12145 HOUSE JUDICIARY

announcements of new or expanded distillate fuel refining capacity have been announced in the last six months.

- The Renewable Fuel Standard and the higher fuel economy standards in the *Energy Independence and Security Act of 2007* (EISA07) will reduce crude oil and gasoline use.
- Although the U.S. diesel passenger car market is expected to double or triple in the next 5-10 years, diesel vehicles are 20-40 percent more fuel efficient, leading the EIA to project that existing diesel fuel supplies will be able to meet this demand. Click here for the full EIA presentation.

What does all this mean for consumers driving diesel cars or considering a new diesel car?

Higher diesel fuel prices in the short term may lengthen the payback period for diesel owners to receive the full return on their investment. If a diesel car is 30 percent more fuel efficient than a gasoline car, with gasoline at $3.75 a gallon, diesel can cost up to $1.13 more per gallon (or $4.88 in this example) and a diesel driver will still break even with gasoline in terms of fuel cost. *(See table below for additional examples and assumptions.) Visit www.dieselForum.org and download a Web tool that will allow you to calculate fuel economy savings for diesel versus gasoline car.*

Making any personal car choice requires taking the long-term view on all the factors involved, including performance, purchase price, owning and operating costs, useful life, resale value, fuel economy and fuel prices. The next generation of clean diesel cars offers consumers the best overall ownership value when considering driving performance, fuel efficiency, environmental footprint and resale prices.

Beginning in 2008, consumers will have more fuel-efficient diesel choices than ever before. Thirteen new models were announced by 12 manufacturers at the Detroit Auto Show in January 2008. In addition to a superior driving performance and low-emissions, clean diesel is a technology that provides proven real-world fuel economy benefits under any mix of vehicle operation. New clean diesel cars coming out in 2008-2010 will likely be eligible for a federal fuel tax credit of $300 to $3400 dollars, depending on fuel economy ratings. It was recently announced that purchasers of the new Volkswagen Jetta TDI will qualify for a $1300 federal tax credit. For more information, click here.

Diesel Technology Forum

DIESEL FUEL PRICES:
Why are they rising and what does this mean for current and prospective diesel car owners?

August 2008

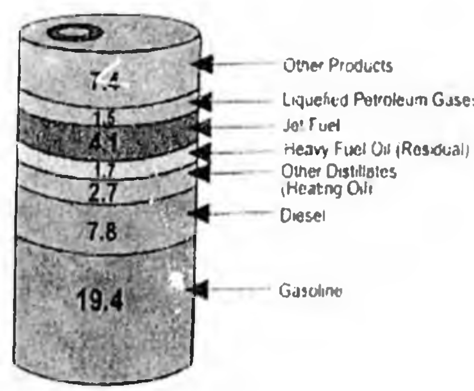
What is happening with diesel fuel prices?

For many years, diesel fuel prices tended to be lower than gasoline. Since September 2004, this trend has disappeared, with diesel fuel prices tracking or exceeding gasoline. In May 1998, the national average diesel fuel price was $1.069 and gasoline was $1.038; in May 2008, diesel was $4.33 and gasoline was $3.72. As of July 28, 2008, the average diesel price in the U.S. was $1.71 higher than one year ago; gasoline was $1.07 higher. (*For weekly updated gas and diesel price information, visit www.EIA.DOE.gov).*

This price differential is due to a variety of factors – global and domestic, economic and political. Both gasoline and diesel fuel prices will increase as the price of crude oil rises, however other influences have worked to accelerate diesel's price relative to gasoline. To understand the cause of this increase and its implications for the future, this paper provides a brief summary of the production process and the elements contributing to the current price spread between gasoline and diesel fuel.

Fuel production

Each barrel of oil is 42 gallons, approximately 19 percent of which is generally dedicated to the production of diesel fuel. This compares to approximately 47 percent used for gasoline and 10 percent for kerosene-type jet fuel. The remaining 24 percent is split among a variety of oils and gases. While refiners have some ability to alter these percentages, they are unlikely to swing more than 7-8 percent in any direction. As a result, each barrel of crude oil will always produce more gasoline than diesel fuel.



42 Total Gallons

Why have diesel prices risen so significantly in the last few years?

Fuel demand

Demand for distillates – such as diesel and jet fuel – in Europe, Asia, and the Middle East has continued to grow at a fast pace. In Europe, financial incentives continue to promote the transition from gasoline-powered to diesel-powered cars and light trucks, while a growing economy has lifted transportation sector consumption overall.

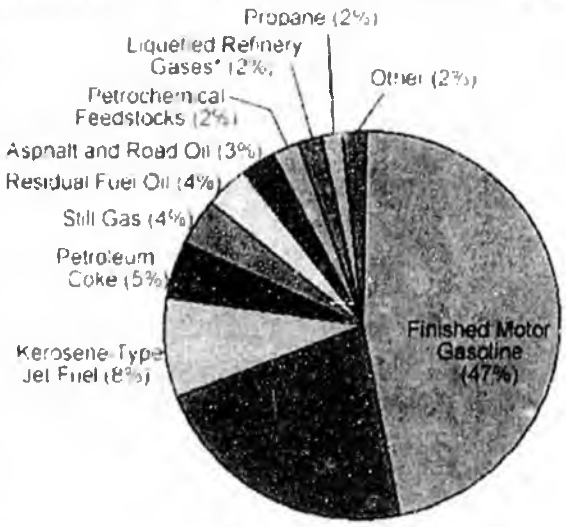
In the U.S., meanwhile, weakness in the economy has led to a softening in gasoline demand. So while gasoline prices increased this winter due to surging crude oil prices, they have not risen as high as they would have if year-on-year gasoline demand growth were unfolding at normal rates. As a result, the gap between U.S. gas and diesel prices has grown.

These shifting patterns have even affected seasonal patterns in diesel fuel prices. According to the Energy Information Administration (EIA), gasoline is usually more expensive than diesel in the spring and summer, the peak driving season. In the autumn, demand for distillate fuels (heating oil and diesel) picks up due to farm use and trucking of goods ahead of the holidays while the demand for gasoline begins to soften.

Inventories and supply balances

As Europe's demand for diesel has grown through the dieselization of the passenger fleet, economic growth, tighter emissions standards and other factors, Europe's supply capacity has been strained. At the same time, a supply shortage also developed in the U.S due in part to U.S. exports of distillate fuel to Latin America and Europe to meet their high demand, leaving diesel fuel inventories at their lowest levels in five years.

Source: US Energy Information Administration www.eia.doe.gov



How much diesel fuel is produced relative to other petroleum products?

U.S. Refiner and Blender Net Production of Refined Petroleum Products in 2006 (Total = **6.56 Billion Barrels**)

Economic, political and other factors driving up diesel fuel prices

In addition to the law of supply and demand, there are a number or other factors affecting the price of diesel. These include:

- A weakened U.S. dollar buys less crude oil on the global market than in past years.
- As energy prices rise, investors are putting more dollars into energy stocks and predictions of future crude oil prices, which helps drive up energy prices even further.

- China has been stockpiling diesel to prepare for the Olympics. (See EIA's "This Wee In Petroleum," June 4, 2008.)

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ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
Representative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701
(907) 452-1088

Committee Members:
Representative Nancy Dahlstrom,
Vice-Chairman
Representative John Coghill
Representative Bob Lynn
Representative Ralph Samuels
Representative Max Gruenberg
Representative Lindsey Holmes

State Capitol, Room 120
Juneau, Alaska 99801

October 10, 2008

Mr. Ed Sniffen, Jr.
Senior Assistant Attorney General
1031 W 4th Ave., Ste. 200
Anchorage, AK 99501-1994

Re: House Judiciary Hearing

Dear Mr. Sniffen:

I would like to invite you and/or a representative of your organization to testify at a special House Judiciary Committee hearing on October 20, 2008 from 9:30 a.m. to 4:30 p.m., at the Legislative Information Office in Anchorage (716 W. 4th Ave., Suite 200). The purpose of this hearing is to discuss the market price of fuel in Alaska. Pursuant to our correspondence might you also see if Mr. Pulliam from EconOne is available to testify?

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on October 20th. I will provide you with a schedule as soon as it has been drafted.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Jay R

Representative Jay Ramras, Chair
House Judiciary Committee

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
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Representative Ralph Samuels
Representative Max Gruenberg
Representative Lindsey Holmes

State Capitol, Room 120
Juneau, Alaska 99801

October 10, 2008

Mr. Kip Knudson
Tesoro
2700 Gambell Street, Suite 500
Anchorage, AK 99503

Via e-mail kknudson@tsocorp.com

Re: House Judiciary Hearing

Dear Mr. Knudson:

I would like to invite you and/or a representative of your organization to testify at a special House Judiciary Committee hearing on October 20, 2008 from 9:30 a.m. to 4:30 p.m., at the Legislative Information Office in Anchorage (716 4th Ave., Suite 200). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantially nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on October 20th. I will provide you with a more specific time for testimony as soon as a schedule has been finalized.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

TESORO

Tesoro Alaska Company
P.O. Box 196272
Anchorage, Alaska 99519-6272
907 561 5521
907 561 5047 Fax

October 16, 2008

The Honorable Jay Ramras
Alaska State Legislature
State Capitol, Room 120
Juneau, Alaska 99801

Dear Chairman Ramras:

Tesoro declines your invitation to appear before the House Judiciary Committee for a second time at the October 23, 2008 hearing.

Tesoro is cooperating with the Attorney General's investigation on gasoline prices and we are meeting with Mr. Sniffen on the 22nd We believe that forum is best due to the proprietary business information we are providing. We assume you will receive a report of the conclusions of the Attorney General's investigation.

Sincerely,

Kip Knudson
External Affairs Manager

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

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Chairman
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Representative Bob Lynn
Representative Ralph Samuels
Representative Max Gruenberg
Representative Lindsey Holmes

State Capitol, Room 120
Juneau, Alaska 99801

October 10, 2008

Mr. Doug Chapados
Petro Star, Inc.
3900 C Street, Suite 802
Anchorage, AK 99503

Via e-mail: dlchapados@petrostar.com

Re: House Judiciary Hearing

Dear Mr. Chapados:

I would like to invite you and/or a representative of your organization to testify at the second special House Judiciary Committee hearing on October 20, 2008 from 9:30 a.m. to 4:30 p.m., at the Legislative Information Office in Anchorage (716 W. 4th Ave., Suite 200). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump and why the prices have dropped substantially nationwide and the price of oil has dropped substantially but, the price of gas in Alaska have remained relatively flat by comparison.

We will be taking testimony from the Department of Law, Barry Pulliam from EconOne as well as refiners, distributors, and retailers.

I look forward to your testimony, and to a productive hearing on October 20th. I will provide you with a schedule as soon as it has been drafted.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

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Committee Members:
Representative Nancy Dahlstrom, Vice-Chairman
Representative John Coghill
Representative Bob Lynn
Representative Ralph Samuels
Representative Max Gruenberg
Representative Lindsey Holmes

October 10, 2008

Mr. Jeff Cook
Flint Hills Resources
1100 H & H Lane
North Pole, AK 99705

Via e-mail: jeff.cook@fhr.com

Re: House Judiciary Hearing

Dear Mr. Cook:

I would like to invite you and/or a representative of your organization to testify at a special House Judiciary Committee hearing on October 20, 2008 from 9:30 a.m. to 4:30 p.m., at the Legislative Information Office in Anchorage (716 4th Ave., Suite 200). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantially nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on October 20th. I will provide you a more specific time as soon as a schedule has been drafted.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

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Representative Jay Ramras
Chair, Judiciary
Labor & Commerce
Oil & Gas
Military & Veteran Affairs
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Phone: (907) 452-1088
Fax: (907) 452-1146

Alaska State Legislature

While in Session
State Capitol, Room 118
Juneau, Alaska 99801-1182
(907) 465- 3004
Fax: 465-2070
Toll Free: (877) 465-3004

House District 10

House of Representatives

Fax

To: Pam Finley

Fax #: (907) 465-2029 Number of pages including cover: 2

From: Jane W. Pierson

Date: April 16, 2008

Re: Confidentiality Agreement

Pam,

The committee was leaning towards being able to talk with Ed Sniffen about his findings, more than actually going through the materials that were gleaned through the CIDs. I made a few changes on the confidentiality agreement to reflect this. However, they are probably not in legalize. Can we take another shot at this? I will have to get it approved by Tesoro and Flint Hills' legal departments.

