, depends on our productivity and our ability to compete. We won't survive by just playing the stock market. There is no wealth without production.

I commend Governor Sarah Palin for introducing a wide-open, transparent process on the gasline issue. For years, the North Slope producers claimed that Alaska natural gas was not economic. They said there was no market. But AGIA produced 5 eager applicants and the producers changed their tune. They cobbled together yet another public relations campaign about a gasline project that I promise you will never be built.

We've seen this before....over and over. And they still bad mouth LNG.

If LNG is so bad, why are they so heavily involved? ConocoPhillips has invested \$60 billion in the largest LNG liquefaction plant in the world in Qatar. BP has an LNG project in Tangguh, Indonesia. And Exxon has a new project in Papua/New Guinea. And that's only part of the story.

Ladies and gentlemen, they don't oppose LNG. They oppose Alaska LNG. Because our LNG competes with their LNG.

And the truth is LNG is changing the world. You can't build a pipeline to Australia, Japan, India or China.

It's no secret that I am opposed to giving an exclusive license to TransCanada. The public thinks that they plan to ship North Slope gas to America. But their goal, and they don't deny it, is to use most of our gas to heat the Alberta tar sands to create synthetic oil.

And they face obstacles and delays beyond our control. And the key word is "control."

They admit that the McKenzie River pipeline, mired in problems, will go ahead of an Alaska gasline. More delay.

The Canadian Supreme Court has ruled, and rightly so, that the Canadian government must "consult and accommodate" even those First Nations that have not resolved their land claims when it comes to issues, such as a pipeline, that impact their traditional territory. More delay.

TransCanada cannot build a 4.5 billion cubic foot per day pipeline without gas from the producers. More delay.

And producer gas carries the bombshell of demands for "fiscal certainty." And you all know what that means.

What's more, without even so much as a mention, TransCanada plans to export millions of barrels of our valuable North Slope gas liquids to Alberta. Those gas liquids should stay in Alaska. Billions of dollars of state revenue and hundreds of value-added jobs for Alaskans for decades rest on this one issue.

There is no reason to hold up the All-Alaska LNG line while we wait for TransCanada to sort out their problems in Canada.

Last week Commissioner Pat Galvin and others from the Palin gasline team informed me that TransCanada is prepared to hold a "simultaneous Open Season." This means that those who control North Slope gas will be invited to reserve space at the same time in either a Canadian pipeline. Or in an All-Alaska pipeline to Valdez.

If the market wants to ship LNG first, TransCanada will build the All-Alaska line first. They didn't mention, by the way, to which route the state will dedicate its gas.

But I was somewhat encouraged by what the Commissioner said, only to learn this week that TransCanada has refused to clarify any such commitment to hold a "simultaneous Open Season."

This illustrates and underlines my message today. If TransCanada is granted a license by the state, the State will lose control.

Alaska appears to be caught between the producers on one side and a bad deal on the other. So what do we do?

Fortunately, there is another option.

Ever since the people of Alaska voted six years ago in favor of an All-Alaska gasline, they have been waiting. And now, with a crisis in Alaska fuel and energy costs, they are getting frustrated. How much longer can they wait?

In Fairbanks last week, you heard loud and clear that we need Alaska's gas for Alaska's people now! And the crisis in rural Alaska is worse. But it's no good to have Alaska gas if its costs are sky high. The way to lower the price is through volume.

We must move our gas in a pipeline big enough to serve large markets. The best way to do that is with an All-Alaska gasline to Valdez.

And the state should own it.

Without the Canadian government or FERC making us jump through a thousand hoops, in 5 to 6 years we can get gas to Alaskans. And the entire project can be completed soon thereafter.

If you will hold a hearing on how the state can build and own our own gasline, please invite me back. It is not rocket science.

So I urge you to deny the TransCanada plan.

If you don't, we will lose control of our gas, and Alaska will be locked into the market at the end of that pipeline in Alberta.

As we meet here, there is a rush going on for new gas plays in Pennsylvania, West Virginia, Texas and the Rockies. Alaska gas in the South 48 will face severe competition in a few years time.

That means that our gas, instead of serving America as Gov. Palin sincerely hopes it will, will stay in Alberta and be used to heat the tar sands.

So let's take the faster, better and more beneficial alternative.

Let's build and own the Alaska gasline ourselves.

With LNG, we will serve the world. We will move our gas to the highest and best markets, and we will keep the jobs here at home.

That's "maximum benefit" for our people. And that's your responsibility. Your opportunity. And the mission of this generation.

Thank you.