Jane

Representative_Jay_Ramras@legis.state.ak.us

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

M E M O R A N D U M October 20, 2008

SUBJECT: Confidentiality agreement

TO: Representative Jay Ramras
Chair of House Judiciary Committee
Attn: Jane Pierson

FROM: Pam Finley
Revisor of Statutes

You have asked for language for a confidentiality agreement concerning responses to CIDs the House Judiciary Committee receives from the Department of Law related to the price of petroleum products in the state. I suggest the following:

> This agreement concerns materials the House Judiciary Committee receives from the Department of Law during 2008 and that the Department of Law has received as a result of Civil Investigative Demands to refiners and distributors of petroleum products in the state (hereinafter "the confidential materials").
>
> I agree to keep the confidential materials confidential and not to make them available to my staff or to any other person. I further agree not to discuss the contents of the confidential materials except in an executive session of the House Judiciary Committee. This agreement does not require me to keep confidential (1) my opinions based on the confidential material or (2) general factual conclusions drawn from the confidential material so long as the factual conclusions do not disclose or suggest the identity of the refiner or distributor or disclose proprietary information or trade secrets.
>
> ________________________ ______________
> Signature Date

Note that I limited the materials to those received during 2008 because I thought some specificity would be useful and assumed that the materials would be disclosed before 2009. If that's not true, the date can be changed. The last sentence of the agreement is my attempt to allow some public discussion. It will, however, require the legislator to figure out what is proprietary or a trade secret. If the Department of Law cannot accept this, the last sentence can be deleted.

Please let me know if you have any additional questions.

PF:ljw
08-308.ljw

LEGAL SERVICES

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MEMORANDUM September 12, 2008

SUBJECT: State sale of royalty oil at below market prices (Work Order N . 26-LS0097)

TO: Repres ntative Jay Ramras
Attn: Jane Pierson

FROM: Donald M. Bullock Jr.
Legislative Counsel

You have asked whether the state can legally sell its royalty oil at a below market price to an oil refinery in Alaska that intends "to sell the products in-state to benefit the citizens of Alaska."

If such a sale is "consistent with the public interest," made for the "maximum benefit of [Alaska's] people,"[1] and approved by the legislature,[2] the state may sell its royalty gas to an in-state refinery at a price below market value.

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[1] The Alaska Constitution's art. VIII, secs. 1 and 2, provide that :

> SECTION 1. Statement of Policy. It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.
>
> SECTION 2. General Authority. The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people.

[2] AS 38.06.055 provides:

> (a) In addition to the recommendation by the [Alaska Royalty Oil and Gas Development Board] required under AS 38.06.050, the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature. The legislature may approve a sale, exchange, or other disposition of oil or gas or of the rights or of a waiver

I have a few comments related to your question.

1. Legislative approval of a below market price sale of state royalty oil should be made based on appropriate findings supported by evidence.

The Alaska Constitution is silent as to the considerations or factors to be employed in establishing what constitutes the "maximum benefit" for Alaska's people. The legislature is entrusted with broad responsibility for such a determination. A legislative finding, supported by a strong factual record, concluding that Alaskans would benefit from such a sale would improve any such measure's chance of surviving a court challenge. AS 38.05.183(e),[3] which provides statutory guidelines that the commissioner of natural

---

> of the rights to receive future production of royalty oil or gas only by enacting legislation.
>
> (b) The provisions of (a) of this section do not apply to
>
> (1) the sale, exchange, or other disposition of oil or gas for one year or less if the sale, exchange, or other disposition is entered into to relieve storage or market conditions;
>
> (2) contracts for the sale of state-owned royalty gas or oil that specify the sale and delivery of not more than
>
> (A) 400 barrels of crude oil per day;
>
> (B) 460 barrels of natural gas liquids per day; and
>
> (C) 2,400 Mcf of natural gas per day.
>
> (c) A sale, exchange, or other disposition of oil or gas under (b)(1) of this section may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid sale of oil or gas made with the same party under (b)(1) of this section.

See also AS 38.05.183(h) that concerns the sale, contingent upon legislative approval, of royalty gas taken in kind by the state to gas or electric utilities at a negotiated price, if the commissioner of natural resources, after considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state.

[3] AS 38.05.183(e) provides:

> (e) When a sale, exchange, or other disposal of oil or gas taken in kind by the state as its royalty share, or a sale, exchange, or other disposal in whole or in part of a right to receive future royalty oil or gas, under a state lease under this chapter is made other than by competitive bid, the sale, exchange, or other disposal shall be awarded by the commissioner to

resources must consider in determining whether a sale of royalty oil or gas should be made otherwise than by competitive bid, suggests appropriate criteria that could be employed to make that determination.

2. Any below market sale of state royalty oil to an in-state refinery implicates the Commerce Clause, article I, section 8, clause 3, Constitution of the United States.

The Commerce Clause grants Congress the power "[to] regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes." "Although the Clause thus speaks in terms of powers bestowed upon Congress, the Court long has recognized that it also limits the power of the States to erect barriers against interstate trade."[4] "[O]nce a state law is shown to discriminate against interstate commerce 'either on its face or in practical effect,' the burden falls on the State to demonstrate both that the statute 'serves a legitimate local purpose,' and that this purpose could not be served as well by available nondiscriminatory means."[5]

Thus, the United States Supreme Court distinguishes between state statutes that burden interstate transactions only incidentally and those that affirmatively discriminate against these transactions. While statutes in the first group violate the Commerce Clause only if the burdens they impose on interstate trade are "clearly excessive in relation to the putative local benefits," statutes in the second group are subject to more demanding scrutiny. If a state law is shown to discriminate against interstate commerce "either on its face or in practical effect," the burden falls on the State to demonstrate both that the statute "serves a legitimate local purpose," and that this purpose could not be served as well by available nondiscriminatory means.

---

the prospective buyer whose proposal offers the maximum benefits to citizens of the state. The commissioner shall consider

(1) the cash value offered;

(2) the projected effects of the sale, exchange, or other disposal on the economy of the state;

(3) the projected benefits of refining or processing the oil or gas in the state;

(4) the ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state; and

(5) the criteria listed in AS 38.06.070(a).

[4] *Maine v. Taylor*, 477 U.S. 131, 137, 106 S.Ct. 2440, 91 L.Ed.2d 110 (1986), quoting *Lewis v. BT Investment Managers, Inc.*, 447 U.S. 27, 35, 100 S.Ct. 2009, 64 L.Ed.2d 702 (1980).

[5] *Taylor*, 477 U.S. at 138, quoting *Hughes v. Oklahoma*, 441 U.S. at 336 (1979).

Alaska's oil is an article of commerce that has become a resource of profound national importance. Under the generally applicable rule of Commerce Clause analysis, the sale of Alaska oil at a below market price to an in-state refinery could be struck down if the state was unable to "show that it advances a legitimate local purpose that cannot be adequately served by reasonable nondiscriminatory alternatives." If the state is selling its royalty oil at a below market rate to stimulate in-state development of its industries and resources, the state should be able to meet its burden under an asserted Commerce Clause-based objection. Even in the leading case critical of this state's efforts to construct a system of economic protection, the United States Supreme Court left open the door, under some circumstances, to state efforts to provide a limited preference for a state's own citizens in the use of publicly-owned resources.[6]

3. The assertion by Spencer Hosie to the legislature in June 2008 that Alaska could not sell its royalty gas at below market prices is based on a misinterpreted legal precedent.

In June of this year, the issue of selling the state's royalty interest at a price below the market price was discussed in a hearing related to the legislative approval of a license proposed by the commissioner of revenue and the commissioner of natural resources to pursue the development of a gas pipeline from the North Slope. The "Alaska Special Session Report"[7] recounted the following exchange between Representative Fairclough and Spencer Hosie, a private attorney that has represented the State in oil and gas litigation:

> Rep. Anna Fairclough questioned the accuracy of a claim [Mr. Spencer] Hosie made that Alaska could take its royalty gas and sell it at below-market prices for in-state use, including for the Agrium fertilizer plant on the Kenai Peninsula. When Hosie addressed legislators on his second day, he acknowledged that he had erred.
>
> 'I was wrong,' [Hosie] said, citing a 1979 case in which Judge Allen Compton said it's unconstitutional for Alaska to sell its royalty-in-kind [gas or oil] below market value.[8]

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[6] *Hicklin v. Orbeck*, 437 U.S. 518, 533 - 534 (1978).

[7] Gregg Erickson, *Attorney says producers can't warehouse gas*, Alaska Special Session Report, Vol. 3, No. 2, June 10, 2008, at 13.

[8] An audio recording of this exchange is currently available online at: http://www.legis.state.ak.us/basis/get_minutes.asp?session=25&comm=ENR&chamb=B&date1=20080609&date2=20080609 (6/09/2008 10:06 am, 10:09 - 10:12).

If Mr. Hosie's citation of *State v. Amerada Hess, et al.*[9], is understood as a wholesale refutation of the possibility that Alaska can constitutionally sell its royalty-in-kind oil or gas below market value, it is not accurate.

In *State v. Amerada Hess, et al.*, Judge Compton did not rule that it was unconstitutional for Alaska to sell its royalty-in-kind gas or oil below market value. Instead, Judge Compton ruled that the commissioner of natural resources, acting without legislative approval, did not have the requisite authority to determine gas or oil royalty obligations. Specifically, he concluded that absent legislative approval, the commissioner did not have the authority to enter into lease agreements that provided that the value of gas or oil taken "in-kind" would be less than that taken "in-value."

Amerada Hess concerned (1) the point at which the state's "in value" royalty interest in oil should be determined (before field cost deductions or after field cost deductions at the Lease Automatic Transfer Meter (LACT meter)) and (2) the interpretation of the existing statutory and specific lease language surrounding the determination of both "in value" and "in kind" royalty payments for oil and gas under the defendant's leases.[10]

Judge Compton ruled that the state's "in value" or "in kind" royalty share should be determined only after the oil or gas is ready for sale (in this case, at the LACT meter), basing his decision in large part on the Alaska Constitution's art. VIII, secs. 2 and 12.[11] The judge held that these constitutional provisions "*require[d]*" (emphasis in original)[12] that the legislature set the terms of oil and gas leases as to provide the maximum benefit for Alaska's people and that any interpretation of the relevant statutes or language of the mineral leases that provided for a determination of an "in value" oil royalty before the

---

[9] Civil Action No. 77-847 (1st J.D. AK, April 6, 1979).

[10] Of some historical interest is the fact that after this decision, the lessees and the state agreed to settled the dispute on different terms. The court approved the parties' settlement and allowed it to supersede the courts previous ruling on the merits. *See Exxon v. State*, 40 P.3d 786, 789 (Alaska 2001).

[11] These provisions provide in pertinent part:

> Sec. 2. General Authority. The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people.
>
> Sec. 12. Mineral Leases and Permits. The legislature shall provide for the issuance, types and terms of leases for coal, oil, gas, oil shale, sodium, phosphate, potash, sulfur, pumice, and other minerals as may be prescribed by law. Leases and permits giving the exclusive right of exploration . . . may be authorized by law.

[12] *Amerada Hess*, at 18.

LACT meter would be unconstitutional because the unproduced product was "something that had no or negligible market value." *Id.* at 19.

Of greater relevance to Mr. Hosie's statement and your inquiry is that the case concerned lease agreements providing that if the State were to take its royalty oil or gas "in kind," there would be a deduction for "cleaning and dehydrating [the oil and gas]" prior to computing the royalty. *Id.* at 2. Because of this provision, if the state were to take its royalty "in kind" from the lease, the amount realized would be less than if taken "in value," and consequently the people of Alaska would not receive maximum benefit for "in kind" royalty payments. What the judge wrote, and I believe was misconstrued, is that:

> Constitutional and statutory limitations preclude the State from taking royalty "in kind" unless it is in the best interests of the State and for the maximum benefit of its people. This must mean, and can be compatibly construed to mean that the price paid when the royalty is taken "in value" is the minimum or floor below which the *agency* may not go.

(Emphasis added) *Id.* at 20 - 21.

This "minimum floor", or prohibition against the state accepting its royalty "in kind" if the "price paid" would be less than if the royalty is taken "in value," is applicable only to the facts of the case. It is a decision in which the court was speaking to the limits of an administrative agency's authority, holding that the "Commissioner [of Natural Resources] is prohibited from collecting royalty 'in kind' if the amount realized would be less than if taken 'in value,'"[13] because

> This Court need not decide the extent of the Commissioner's authority to administer the provisions of AS 38.05.180(a). It is satisfied that such authority does not extend to determining the amount of royalty obligations. [The Alaska Constitution's art. VIII, secs. 2 and 12] require that the legislature set the terms of oil and gas leases in such a manner as to provide the maximum benefit for its people.

(Emphasis original) *Id.* at 19.

This ruling establishes only that the *Department of Natural Resources* cannot on its own volition decide to accept an "in kind" royalty that is worth less than the "price paid when the royalty is taken 'in value.'" *Amerada Hess* involved the limits of authority exercised by an administrative agency and whether "the legislature has impermissibly delegated a constitutional duty to an administrative agency." *Id.* at 18. Nothing in the state constitution, or in the *Amerada Hess* decision, should be construed as to preclude the *legislature* itself from approving sale of Alaska's oil or gas at a price below that which

---

[13] *Id.* at 5.

would be received if the royalty were taken "in-value" if that sale were determined to be for the maximum benefit of Alaska's people.

If I may be of further assistance, please advise.

DMB:lmb
08-220.lmb

Jane Pierson

From: Sniffen, Clyde E (LAW) [ed.sniffen@alaska.gov]
Sent: Wednesday, October 08, 2008 12:41 PM
To: Jane Pierson
Subject: RE: Legal Opinion re: Royalty Oil Sales at Below Market Value
Follow Up Flag: Follow up
Flag Status: Red

Hi Jane. I just got around to reading this opinion. While it might be theoretically possible for the Legislature to determine that selling royalty oil for less than market value is in the "best interest of Alaska," it would be extremely difficult to do. "Best interest of Alaska" means all residents of Alaska. Selling oil below market value to Tesoro and Flint Hills would only benefit (maybe) residents served by those refineries. No one else in Alaska would receive that potential benefit. When we sell oil at market value, the money goes to the GF and benefits everyone. Thus, Judge Compton's conclusion that market value sets the floor at which we can dispose of the state's royalty oil is a good one (even if it was directed only to DNR). At the end of the day, the Alaska Supreme Court would probably make the decision on whether such a Legislative proclamation violates the Alaska Constitution.

So . . . I agree with Mr. Bullock that the Amerada Hess case may not preclude some kind of legislative action that declares the sale of royalty oil for less than market value is in the state's best interest. But as a practical matter, this would be very difficult to do, and may not pass Constitutional review. There may be some separation of powers problem with this kind of review, but I haven't focused on that aspect yet. The sure bet, as I testified, is a Constitutional amendment.

Hope that helps!

Clyde "Ed" Sniffen Jr.
Senior Assistant Attorney General
Commercial & Fair Business Section
Alaska Department of Law
1031 W. 4th Ave. #200
Anchorage, AK 99501
(907) 269-5200
(907) 276-8554 (fax)

From: Jane Pierson [mailto:Jane_Pierson@legis.state.ak.us]
Sent: Friday, October 03, 2008 10:23 AM
To: Tuck, Deneen (LAA); Waldo, James (LAA); Lidster, Karen (LAA); Hay, Linda J (LAS); Manly, Nancy S (LAA); Lynn, Bob (LAA); Coghill, John (LAA); Holmes, Lindsey (LAA); Gruenberg, Max F (LAA); Dahlstrom, Nancy (LAA); Samuels, Ralph (LAA); Wallen, Susan E (LAA); Gieser, Tisha (LAA)
Cc: Roses, Bob (LAA); Stoltze, Bill (LAA); Hawker, Mike (LAA); Kawasaki, Scott Jw (LAA)
Subject: Legal Opinion re: Royalty Oil Sales at Below Market Value

I thought that this was an interesting legal opinion to share, and something that we may want to address at the next House Judiciary Committee Meeting regarding gas prices. I am currently looking at scheduling the next meeting in Anchorage on either the 20th or 21st of October. Committee members please let me know if you are not available on these dates and I will try to adjust accordingly.

Please also let me know if there is anything in particular that anyone wants addressed.

Thank you,

Jane W. Pierson, Aide
House Judiciary Committee
1292 Sadler Way, Ste. 324
Fairbanks, AK 99701
Phone: (907) 452-1088
Cell: (907) 978-5115
Fax: (907) 452-1146

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Topic:
FUEL PRICES; GASOLINE; LEGISLATION; PRICE CONTROL;
Location:
GASOLINE;

OLR RESEARCH REPORT

September 12, 2005 2005-R-0681

HAWAII GASOLINE PRICE CAP LAW

By: Kevin E. McCarthy, Principal Analyst

You asked for information on Hawaii's law capping wholesale gasoline prices, including its history and the impact it has had.

HAWAII GASOLINE PRICE CAPS

History

In 2002, the legislature adopted Act 77 (Ha. Rev. Stat. Ch. 486H) which established maximum pre-tax wholesale and retail prices for regular unleaded gasoline sold in the state. The act was originally scheduled to go into effect on September 1, 2004. It subjected wholesalers and jobbers who knowingly violated the law to a fine of three times the amount of the overcharge or $ 250,000, whichever is greater, plus reasonable attorney's fees and costs as determined by the court.

The act was passed after the state settled a price-fixing lawsuit with the state's two major refiners for $ 22 million. The act makes extensive findings, including that "the major oil companies have been realizing profit margins far in excess of the margins realized in other oligopolistic and equally concentrated markets. " (An oligopoly exists when there are only a few suppliers serving a market.)

Under the act, the governor may suspend the gasoline cap law or any implementing regulation by issuing a written determination that strict compliance will cause a major adverse impact on the economy, public order, or the health, welfare, or safety of state residents, Under most

circumstances, the suspension remains in effect until the earlier of (1) the adjournment of the next regular or special session of the legislature or (2) the effective date of any legislation intended to address the major adverse impact.

The act required the Department of Business, Economic Development, and Tourism to conduct a comprehensive study of the petroleum industry, gasoline market, and price controls and other policy options to lower gasoline prices. The department's report presented a number of recommendations aimed at fostering competitive gasoline prices. It recommended the price caps not be imposed, because its analysis showed they would actually raise retail prices and cause other unintended negative consumer, economic, and policy impacts.

In 2004, the legislature amended the law by passing Act 242, which found that the problem of high gasoline prices is principally due to a lack of vigorous competition in the wholesale market. In contrast, the legislature found that there is competition at the retail level. Among other things, Act 242: (1) limited the cap to wholesale prices, (2) extended the cap to apply to mid-grade and premium gasoline, (3) changed the baseline for the cap by using the average of the spot prices on the New York, Gulf Coast, and Los Angeles markets, (4) established price zones within the state and allowed the Public Utilities Commission (PUC) to vary the cap by zone, and (5) extended the effective date of the caps to September 1, 2005. The act went into effect without the governor's signature.

On August 24, 2005, the PUC issued its order setting caps for the period September 1 through September 4. The wholesale cap ranged from $ 2. 16 for unleaded regular on Oahu to $ 2. 50 on Lanai. Chevron, Shell Oil, and Tesoro, the major wholesalers in the state, and the Hawaii Petroleum Marketers Association, asked the PUC to reconsider the order, but it declined to do so.

On August 31, 2005, the PUC issued its caps for the period September 5 through September 11. The caps range from $ 2. 43 for Oahu to $ 2. 77 for Lanai. Also on August 31, 2005, the PUC increased the cap for Kauai, upon the petition of gasoline jobber, after finding that this adjustment might be needed to avoid supply shortages. The PUC's Webpage, http: //www. hawaii. gov/budget/puc/gaspricecaps/, provides information about the caps. As noted above, the caps do not include federal, state, and county taxes, which amount to about 58 cents per

gallon. The caps also do not include the dealer's markup, which the Honolulu *Star-Bulletin* estimates have been historically about 12 cents per gallon.

Impacts

Since the caps were just implemented it is too soon to determine the impact, if any, they will have on prices or supply. According to the American Automobile Association's Fuel Gauge Report (http: //www. fuelgaugereport. com), the average retail price for regular, unleaded gasoline on September 7, 2005 in Honolulu, Oahu was $ 3. 005. Assuming the markup remains the same, the current wholesale cap would allow retail prices to be approximately $ 3. 13 per gallon on Oahu.

It is worth noting that the increase in gasoline prices on the mainland in the year before the caps went into effect was substantially greater than the price increase in Hawaii during this period. On October 6, 2004, the nationwide average price for regular unleaded was $ 1. 84, compared to $ 2. 31 in Hawaii (i. e. , gasoline was 47 cents per gallon more in Hawaii). In contrast, by August 6, 2005, the nationwide average was $ 2. 34 and the Hawaii average was $ 2. 68 (a 34 cents difference). By the time the caps went into effect, the Hawaii average was only a few cents less per gallon than the nationwide average. This suggests that Hawaii is subject to market forces that differ substantially than those affecting the rest of the country.

Governor Linda Lingle has said she would suspend the price cap if either or both of the state's refineries indicated plans to close. She also said she would suspend the cap if Hawaii were to experience wholesale or retail gas shortages stemming from curtailed shipments to the state.

KM: dw

CBS NEWS

BACK | PRINT

Hawaii Gives Up on Gas Price Controls

HONOLULU, May. 8, 2006

(AP) Hawaii's gasoline price controls have sputtered to a stop. The island state whose drivers pay the highest pump prices in the nation has given up on price caps after an eight-month, first-in-the-nation experiment. Some complained that the restrictions actually led to higher prices, because oil companies knew they could charge up to the maximum allowed.

"In a lot of people's minds, they thought the gas cap wasn't working," said Republican state Sen. Paul Whalen, a strong supporter of the price controls. "It was hard to generate lots of support for it because we're paying more than we ever were before."

Gas is particularly expensive in Hawaii because of high state taxes and because of the costs of transporting oil across the Pacific. Last fall, Hawaii became the only state to cap the cost of fuel to try to give some relief to motorists.

Under the price control legislation, Hawaii set weekly caps on wholesale gas prices. Those caps were based on the average of prices in Los Angeles and New York and on the Gulf Coast. Then allowances were added for what it costs wholesalers to ship to Hawaii and distribute gas to more remote islands.

But there was no cap on the markup added by gas stations.

With regular gasoline climbing past an average of $3.38 per gallon in the past few weeks, lawmakers sent Republican Gov. Linda Lingle a bill last week to suspend the controls. She signed it on Friday.

Because the oil refiners keep their profit margins and costs private, it was difficult for even experts to say whether Hawaii drivers were paying more or less than they would without the gas cap.

"It's ridiculous. Prices jumped up 20 cents in the last couple of days," said Calvin Reddick, who paid $15 for just over four gallons of gas for his Volkswagen Beetle. "Usually when you have a cap, it's supposed to freeze prices off. Obviously, their idea of a cap is different from mine."

One study by an economics professor showed the gas cap cost consumers 5 cents more per gallon. An analysis by the state Department of Business, Economic Development and Tourism estimated that island motorists paid $54.9 million more than they otherwise would have in the first five months under the cap. But research by cap supporter Rep. Marcus Oshiro indicated the limits saved drivers $33 million.

"It was a failure, and other experts that have looked at it have said the same thing," said Anita Mangels, a spokeswoman for the Western States Petroleum Association, which represents ChevronTexaco and Shell Oil. "It was well-intended, but apparently according to the state's own agency has not served consumers well."

With customer unrest mounting, oil companies lobbying aggressively to get rid of the cap, and the November elections looming, lawmakers felt compelled to act.

Rather than forcing down gas prices with a lower price ceiling, the mostly Democratic Legislature suspended the cap and gave Lingle, who had opposed any regulation of gas prices, the power to bring it back if she decides fuel has gotten too expensive. The legislators passed the responsibility to the governor.

At the same time, the new law provides for the computation of a hypothetical gas cap to let customers know what gasoline would cost if there were price controls.

Also, the law requires oil companies to make their wholesale price information public so that customers can compare pump prices with actual costs. Currently, that information is kept confidential.

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On the Net:

AAA Fuel Gauge Report: http://www.fuelgaugereport.com

Hawaii Legislature, HB3115: http://www.capitol.hawaii.gov

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Questions

Refinery Questions

1. Is Flint Hills making less gasoline in favor of making more jet fuel?

2. Did gasoline prices go up high enough when the price of a barrel of oil escalated this past year, or are refineries still trying to recoup their losses?

3. How have environmental regulations affected refineries in Alaska?

4. Approximately, what would it cost to convert Flint Hills to natural gas?

5. What do you see the future looking like for refining in Alaska and specifically your refinery?

6. What do you see as the major factors that contribute to the fact that gas prices do not come down as quickly as in the Lower 48 and lag behind the price of oil when it falls?

Ed Sniffen/Barry Pulliam

1. Why has Alaska not seen a reduction in retail motor fuel similar to what has occurred with the price of a barrel of crude, a reduction of 50%?

2. Do you think that the definition of "disaster" be expanded to include "economic well-being"?

3. Do you think that the legislature should introduce a "price gouging" statute this upcoming session?

4. Should the legislature tighten penalties regarding Alaska's antitrust laws?

5. Did gasoline prices go up high enough when the price of a barrel of oil escalated this past year, or are refineries still trying to recoup their losses?

6. Is the price of royalty oil somewhat responsible for the high price of fuel?

7. Should the State of Alaska regulate all refining and distribution of petroleum products or would the price of fuel simply go up even higher under a regulated environment?

8. Would it be possible to limit the price of royalty oil for in-state use, and what affect it would have on gasoline and home-heating oil?

9. If there was more available storage would the price of gasoline be lower in Alaska.

10. Are Alaska's unit costs differentials inherent to smaller refineries?

11. What explains the differential in gas prices across the SOA? - Contributing factors.

12. Is bringing gas up from the lower 48 to AK economical? why does this point out that refiners prices in AK are relitively high? import parity

13. Limited refining capacity appears to be a part of the prob. what could be done

14. Does import parity drive the prices our refineries are charging?

15. ~~Rack prices~~ are AK Retail prices paralleling Rack prices?

16. ~~BOL~~ Penalty provisions in antitrust laws & consumer protection — misc should they be raised

17. If refiners could make a profit selling gasoline for $2.77 gal a year ago when oil was $81/bbl, what is the justification for charging $3.94 gal when oil is back down to $81/bbl?

18. What should SOA do about it from a legal

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Committee Minutes
House RULES Minutes

ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RULES STANDING COMMITTEE
SENATE SPECIAL COMMITTEE ON ENERGY
June 8, 2008
12:43 p.m.

DRAFT

MEMBERS PRESENT

HOUSE RULES STANDING COMMITTEE

Representative John Coghill, Chair
Representative Anna Fairclough
Representative Craig Johnson
Representative Ralph Samuels (AGIA Subcommittee)
Representative Beth Kerttula (AGIA Subcommittee)

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Charlie Huggins, Chair
Senator Bert Stedman, Vice Chair
Senator Fred Dyson
Senator Kim Elton
Senator Lyda Green
Senator Lyman Hoffman
Senator Donald Olson
Senator Gary Stevens
Senator Joe Thomas
Senator Thomas Wagoner
Senator Bill Wielechowski

MEMBERS ABSENT

HOUSE RULES STANDING COMMITTEE

Representative John Harris (Chair, AGIA Subcommittee)
Representative David Guttenberg

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Lesil McGuire

OTHER LEGISLATORS PRESENT

Representative Buch
Representative Chenault
Representative Crawford
Representative Dahlstrom
Representative Doll
Representative Doogan
Representative Edgmon
Representative Gara
Representative Gardner
Representative Gatto

Representative Gruenberg
Representative Holmes
Representative Johansen
Representative Joule
Representative Kawasaki
Representative Kelly
Representative Lynn
Representative Meyer
Representative Neuman
Representative Olson
Representative Ramras
Representative Roses
Representative Seaton
Representative Stoltze
Representative Wilson

Senator Bunde
Senator Davis
Senator Ellis
Senator French
Senator Therriault

COMMITTEE CALENDAR

HOUSE BILL NO. 3001
"An Act approving issuance of a license by the commissioner of revenue and the commissioner of natural resources to TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd., jointly as licensee, under the Alaska Gasline Inducement Act; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 3001
"An Act approving issuance of a license by the commissioner of revenue and the commissioner of natural resources to TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd., jointly as licensee, under the Alaska Gasline Inducement Act; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB3001
SHORT TITLE: APPROVING AGIA LICENSE
SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

[illegible]	(H)	READ THE FIRST TIME - REFERRALS
06/03/08	(H)	RLS
06/03/08	(H)	WRITTEN FINDINGS & DETERMINATION
06/04/08	(H)	RLS AT 9:00 AM CAPITOL [illegible]
06/04/08	(H)	Subcommittee Assigned
06/05/08	(H)	RLS AT 9:00 AM TERRY MILLER GYM
06/05/08	(H)	House Special Subcommittee on AGIA
06/06/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/06/08	(H)	House Special Subcommittee on AGIA
06/07/08	(H)	[illegible] AT 10:00 AM TERRY MILLER GYM
06/07/08	(H)	[illegible] Special Subcommittee on AGIA
06/08/08	(H)	RLS AT 1:00 PM TERRY MILLER GYM

BILL: SB3001
SHORT TITLE: APPROVING AGIA LICENSE
SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(S)	READ THE FIRST TIME - REFERRALS
06/03/08	(S)	ENR
06/03/08	(S)	REPORT ON FINDINGS AND DETERMINATION
06/04/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/04/08	(S)	Heard & Held
06/04/08	(S)	MINUTE(ENR)
06/05/08	(S)	ENR AT 9:00 AM TERRY MILLER GYM
06/05/08	(S)	Heard & Held
06/05/08	(S)	MINUTE(ENR)
06/06/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/06/08	(S)	Heard & Held
06/06/08	(S)	MINUTE(ENR)
06/07/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/07/08	(S)	Heard & Held
06/07/08	(S)	MINUTE(ENR)
06/08/08	(S)	ENR AT 1:00 PM TERRY MILLER GYM

WITNESS REGISTER

TOM IRWIN, Commissioner
Department of Natural Resources
Anchorage, Alaska
POSITION STATEMENT: Presented a summary of the findings and determination of the TransCanada Alaska Company LLC ("TransCanada") project.

PATRICK GALVIN, Commissioner
Department of Revenue
Juneau, Alaska
POSITION STATEMENT: Answered questions related to the proposed TransCanada project during the hearing on HB [illegible].

CLARK "CLICK" BISHOP, Commissioner
Department of Labor & Workforce Development
Juneau, Alaska
POSITION STATEMENT: Offered an introduction preceding a PowerPoint presentation regarding jobs and training related to the TransCanada project.

GUY BELL, Assistant Commissioner
Director
Central Office
Division of Administrative Services
Department of Labor & Workforce Development
POSITION STATEMENT: Gave the first part of a PowerPoint presentation regarding jobs and training related to the proposed TransCanada project.

BRYNN KEITH, Research Chief
Research & Analysis
Central Office
Division of Administrative Services
Department of Labor & Workforce Development
POSITION STATEMENT: Gave the second part of a PowerPoint presentation regarding jobs and training related to the proposed TransCanada project.

CONRAD [illegible], Consultant
ARCADIS
Denver, Colorado
POSITION STATEMENT: Presented a PowerPoint on modeling of short- and long-term employment generated by construction and operation of an Alaska Natural Gas Pipeline Project.

G. ALLAN VAN FLEET, Attorney
Greenberg Traurig, LLP
Houston, Texas
POSITION STATEMENT: Presented legal issues affecting producer participation in TransCanada's proposed gasline.

SPENCER HOSIE, Attorney
Hosie McArthur LLP
San Francisco, California
POSITION STATEMENT: Presented legal issues affecting producer participation in TransCanada's proposed gasline.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the joint meeting of the House Rules Standing Committee Subcommittee on AGIA and the Senate Special Committee on Energy to order at 1:[illegible] PM.

HB 3001-APPROVING AGIA LICENSE

SB 3001-APPROVING AGIA LICENSE

1:[illegible]6:59 PM

CHAIR [illegible] announced the [illegible] committees would [illegible] today's presentations by hearing an overview from Commissioner Tom Irwin, followed by an overview [illegible] Commissioner [illegible].

[illegible] PM

COMMISSIONER TOM IRWIN, Department of Natural [illegible], presented a summary of the findings and determination [illegible] TransCanada Alaska Company ("TransCanada") project. [illegible] that it is known that development of Alaska's natural [illegible] the cornerstone of the state's economy. The North [illegible] world class natural gas basin. He said "right now we're looking at 224 trillion cubic feet of undiscovered, technically recoverable reserves, in addition to all the known resources." There are significant volumes of natural gas, which Commissioner Irwin described as "economically clean energy for Alaska, for the United States, for the world." He said the following factors are "right": time, quantities, and [illegible].

COMMISSIONER IRWIN offered an historical review. In the '70s and '80s, he relayed, Alaska "worked hard and dreamed of getting natural gas to market." Considered at the time were an overland route, an "over the-head" route from Alaska to Canada, and liquefied natural gas (LNG). He said, "Frankly, gas prices stopped it all - drum price." In 1998, he continued, the Stranded Gas Development Act was passed, which Commissioner Irwin said was a good Act. At the time, gas was around $2 per thousand thousand British thermal units (MMBtu). The idea behind the Act was to work with interested companies to bridge the economic gap. Five groups [illegible] applications [illegible] one group was selected, and, through negotiations, a draft fiscal contract was released in May [illegible]. [illegible] producers essentially [illegible] pipeline, [illegible] exchange for [illegible] which included [illegible] [illegible] of production taxes and [illegible] [illegible] legislative and administrative issues. [illegible] that [illegible] development [illegible] the price of natural gas [illegible] per MMBtu [illegible]. He stated that [illegible] energy yet nothing was moving forward.

COMMISSIONER IRWIN [illegible] the Alaska [illegible] Act (AGIA) was passed by the Alaska State Legislature in [illegible] with a near[illegible]. The purpose of AGIA was to encourage an expedited construction of a natural gas pipeline through an open, transparent process that allows competition. In exchange for commitments required in AGIA, the legislature offered a package of inducements. The legislature made the inducements available to an AGIA licensee, if that licensee would agree to meet the requirements and make the commitments that the legislature deemed necessary to protect the state's interest, which Commissioner Irwin said he believes was a wise decision.

1:12:30 PM

COMMISSIONER IRWIN recollected that in July 2007, when AGIA became law, the state issued a request for application for a license to be issued under AGIA. Five applications were submitted, and only the TransCanada application was found to be complete. Commissioner Irwin said he and Commissioner Pat Galvin decided that TransCanada's net present value and likelihood of success could not be evaluated fairly without also looking at the LNG option and the BP, ConocoPhillips Alaska, Inc., Denali project.

COMMISSIONER IRWIN said technical, legal, commercial, financial, and hydrocarbon reserves teams were formed in order to make clear, fair evaluations of the projects. He stated that the teams were counted on to independently review the existing information and issue an opinion. He emphasized the integrity and expertise of those involved, and said all the reports are available to the legislature. He also emphasized that the job of the administration is not just to study all the information, but to make itself and its consultants available to each legislator to ensure "right answers" are provided.

[illegible] PM

COMMISSIONER IRWIN said he and Commissioner Galvin found that the "path" offered by TransCanada is likely to succeed. That company presented a work plan that is technically reasonable, feasible, and specific, he said. The plan would include the use of technology that TransCanada is currently using to operate pipelines in climates similar to Alaska's. Regarding the schedule, he said, "Including the timing of U.S. and Canadian regulatory approvals is aggressive but reasonable and appropriate." He stated that TransCanada has the financial ability to contribute equity to the project, as well as to obtain the financing necessary for construction. TransCanada has a strong record of performance in developing other large projects and positive records of integrity and business ethics. Commissioner Irwin said commissioners also considered whether sufficient natural gas exists on the North Slope to fill the capacity of TransCanada's proposed pipeline for 25 years.

1:16:18 PM

COMMISSIONER IRWIN relayed that the conclusion [illegible] that Alaska has enough natural gas resources to fill the TransCanada pipeline for 25 years and "for decades longer." He added that this is true even though Point Thompson natural gas may not be available for any project during its initial years [illegible] geology." Commissioner Irwin said [illegible] Petrotel Inc. to do modeling to evaluate what is [illegible] on at Point Thompson. He said the model [illegible] only are there likely several million barrels [illegible] Point Thompson, but there are also several hundreds of millions of barrels of oil. He mentioned the way [illegible] Oil and Gas Conservation Commission (AOGCC) works, and said, "Any reasonable state or sovereign would want that recovered first." Commissioner Irwin said, "What we have been told in the past and what we know today is significantly different. We have learned this state needs to continue to understand things from its own basis." He talked about being honest and letting [the legislature] know when things have changed. He continued:

Now, let's say we, as a sovereign, said "We w...

waste that energy; we will waste the liquids from the gas condensate; we will waste the oil; we'll just pull the gas off." Our problem is this field is called a retrograde field. [There are] over 10,000 pounds per square inch [illegible]ssure. The experts say if we start dropping that pressure, the liquid condensates start falling out; we can lit[illegible]ally plug the field where we'll certainly lose the liquids, but we can also start plugging conductivity so we lose the gas. Point Thompson is a [illegible]remendous area. We have a lot [illegible] liquids. We need to recover them first.

But let me tell you, when that news hit the gasline team, it was a shock. We immediately thought, "Do we have a gasline project? What are we going to do?" And we went back to the modeling. We modeled different volumes different [illegible] different scenarios. Our conclusion: we have [illegible] [illegible] for the producers, for the [illegible] [illegible] for the state, and for TC Alaska [illegible] [illegible] and to move this pro[illegible] forward.

COMMISSIONER IRWIN said additionally, the commissioners considered the claim by the major North Slope producers that TransCanada cannot succeed because of the risk that [illegible] a project. It would be [illegible] [illegible] [illegible] speaking with TransCanada the commissioners and [illegible] consultants consider whether this is a [illegible] issue and what the ramifications would be, including whether [illegible] impact financing. The commissioners found that the potential claims against TransCanada and its affiliates are "extremely weak," and that the producers have "failed to support their speculative theory." As a result, the commissioners concluded that the risk litigation of this issue "does not present the significant barrier" to the likely success of the TransCanada project, including its ability to obtain financing.

1:20:59 PM

COMMISSIONER IRWIN stated that the commercial terms proposed by TransCanada are reasonable. The proposal provides the major North Slope producers with several significant, commercial opportunities. He said, "They can construct and own the gas treatment plant in the North Slope; they can own an equity share in the TC Alaska pipeline." Although there are project risks, he noted, none of them are significant enough to outweigh the TransCanada project's likelihood of success. Natural gas prices are not likely to climb enough to make the project uneconomic, he said. Furthermore, he related that the risk that there are insignificant resources [illegible] North Slope [illegible] the proposed pipeline is low. He stated that the [illegible] that the state's current [illegible] structure will allow companies that develop North Slope gas and transport it [illegible] TransCanada's pipeline to earn a significant profit.

COMMISSIONER IRWIN stated that [illegible] TransCanada [illegible] viable will provide [illegible] to the state and federal governments as well as the North Slope producers and TransCanada, and [illegible] and [illegible] likely to succeed. He noted that the legislature has [illegible] through other presentations [illegible] help determine whether TransCanada's pipeline proposal maximizes benefits and is in the best interest of the state. The commissioners felt that [illegible] project options needed to be evaluated. He noted that later in the hearing schedule experts would testify. He mentioned the North Slope, an LNG plant [illegible] Valdez, and "the producer plan." He continued:

Using the same assumptions used to analyze the TC

Alaska project, all LNG project options resulted in less value to the state and the major North Slope producers. In cases, it showed clearly economic, but all cases were less than the North Slope producers' route.

COMMISSIONER IRWIN said that although an LNG project would be able to tap the higher prices that are seen in Asian markets, the LNG projects have significantly higher costs, and thus result in lower market potential value (MPV) to the state or to the major North Slope producers. He said he and Commissioner Galvin did not find comparative benefits in either timing or costs associated with an LNG project. He highlighted that even if LNG had demonstrated MPV comparable to that of the TransCanada project, the LNG projects would still not be preferable to the TransCanada project. He explained that analysis reveals that the LNG projects have a much lower likelihood of success compared to TC Alaska's project. An LNG project, he continued, will face unique financial and commercial challenges [illegible] multiple and concurrent agreements for the purchase, pipe transport, [illegible] shipping, [illegible] and the sale of natural gas. He said LNG will face [illegible] challenges, and the North Slope producers have [illegible] that the Asian market is not their preferred market. Additionally, the LNG project will face significant risk of not being permitted to export the gas to its primary market in Asia. He stated, "That's a clear and evident real risk, getting that type of export license, particularly if we don't have energy going to the United States - to the Lower 48 - first."

[illegible] PM

COMMISSIONER IRWIN stated that when compared to an exclusive LNG project, the overland gasline proposed by TransCanada provides an opportunity for a successful LNG "Y" line. The big line, he explained, takes care of the upstream gas pipeline plant, as well as a big line to Delta Junction. He stated, "The door is wide open to someone who wants to come in and do an LNG project." The likelihood of success in an LNG project, he noted, is greatest when it is constructed as a "Y" line.

COMMISSIONER IRWIN stated:

> The dynamics of a producer-owned and operated pipeline are very different, as you've heard in the last few days, than those of a third party owned pipeline. An entity that produces natural gas and owns the pipeline, like the producer project, earns revenues through sales of natural gas and shipment of the natural gas. Such an entity is not necessarily as driven to keep costs low. [illegible] learned that [illegible] have learned that all the way through the Supreme Court. If you own the pipeline and the costs are high, you pay yourself if you're the upstream producer. If the upstream producers own the pipeline, as we have seen, we pay the higher tariff and we pay the producer. We [illegible] all the exploration potential. We can get to a point [illegible] the tariffs. [illegible] would [illegible] explore [illegible] state for those type of high tariffs.

COMMISSIONER IRWIN continued:

> Consequently, there is a reduced economic driver to explore for and develop additional reserves until such time in the producer's [emphasis on "producer's"] mind it is necessary to maintain shipping volumes through the pipeline.

Now, we heard a bit of talk yesterday about, "Well, they might want to go bigger; they might want to move gas from somewhere else in the world and do their part here later." A pipeline company is in sync with the goals of the state; it is not necessarily true with a producer-owned pipeline.

As the state, as I've mentioned, has experienced with [the Trans-Alaska Pipeline System] (TAPS), combining pipeline and shipper responsibilities can truly cause significant harm to the state's interest. This is significant. For many of the same reasons, the producer project suffers the risk of being stalled by anti-trust challenges. It's really

COMMISSIONER IRWIN stated that AGIA [illegible] was not designed to preclude the major North Slope producers from owning and operating the natural gas pipeline. [illegible] was to ensure that if they did, they would act only as independent pipeline company, rather than an integrated gas producer and pipeline company."

1:[illegible]:48 PM

COMMISSIONER IRWIN said, "We were told negotiations of fiscal conditions were a precondition to moving forward with the project. What are those conditions? We do know that the conditions were from stranded gas." He said the administration chose to continue the competitive AGIA process [illegible] exclusive negotiations. He suggested the legislators ask themselves why BP and ConocoPhillips Alaska, Inc. announced the pursuit of another gas pipeline project, Denali, and [illegible] the timing of that announcement. He asked "Why are they running so many ads to convince the public this is a good thing?" He asked the legislature to respectfully ask the following question: "Is their goal to destroy AGIA in the competition, or is their goal to get gas to market in the favor of the state's interest?" He said "we" tried to analyze the Denali plan, using the same "12 pages" that the legislature has seen. He related that none of the important commercial terms of the producer plan are defined. Furthermore, unlike TransCanada, the producer plan makes no enforceable commitments such as adhering to a state timeline or achieving additional milestones, such as applying for a Federal Energy Regulatory Commission (FERC) certificate. He said there is no information on tariffs, let alone an enforceable commitment to provide genuine open access. He said, "This makes their option, currently presented, extremely risky for the state. The producer plan was offered outside the AGIA process and may continue ... parallel to the Alaska's efforts. We love it; the competition is great."

COMMISSIONER IRWIN said someone suggested that the state should save its $500 million, because the producers are going to spend their $600 [million] plus and don't need the state's money. He asked:

> Have you ever been around a business that [illegible] money for its board, its stockholders, [illegible] individual pay, their bonuses, that would turn down $500 million? I would propose that they feel that if - and I can't speak for them - if AGIA fails, they are in a position to get much more. But no one would turn down $500 million.

COMMISSIONER IRWIN said the key is for the state to leverage its resources and start "moving things forward." He warned the legislators not to forget history. He stated, "This state rudely threw out a bunch of companies and negotiated behind closed doors." Regarding the $500 million, he said an important factor is risk and reward. He opined that the risk is so small compared to the reward, which is so huge.

1:32:43 PM

COMMISSIONER IRWIN summarized his presentation, by reviewing the following points: the TransCanada project is economically viable, sound, and feasible; TransCanada has a proven track record; extreme positive economics of TransCanada's project, combined with the legal and political context, provide favorable conditions for attracting shipping commitments; and overall the TransCanada project is likely to succeed. Exclusive LNG projects do not compete, but a "Y" line is significant and is an opportunity for the state to work between market options. He stated, "The key for adding the real long term jobs for Alaskans is a pipeline that encourages exploration and development. The TransCanada project will not preclude construction of a smaller pipeline." He stated that if anyone wants to challenge [illegible] numbers, he would encourage them to look at a report by [illegible] One, which is available to LB&A.

COMMISSIONER IRWIN said that similar to the failed Stranded Gas Development Act contract, the producer plan is not guaranteed to continue to advance the project. He stated that [illegible] Commissioner Galvin's conclusion that "this is clearly a correct way to go." He encouraged the legislature to consider [illegible] is the right thing to do for the state.

1:34:55 PM

COMMISSIONER IRWIN stated that ultimately the matter comes down to a decision of "yes" or "no." He continued:

> Here's what you get with "yes": a company that I believe is the best in Northern America doing pipelines. It's a company that works with these other

companies every day; they know how to get gas into their pipeline. And remember Mr. Palmer saying, "We don't own any gas, and yet we have 36,000 miles of pipeline." We get a premier company in North America. We get firm timelines to open season; we get firm timelines to FERC certification. We are clearly moving forward. Now, when Alaska makes a new law, and in effect, by saying yes, you have told the whole world, "Alaska is now going to protect open access," companies adjust, companies understand. But until you do that, they will rather defeat AGIA, because then you get to the no answer.

What happens if it's "no?" In simple terms, last week I said, "They own us." That's what you get if you say no. We will wait and hope they do something [illegible] understand ... they're not here because they [illegible] Alaska. They're here to make money. And they look worldwide at their decisions. Alaska [illegible] to stand up for what is right for Alaska [illegible] business. We have a clear path. But "no" means we're subservient to them; they own us.

COMMISSIONER IRWIN expressed appreciation for the time the legislature is giving to this matter.

1:56:54 PM

CHAIR HUGGINS noted that he did ask one of the [illegible] the aforementioned Denali project "why they were doing [illegible]," and their answer simply was, "The price of gas." He stated that it appears that in talking with some of the consultants, that no matter what the scenario, the price of gas is the variable that is the most different."

1:37:24 PM

REPRESENTATIVE FAIRCLOUGH stated that she is present to listen to facts and figures in order to make a successful decision on moving a project forward. She said she wants to know why the Monte Carlo approach was chosen over the Wood Mackenzie report if "best practice" is involved, and whether the Wood Mackenzie report "was not using as safe type of criteria."

COMMISSIONER IRWIN said the administration's consultants are qualified to answer that question and could address it during their upcoming testimony.

REPRESENTATIVE FAIRCLOUGH indicated that "the [illegible] was told during this special session that [illegible] TransCanada a 1 [to] 2 percent inflation factor [illegible] Anchorage, the administration's consultants spoke of a [illegible] percent [illegible] inflation factor. [illegible] questioned the discrepancy.

COMMISSIONER IRWIN explained that [illegible] TransCanada [illegible] in order [illegible] another [illegible] the same basis. He [illegible]:

When we went to our consultants [illegible] to expand that analysis [illegible] range [illegible] system we can see the variance of best case worst case, and there's hundreds of items [illegible] of items that have to be evaluated. We wanted to check all the permutations [illegible] best case/worst case and that's what a Monte Carlo system allows you to do. One was to compare [illegible] other was we didn't, frankly [illegible] way: trust and verify. We're learning [illegible] matter what you're told, trust and verify and [illegible] why the significant difference with our consultants.

1:40:52 PM

PATRICK GALVIN, Commissioner, Department of Revenue, expanded upon Commissioner Irwin's response by noting that the assumptions that TransCanada used in its application were the same assumptions used by all the applicants. The reason, he said, is because [the administration] asked the applicants to do "a project planning effort" - to identify what their costs were according to a single point assumption given to them by the administration. He explained that the administration was not asking its experts to determine what gas would cost on a particular day and determine the economics from that, but rather "to look at the sensitivities across a number of these variables." He said the administration was trying to [illegible] the range of possibility to the legislature. [illegible] present the "[illegible]" and then expose [illegible] around that."

1:42:53 PM

REPRESENTATIVE FAIRCLOUGH said [illegible] sensitivities, but she stated concern that the public [illegible] through the media [illegible] in-depth definition of [illegible] percent cost inflation factor versus a [illegible] percent cost inflation factor. She said the legislature also has [illegible] construction costs have been rising at close to [illegible] percent every year for the last four years. She said, "If you're [illegible] those toggles, we need a sense of reality on where that [illegible] is coming from."

REPRESENTATIVE FAIRCLOUGH asked whether the commissioners have sent a letter of inquiry to the Alaska Oil and Gas Conservation Commission (AOGCC) about "what could be extracted [illegible] Prudhoe Bay," and whether there is an answer related to the [illegible] billion cubic feet (bcf) amount that was "presented in Anchorage as a way to make this project successful."

COMMISSIONER IRWIN responded as follows:

> We have asked, and that is not complete, but from all of the information we have: Point Thompson ... will be out for years; Prudhoe Bay will be available for draw down. ... All of our expert advise we've been given is: we have the gas resources to make this project happen.

REPRESENTATIVE FAIRCLOUGH noted that Commissioner Irwin has had the TransCanada application in his possession since November, and she asked him when he asked AOGCC "how much you could draw down for your economic analysis."

COMMISSIONER IRWIN said he does not have that information at hand.

COMMISSIONER GALVIN stated his belief that the inquiry was started a year ago, after the AGIA bill passed, because at that time, the issue had surfaced regarding potential off-take. Continual efforts have been made to try to retain that. He said the issue faced by [illegible] is the fact that AOGCC doesn't operate along the decision making framework where it chooses what the off-take should be; it is an adjudicatory body that merely grants a yes or no to requests that may come in. He continued:

> And so, the exercise that they've been doing [illegible] undertaking is providing us with ... the range of what they think may be within the possibility of what might get a yes vote, but it would be based upon the request and the data that would be presented.

... Kathy Forrester, I think the current chairman of AOGCC, has spoken publicly about ... her comfort level with discussion of an off-take in the 3.5 range that we discuss in our finding. And so, that's, I think, the furthest AOGCC is likely to go before they get an actual application.

COMMISSION IRWIN added that the producers, with their proposal, certainly feel comfortable that they can move forward. Furthermore, TransCanada really understands "this information" and feels comfortable to move forward. He stated, "When it comes close to a gasline really moving forward, the exploration we'll have in this state will significantly increase gas availability." He named the Wyoming and British Columbia charts as examples of that growth. He added, "And don't forget, most of our gas is found in oil basins, not in the gas basins."

1:47:19 PM

REPRESENTATIVE [illegible] said the [illegible] is to make an evaluation on the license before [illegible] and although she can appreciate hearing about the feelings of producers, the purpose of the legislature currently is to find out why the administration is supporting TransCanada. She said TransCanada has convinced her that it is qualified to undertake a gasline project. Additionally, she said the administration has convinced her that a [illegible] billion liability is a remote possibility. She clarified, "But what I don't want to hear is spin ... telling me where product is available." She indicated having been told by Ms. Forrester that AOGCC was "getting ready to retract a previous statement that they had gas available." She continued:

Again, I just would ask everyone who is presenting to talk about the project that's before us and not throwing darts at a project that we don't know anything about, as has been said by the producers. I don't care why the producers are moving a project forward; I care that this administration is saying, "This is the next step for Alaska." And I want to, on behalf of the people that have chosen to put me in my seat, ... make the best decision possible for Alaska. And so, it is important whether we have gas on the line to go into the line. ... I'm not trying to be disrespectful; I want to be able to push the green button and vote yes for what you're presenting, but please tell me why we have gas from our position going forward and not about other people[illegible].

1:49:[illegible]8 PM

COMMISSIONER IRWIN expressed appreciation of Representative Fairclough's study of the [illegible] and her desire [illegible] to hear the facts. He said his intent [illegible] to convey [illegible] but to convey, from his position, why he feels Alaska [illegible] enough gas. He explained that he shared other [illegible] that he and Commissioner Galvin had to address ... getting to their present position, because he thinks not [illegible] think the Denali project [illegible] better [illegible] hiding information from the legislature.

1:50:2[illegible] PM

CHAIR HUGGINS requested that Commissioner Irwin provide a [illegible] aid that shows risk allocation related to the [illegible] project, timeline and decision-making process, and [illegible] the downsides or conflicts, not just "[illegible] positives."

1:52:09 PM

COMMISSIONER IRWIN said he thinks he can readily do that with the information at hand.

CHAIR HUGGINS clarified for those listening that he is requesting from the commissioner an overview of risk allocation and "where you allocated those in your consideration," and is requesting that the commissioner "reemphasize that as we go through the points in the documents."

1:53:34 PM

SENATOR STEDMAN said there was a reference made not only by Commissioner Irwin today, but by other presenters in the last couple days - to $10 billion "on gives from the state to the major oil producers under the previous administration's proposal in the Stranded Gas Act." He recalled that quite a bit of that calculation had to do with a [illegible] percent capital credit. He asked if that is correct.

1:54:34 PM

COMMISSIONER IRWIN responded that [illegible] of those numbers are defined in the Econ One report. He said he remembers the amount of [illegible] billion specifically "because when we calculated ourselves we came up with [illegible] billion, but we [illegible] with Econ One."

1:55:[illegible] PM

COMMISSIONER GALVIN offered further information:

> Econ One at the time, as they are now, was working for the legislature and [illegible] the legislative analysis of that contract. And that was the number that they came up with, in terms of the value of the project under the existing scenario versus the value of the project under what was proposed in the contract.

1:55:[illegible] PM

SENATOR STEDMAN reiterated that part of that calculation had to do with a 20 percent capital credit, which he noted is in place currently. He remarked, "So, ... I'm not quite sure that a tight parallel with those numbers to what we're dealing with today is even a legitimate issue to have."

COMMISSIONER GALVIN said he agrees with Senator Stedman that "it does change when you compare it with where we are today." He continued:

> Because when we look at the issue today, what we recognize is that under that analysis there actually was a gas production tax that was based on a gross rate ... in the neighborhood of, I think, 7 percent. If you compare that to, for example, the ACES end result, you're going to end up with probably a larger cost that would be associated with the Stranded Gas contract from what we have in place today than the [illegible] billion. And we wanted to [illegible] the [illegible] billion [illegible] because it was the [illegible] that [illegible] time, based on legislative [illegible].

SENATOR STEDMAN, regarding the [illegible] dealing behind closed doors, [illegible] "The [illegible] was [illegible] that [illegible] and [illegible] open."

COMMISSIONER IRWIN told Senator Stedman [illegible].

[illegible] PM

SENATOR STEDMAN, regarding FERC, [illegible] that there had been a reference to TAPS. He said a majority of legislators feel that it would have been nice if the state had been in a better position dealing with TAPS over the years, because there are concerns regarding the tariff. He said, "We all understand: the higher the tariff [is], the lower our net back to us as a state [will be]." He asked, "How correlated is the gasline to oil line in dealing with access issues?"

COMMISSIONER IRWIN replied that the two are not regulated the same: "one is common carrier and one is a contract carriage."

SENATOR STEDMAN asked if that is a substantial difference, one that the legislature should tune in and pay attention to, or if it is just a minor technicality, in which case the legislature could only have TAPS to think about.

COMMISSIONER IRWIN responded as follows:

> It's actually much more important [illegible] my mind, [illegible] pipeline in the gasline. In an oil line ... if the line is full, room can be made [illegible] proportional basis. On a gasline, when [illegible] room isn't made for the new individuals [illegible] that's a critical step.
>
> The reason I referenced TAPS is because of the [illegible] the tariff also [illegible] getting into the [illegible] full is one major issue for our future gas exploration but also [illegible] to put gas down the line. And this [illegible] similar circumstances: if you have an upstream producer who owns [illegible] and if you have an upstream producer who owns a pipeline, they are [illegible] incented, as a pipeline company, to keep low tariffs because at the end of the year the extra tariffs they paid go back ... to the producer. If it's a pipeline company, their incentive [is] to keep it low for new exploration.

SENATOR STEDMAN offered his understanding that this matter would be covered in a few days by means of representation of FERC. He indicated that future discussion would attempt to answer why, for example, ExxonMobil Corporation does not "own all the pipelines in the world if it's such a sweet deal." He said it is his impression that mid-stream players like TransCanada concentrate in building and managing gaslines in a regulated return environment, while other companies - for instance, BP or ConocoPhillips Alaska, Inc. - enjoy the arena of unregulated returns and seek higher rates of return than they would get in an unregulated pipeline.

[illegible] PM

COMMISSIONER IRWIN echoed [illegible] company like ExxonMobil Corporation [illegible] making money [illegible] most likely chooses [illegible] projects with low rates of return [illegible] money other places to get a much higher return.

[illegible] PM

[illegible] STEDMAN recalled that Commissioner [illegible] if the legislature does not adopt the [illegible] the three major companies [illegible] ExxonMobil Corporation, [illegible] ConocoPhillips Alaska, Inc. - will [illegible] that subsequently he had said the state [illegible] those companies. He stated that he personally does not [illegible] with that sentiment. He said he has [illegible] people [illegible] district.

COMMISSIONER IRWIN clarified that he is not talking about any individual legislator, but rather is talking about the state. He said the state knows that its oil production is declining. He predicted that Alaska, as a state, is going to become increasingly desperate to figure out how to pay its bills. He emphasized:

> When you're in a desperate situation, and someone comes to you and says, "I will get your gas to market, but you need to help me," you're position at that time is much, much harder than it is today with the competition we're seeing.

2:04:03 PM

SENATOR STEDMAN issued a reminder that roughly half of the state's tax is coming from progressivity, "... which the last administration didn't like, and the current administration wanted to lower." The legislature is the entity that stood up for [progressivity].

[illegible] PM

REPRESENTATIVE [illegible], regarding [illegible] Irwin's [illegible] description of what the state would [illegible] asked what the state would gain or lose if [illegible] TransCanada subsequently is not able [illegible] and says no to the state.

2:[illegible]:41 PM

COMMISSIONER IRWIN responded, "That is why we [illegible] AGIA that we develop past open season toward certification." He offered further details, [illegible] that it [illegible] the choice of the company, but he thinks [illegible] companies will participate.

2:08:10 PM

REPRESENTATIVE [illegible] said he would like Commissioner Irwin [illegible] state for the public's benefit, what Alaska may stand to lose [illegible]

TransCanada says no.

COMMISSIONER IRWIN said the biggest risk would be if Alaska bails on TransCanada, in which case it risks $875 million. Furthermore, he said, the state would lose an open-access pipeline and basin, which he said would be a tremendous loss.

REPRESENTATIVE ROSES noted that Commissioner Irwin had said he is "relatively comfortable that they are going to come to an open season and that they will make a commitment." Regarding that commitment, he recollected discussions related to AOGCC that "what they recommend be taken off" has a direct impact on whether or not the pipe will be built. The amount of gas determines not only financial success and the [illegible] of investment, but also has a direct impact on whether or not they're going to be able to get the financing in order to be able to do the project." He said he heard Commissioner Irwin say this morning that he is not considering the undiscovered gas that will be brought on through new exploration. He asked, "How is TransCanada going to be able to take that unexplored, undeveloped, unfound gas when they go to try to get money to finance this pipeline? That's a speculative [illegible] that's not a firm commitment."

COMMISSIONER IRWIN responded that because of the [illegible] of the basin, and in addition to the large known [illegible], [illegible] board has made the decision, based on significant [illegible], that it is worth the risk to be here. He continued:

> I think it's important to note that we have asked for and have the money - through the governor's request through the legislature - that we will also be modeling Prudhoe Bay as we did Point Thompson. We need to know, and we're pursuing, those issues, but to the very best knowledge of our team - the experts - we

feel ... TransCanada is voting - with their talent and with their money that they also could go elsewhere with - ... that it's worth being here and it's worth taking that risk.

REPRESENTATIVE ROSES said the legislature has heard repeatedly that what drives the economics is the commitment; therefore, if there is a lower commitment than anticipated, the only way to build capacity is through "the proposition of the undiscovered gas being put into that pipeline." He asked how much the economic specialists with whom the administration has held discussions are willing to finance based on speculation on what may be put in the line.

COMMISSIONER IRWIN replied that the determination was that "it can be financed."

COMMISSIONER GALVIN said this issue is one that has been discussed in relation to Point Thompson, as well as both the off-take and total reserve at Prudhoe Bay. A 4 bcf line, financed over 25 years, results in 40-50 tcf, "whether you're 4 or 4.5." He asked, "We only have 24 known in Prudhoe and 5 or 6 outside of that - outside of Point Thompson where's the rest of the gas? Are these guys ... betting on the come?" He said the answer to that is yes - "if they want to assume maximum profit." He described a scenario in which no additional gas is found or nobody else finds additional gas that "they can sell their capacity to," and "they end up with unused capacity as the Prudhoe Bay production ends up going through its normal decline." He concluded, "They'll still make sufficient profits on this to justify making that investment, even if they do not find any additional gas." Commissioner Galvin said that was a significant finding.

REPRESENTATIVE ROSES said he is glad Commissioner Galvin brought up the Point Thompson issue, because he thinks it shows how "that point and that field plays into all of this."

COMMISSIONER IRWIN said the administration was very surprised to discover how economic the gas at Prudhoe Bay is, but he explained that it makes sense because so much of the development is there already. He said he suspects that when individual companies, such as TransCanada and others "look at that," they know "there's a real strong foundation to make those risk decisions."

1:15:43 PM

COMMISSIONER GALVIN, in response to Representative Roses previous question regarding what the risk to the state would be if, during open season, TransCanada decides it will walk away, offered two answers. The first answer would be determined by answering what the obligations are that TransCanada's making in its application and what remedies are available to the state if that company should breach [illegible]. If that should happen, he said, the state would get back not only all the money, but also all the work product the company provided, and it would be able to pursue other remedies available at law for damages and breach of contract. [illegible] Commissioner Irwin pointed out TransCanada has significant commercial [illegible] in participating in the project that would continue to drive them to live up to their obligations."

COMMISSIONER GALVIN, regarding financial [illegible] exposure, said if the state wanted to "jump off of the AGIA track [illegible] and go in a different direction," it is important to recognize that treble damage exposure will grow only as the expenditures that are actually made to the project grow. He continued:

Given that it's tied to the TC Alaska expenditure separate from what the state reimburses them for, and after an open season, as it has been discussed, the expenditure profile changes to 90 percent state 10 percent TC Alaska. But that treble damages exposure goes down as well; they're expending much slower. ... At the end of the day ... [when] we get the first certificate and all the money's been expended by both the state and TC Alaska, ... the total exposure to the state, including the $500 million, plus the treble damages, is ... $875 [million]. But ... when we get to an open season, at that particular point in time the state will have expended our ... [illegible] million [illegible] of the $81 [million] that's been projected [illegible] to get to that point, and our treble damage exposure [illegible] been three times the [illegible]. And so, our total exposure at that point is [illegible] million across the [illegible] that's everything [illegible] our [illegible] that contribution and our treble damage amount. [illegible] think it's important for the folks at home and legislators here to understand that we [illegible] immediately get on the hook for our [illegible] million plus some calculation of three times the same amount.

[illegible] PM

REPRESENTATIVE [illegible] offered his understanding [illegible] that TransCanada withdrew, the state would be [illegible] to the company only if a mediator determined that the project was uneconomic and thus the company should not have been allowed to back out of the contract.

COMMISSIONER GALVIN confirmed that is correct. He said [illegible] ago there was much debate to determine when a project would be deemed uneconomic. Various factors go into the determination. He stated, "The world would have to change dramatically [illegible] for them to conclude that this project is uneconomic." He clarified that if, during the open season, TransCanada were to conclude that the project was uneconomic, then the State of Alaska would have to seriously consider the project as worth pursuing.

REPRESENTATIVE ROSES stated:

> The amount of commitment you get for the gas is going to determine whether or not they get the financing; whether or not they get the financing and how much risk is involved determines the interest rate that they're going to have to pay on that money. So, even though you say that you're going to have people out there that are willing to finance on the speculation, the more speculative it is, the higher the interest; the higher the interest, the higher the cost; the higher the cost, the less economic it becomes. [illegible] this is all tied together. [illegible] when people in the audience hear us talking about whether or not companies will [illegible] how much gas is available from the North Slope, with or without [illegible] how much we're going to have to depend on that exploration drilling to be able to fill that pipe [illegible] all tied to the economics which [illegible] whether or not this is going to be a pipeline that will succeed or a pipeline that will fail. All of those dynamics play together even though they appear to be separate issues [illegible] aren't?

COMMISSIONER IRWIN said Representative Roses is absolutely correct. He continued:

> I took the top number that were at [illegible] mentioned 156. [illegible] depends on spending rate

obviously. We hope it goes faster, ... but on what we anticipate, that 166 goes to 2007. The next year, 3 6. I should round these off in big quantities: 550, 725, and the 873.60 I round off to 875. So, that gives you an idea as you're asking the progression on it.

COMMISSIONER GALVIN clarified that the information Commissioner Irwin was citing was from slide 38 of the commissioners' findings packet distributed a couple days ago.

2:22:54 PM

REPRESENTATIVE GARA expressed concern that in waiting [illegible] the end of the 60 days of the combined special sessions, the legislature may delay the start of a pipeline. He asked the commissioners by which date the legislature would need [illegible] in order not to [illegible] another field [illegible].

COMMI[illegible] [illegible] that [illegible] the [illegible] appraisal on [illegible] because of the trade off of the lost [illegible] schedule from April to August. He relayed that yesterday [illegible] Mr. Palmer [illegible] that if the decision was made in July that would [illegible] said Mr. Palmer, knowing now that a decision will be made in July is much more valuable than knowing on July 1 that decision is going to be made that day.

COMMISSIONER IRWIN added, "We will also [illegible] work with TransCanada and reaffirm with Mr. Palmer so he can also speak for his company."

REPRESENTATIVE GARA requested a follow-up in writing from the commissioners showing the following: when a vote would save time, how much time might be saved, and "when knowing when that vote's going to be would also help." He said then the legislature can make a decision, and [illegible] would be encouraging that decision to happen sooner than later.

2:26:19 PM

CHAIR HUGGINS asked the commissioners for the original objective the administration had in bringing its proposal to the legislature, and when that actually happened. He explained that he would like to "see what's happened to the timeline."

COMMISSIONER IRWIN said he believes the date was in April. He continued:

> Understand when we had the issue of determining the LNG contract was not complete, we understood we would be delaying the project of the pipelines, but we [illegible] determined it was absolutely critical before we could come to the legislature and [illegible] and say we made a determination without evaluating the LNG options. We felt it was appropriate to do that and it also required time.

[illegible]:24 PM

SENATOR GREEN stated that she doesn't want anyone to think the legislature would in any way delay hearings. She [illegible] that if anyone is to be blamed, it would be the process and extensions on various dates. She opined that the [illegible] has been forthright in the amount of time taken for the hearings. She indicated that information requested by the legislature was never received. She stated, "So, I don't think we're at a point where we need to expedite our hearings [illegible] of the schedule we've been placed on." She said she thinks the legislature's reason for having these hearings is not only to get the legislators up to speed on this issue, but also to ensure that the public has access to all the information available, as well as the opportunity to testify and ask questions.

2:28:30 PM

SENATOR FRENCH, regarding gas ownership, said he knows a lot of Alaskans believe that choosing TransCanada as a pipeline builder is a bad idea, because the company does not own any gas. He said he would like to know how many miles of existing pipelines were built by resource owners versus pipeline companies, and whether higher gas prices shift the balance and make pipeline construction and ownership more attractive to the resource owner, or whether the regulated rates of return always serve as a disincentive to a production and exploration company when it comes to building pipelines.

SENATOR FRENCH stated that the North Slope is a separate and isolated basin. He asked:

> How will the fact that there will ultimately probably only be one tube of steel, one gas pipeline, coming out of that basin to bring that gas to market ... lead to anti trust problems should the producers elect to build the pipeline ... particularly given that they've chosen to operate outside the framework of AGIA?

SENATOR FRENCH said he would like the answer to that question made available to everybody present.

COMMISSIONER GALVIN said Senator French's first set of questions would be answered by "the folks who are actually in the pipeline business," while his anti trust questions would be answered by the administration's legal counsel.

2:30:50 PM

SENATOR WIELECHOWSKI, regarding availability of gas and gas off-take, asked the commissioners if they put any weight in the fact that the producers put in a bid under the Stranded Gas Act and are now preparing their Denali project, which is similar to the bill before the joint committees. He asked if that gives the administration any sort of confidence that there is enough gas and gas off-take available.

COMMISSIONER IRWIN said it gives him a lot of confidence. He said he takes comfort in seeing a company like TransCanada looking at this proposal and being willing to take such risks itself after have its board discuss the issues at great length. Furthermore experts involved with the United States Geological Survey (USGS), from the Division of Geological & Geophysical Services (DGGS), and some company representatives are saying huge gas amounts are available.

[illegible]:42:2[illegible] PM

CHAIR HUGGINS stated that on the request for application (RFA) is a sentence that reads: "The provisions of [illegible] may not be exploited, misrepresented, or [illegible] through [illegible] evidence."

CHAIR HUGGINS said that after a break he would like Commissioner Galvin to explain what that sentence means and what effect it has on what the legislature is doing here today.

The committee took an at-ease from [illegible] PM to [illegible] PM.

CHAIR HUGGINS noted that Commissioner Galvin had asked during the break to defer answering Chair Huggins' question.

CHAIR HUGGINS announced that the joint committee would hear next from Commissioner Clark Bishop.

2:53:19 PM

CLARK "CLICK" BISHOP, Commissioner, Department of Labor & Workforce Development, offered an introduction preceding a PowerPoint presentation regarding jobs and training related to the TransCanada project. He spoke of his experience in his field. He noted that when AGIA was passed, AS [illegible].90.470 mandated that a workforce must be trained. He stated [illegible] brought together industry, labor, education, state government and federal government to pull a training plan together that was presented to the legislature in February. That is phase one. Phase two, he explained, is the project implementation by schedule time and by strategy. Phase three, yet to be completed, will be training capacity throughout the state. Phase three, he indicated, will [illegible] identify training centers and define what their exact training capa[illegible] specific area of expertise.

COMMISSIONER BISHOP [illegible] done inside the AGIA training plan [illegible] training programs. He said [illegible] bringing training providers together [illegible] never communicated with each other. He said [illegible] everybody pulling together [illegible] mission of having the best educated, best trained [illegible] the state. He concluded, "I can't do it alone; I need your help. I need everybody [illegible]"

2:57:0[illegible] PM

GUY BELL, Assistant Commissioner, Director, Central [illegible] Division of Administrative Services, Department of Labor & Workforce Development (DLWD), gave the first part of a PowerPoint presentation regarding jobs and training related to the proposed TransCanada project.. He stated that the workforce goal for AGIA is: "a trained and available workforce for gas pipeline-related occupations." He relayed that with the help of the steering committee and the research and analysis section, the department identified 113 occupations that are the focus for the gas pipeline training plan.

MR. BELL described the workforce development process, as shown on slide 4 of the PowerPoint presentation. He said the first step is to identify "skills gaps," which are occupations for which there are no Alaska workers available. He said Brynn Keith would expound on that issue. He said the department makes efforts to minimize those gaps by various means, [illegible]: awareness; effective labor exchange, including [illegible] based services and the job center network; and [illegible] services accessible and affordable.

MR. BELL directed [illegible] training system [illegible] [illegible]," which he described as a collaborative [illegible] [illegible] He said that [illegible] Commissioner Bishop noted [illegible] partners to develop a workforce [illegible] with partners involved in the secondary education system and proceeding [illegible] postsecondary education system [illegible] employment services. Often, he said, workers find [illegible] to return to postsecondary training in order to [illegible] skills while they are working.

MR. BELL turned to slide 6, which addresses challenges. Economic cycles are one challenge. While Alaska has had [illegible] years of consecutive and steady employment growth, he said, there has been significant fluctuation within industries during that period. Another challenge is the ebb and flow of workers. Mr. Bell reported that 70,000 people move in and out of Alaska each year. 113,[illegible]00 Alaskans are Baby Boomers, ages [illegible], and will begin leaving the workforce, while 11,000 Alaskans turn 18 each year - an indicator of the number of people entering the workforce. A third challenge is ba[illegible] awareness, the understanding of the jobs available, not just professional but significant opportunities in blue collar jobs, as well. A fourth challenge is the cost and accessibility of training. The last challenge relates to job barriers. For example, employees need to be drug-free, often a driver's license is required, basic skills are necessary to be employable, and certification needs to be meaningful and transferrable.

3:00:17 PM

MR. [illegible] noted that Commissioner Bishop had mentioned the AGIA training plan, which was derived with the assistance of a high-level steering committee; phases one and two of which have effectively been completed. He referred to information on slides 7-11 of the PowerPoint, which addresses and describes the "Four AGIA Strategies." The first strategy, he noted, [illegible] increase awareness of and access [illegible] development. The second strategy, he said, [illegible] the [illegible] education system. [illegible] strategy. Mr. [illegible] said the state needs to [illegible] ensure that by the time Alaska's students graduate from high school, they are "work ready" with [illegible] employability skills, as well as applied skills in math, reading, and locating information; improve vocational technical education opportunities; [illegible] basic skills development; and work towards "comprehensive and consistent industry skill standards to guide training entities [illegible] students have the skills to enter employment once they exit training." He noted that there is a program that is funded this year and next, which offers basic skills training in the construction industry to in-school and out-of school youth and adults.

MR. BELL said the third strategy is to increase registered apprenticeships and on-the-job training opportunities. Registered apprenticeship offers a program of work and training, which leads to a skilled and high-paying career. The [department] is working with employers and - through the educational process - workers around the state to meet the goal of the third strategy. He said, "We do offer financial support for training, as well as partial payment of wages, subject to agreement by employers, to train and retain workers." The department measures the outcomes. Those measurements include the number of people who successfully complete training and pre- and post-training wages. The fourth strategy, Mr. Bell said, is "to increase training for operations, technical, and management workers." He shared that another success story was the almost doubling the size of the engineering program at the University of Alaska, thanks to funding from the legislature. Mr. Bell said other goals toward meeting strategy number four are to do a better job of recruiting Alaskans for high skill training opportunities and to focus on the state's incumbent workers to ensure they have the opportunity to access training for advancement opportunities, as well as to keep pace with technological change.

[illegible]

BRYNN KEITH, Research Chief, Research & Analysis Central Office, Division of Administrative Services, Department of Labor & Workforce Development (DLWD), gave the second part of a PowerPoint presentation regarding jobs and training related to the proposed TransCanada project. She stated that the department's charge, as it relates to the AGIA project, is to quantify employment needs. She addressed the areas of focus, as shown beginning on slide 12 of the PowerPoint presentation. She said because it is too early in the process for Research & Analysis to develop solid employment estimates for the gasline project, the department has focused its research efforts on identifying preliminary measures of current and possible skills gaps, as they relate to both the gas line and the economy.

MS. KEITH said that, as shown on slide 13, the department, working with industry partners, identified 113 AGIA occupations, which ranged from those working in the camps, on logistics, safety, or craft, and those operating equipment. The department used a great deal of existing data received from employers around the state, based on unemployment insurance, quarterly reports, and annual employer surveys. Furthermore, it considered data derived from the permanent fund dividend (PFD) to the potential skill sets of individuals in the labor market. As shown on slide [illegible], Ms. Keith said to determine the current gap, the department looked at the number of nonresidents in Alaska's labor market. She said there are a lot of reasons an employer would hire a non-Alaskan, but one of the primary ones is the lack of a locally available skilled workforce. She noted that in [illegible], over [illegible] percent of workers were nonresidents of the state, which represents a great job opportunity gap for Alaskans. The future gap, she said, is much more difficult to quantify. She said one factor that can be considered is the age of the incumbent workforce, on the assumption that as workers age they will need to be replaced. As [illegible] look at the figures from [illegible], she noted more than [illegible] percent of individuals working in AGIA occupations are [illegible] years old or older.

[illegible] PM

REPRESENTATIVE GRUENBERG asked what percentage of the [illegible] percent is included within the 16 percent. He clarified that he wants to know whether a majority of the older people are Alaskans or nonresidents.

MS. KEITH said she does not have that statistic at hand. Notwithstanding that, she said younger workers tend to move; therefore, generally speaking, a higher percentage of the nonresidents would be in the younger age groups. In response to a request from Representative Gruenberg, she agreed to provide that information in writing to the members.

MS. KEITH turned to slide 15, which lists seven of the core occupations involved in the gasline project, and arrayed the data that we've been discussing for the last couple of slides. She said she used the PFD definition to determine whether or not an individual is a resident, which is a restrictive definition of residency. The column referring to worker age is taken from 2006, as previously noted. The hourly wage data shown on slide [illegible] was gleaned from surveys produced with Alaska employers annually. The occupations listed range from [illegible], highly skilled, to very skilled to high wage. She noted that the reason there is no wage listed for [illegible] is because the survey response was not adequate; however, she noted that the [illegible] wage was approximately [illegible] per hour. In regard to nonresident workers, Ms. Keith said an interesting point is that Alaska has always borrowed or stolen workers from the Lower 48 when needed, whether it is due to the seasonality of the labor market or employment growth needs. However, the aging of the state's workforce is not a problem unique to Alaska but rather is a national and global occurrence. She said that depending on what goes on in the economic scene globally and nationally, Alaska may find it much more difficult to meet the state's labor needs by recruiting workers from out of the state or country. She said that indicates a need for Alaska "to grow our own." Assuring that Alaskans have the skills needed for the occupations not only helps residents find good career options and make a living wage, but ensures, to some degree, that the needs of Alaska's employers are being met.

CHAIR HUGGINS said there are multiple engineers concerned that the state currently has an initiative to modify the licensing of Canadian engineers to operate in Alaska, but without reciprocity. He asked what the status is of that initiative.

MS. KEITH said she does not know the status of that initiative. She said she could try to get the information, but explained that that is something her office does not follow.

[illegible]:11:33 PM

CONRAD MULLIGAN, Consultant, ARCADIS, presented a PowerPoint on modeling of short- and long-term employment generated by construction and operation of an Alaska Natural Gas Pipeline Project. He relayed that ARCADIS was hired to complete a model an exercise to determine short- and long-term employment impacts of the construction and operation of a natural gas pipeline project in Alaska. He pointed out that any time he references the pipeline, he will be referring to the [illegible] pipe or larger pipe and not a bullet line within the state. He offered that the figures are [illegible] [illegible] [illegible] opined that this [illegible] [illegible] to generate employment figures for a project [illegible] will not start for several years. [illegible] figures he is providing are estimates [illegible] the [illegible] [illegible]

MR. MULLIGAN, in response to a question by Chair Huggins, explained that ARCADIS is neither an acronym nor an abbreviation. He offered his belief that ARCADIS is derived from the Greek name, "Arcadia," which is a place in Greek mythology in which earth and water were in harmony and balanced.

He stated that ARCADIS is an engineering consulting firm.

MR. MULLIGAN referred to slide 2 and stated that ARCADIS projected employment for the following three phases: the construction phase of the pipeline, including the installation of compressor stations, the gas treatment plant, and LNG facility; the operation phase; and the exploration and development phase, to include work on the North Slope that would be spurred by the operation of a natural gas pipeline. He referred to slide 3, labeled "Sources of Data/Model Used," and reviewed the sources of its data. He stated that ARCADIS used information from TransCanada's AGIA application, from the state's consultants, and from the state Division of Oil and Gas. He noted that the model used is called "Implan" and was originally developed by the U.S. Forest Service which has since been privatized.

[illegible] PM

MR. MULLIGAN stated that Implan is a [illegible] driven model that uses Alaska specific labor factors, [illegible] information from the Lower 48 to assist in determining its figures.

MR. MULLIGAN referred to slide 4, labeled "Construction Phase Assumptions," and reviewed the assumptions. He [illegible] assumption that the gas treatment plants in Prudhoe Bay and the LNG facility would be constructed outside the state and sea-lifted [illegible] and that major equipment and materials would be purchased outside the state, primarily to eliminate [illegible] for "shadow" or "false returns" on large expenditures for items such as turbines and the pipe itself. He highlighted that the labor force for construction of an LNG facility in Valdez would be constrained by the size of the camp that could be installed in Valdez, since the area is a geographically limited area. He referred to slide 5, labeled, "Construction Phase Employment Results," and stated that any natural gas pipeline project will create thousands of short-term jobs throughout the state. He offered that the largest numbers of these construction jobs would be available during a very brief peak period. He suggested that for an overland pipeline, the peak would be approximately three years long. He opined that the state could expect three to four years of "employment in the hundreds range," followed by a couple years of employment "in the low thousands," followed by a massive spike in employment reaching a peak, after which the numbers would drop off gradually. He relayed that the state might expect a peak of 16,000 [illegible] the year in which construction of the LNG project took place, which would consist of a 48-inch pipeline from Prudhoe Bay to Valdez and construction of an LNG facility to handle 4.5 bcf per day. He pointed out that the LNG would have a [illegible] peak construction period due to the sequential installation of the processing trains that go into an LNG facility. He [illegible] that for an overland pipeline, as proposed by [illegible] or the producers, there would be slightly fewer [illegible] approximately [illegible] jobs in the peak year, with approximately [illegible] period.

MR. MULLIGAN referred to slide [illegible], labeled "Operations Phase Employment Results," and estimated that the state could expect [illegible] operations jobs for an overland pipeline to [illegible] the pipeline itself within Alaska and operate the gas treatment plant in Prudhoe Bay. He opined that the LNG facility would be a [illegible] world class facility and ARCADIS estimated that approximately [illegible] jobs would be created for a facility of its size. He noted that an LNG option would offer approximately [illegible] operations jobs in Alaska.

3:17:59 PM

SENATOR WIELECHOWSKI inquired as to whether Mr. Mulligan could provide a breakdown of the jobs in Canada versus the jobs in Alaska for each one of his projections.

CONRAD MULLIGAN answered that all of the jobs he is referring to are jobs in Alaska and that ARCADIS did not project any jobs in Canada.

3:18:19 PM

CHAIR HUGGINS inquired as to whether including LNG would create five times as many jobs in Alaska.

MR. MULLIGAN answered that from an operations standpoint, approximately 600 jobs would be created in Alaska versus [illegible] new jobs for an overland pipeline. In response to a further question by Chair Huggins, Mr. Mulligan clarified that the estimated 4[illegible] jobs at the LNG facility are [illegible] in the overall 600 jobs figure.

3:1[illegible]:17 PM

MR. MULLIGAN, referred to slide 6, labeled 'E&D Employment - How we generated our results - Scenarios,' and stated that the modeling really shows the [illegible] exploration [illegible]. ARCADIS developed two scenarios. One scenario was [illegible] open access pipeline, which assumed no capacity expansions from the initial 4.5 bcf per day capacity. That scenario also assumed no new natural gas production [illegible] associated exploration and development work on the North Slope until currently producing fields began to fall off their plateau. The second scenario was based on TransCanada's plan which includes capacity expansions and also assumes that the pipeline would offer reasonable tariffs. He opined that ARCADIS deduced that this project would incite explorers to work on the North Slope [illegible] search of new natural gas to ship on the pipeline. Referring to the graphs, he stated that the green area in the graph on the left shows production from current fields at 4.5 Bcf per day, while the blue area shows the gas under each scenario. Thus, under a non-open access pipeline, new natural gas would begin production in approximately 2031, while under an open access pipeline - which assumes reasonable tariffs and a vibrant natural gas exploration and development industry beginning in the North Slope - exploration and development jobs could be generated to produce the larger blue shaded area [illustrating some jobs beginning in 2020, with the bulk [illegible] the new jobs commencing in 2037].

3:20:53 PM

CHAIR HUGGINS asked for clarification of non open access. He offered his understanding that under FERC the gas pipeline would be open access.

MR. MULLIGAN, using an LNG project as an example, offered his understanding that FERC would not require the [illegible] facility at the end of pipe to be operated in an [illegible] manner; therefore "it would serve as a bottleneck to the pipeline capacity." He said, "And [illegible] we assumed [illegible] capacity expansions on the pipeline upstream of the LNG facility in that case." In response to a follow up question from Chair Huggins, he said non open access would apply to any pipeline that was not operating capacity expansions as demanded by new explorers and/or that did not offer tariffs that were sufficiently low to encourage folks [illegible] explore for new natural gas and request expansions."

CHAIR HUGGINS advised that during the first day that the legislature will meet in Anchorage, Alaska, further discussions would delineate this and bring greater definition to [illegible] courses of action.

3:22:27 PM

REPRESENTATIVE NEUMAN noted that some people might be confused as to whether this refers to TransCanada's proposal or the Denali proposal. He pointed out that each one is an open-access pipeline and would have negotiated terms. Thus, in reviewing the scenario of transporting natural gas from Alaska, he said he felt it was important to note that both the TransCanada and Denali proposals are for open access pipelines.

MR. MULLIGAN explained that ARCADIS is trying to convey, from an employment point of view, a best-case/worst case scenario and a best case scenario.

3:23:29 PM

REPRESENTATIVE NEUMAN related his understanding that Mr. [illegible] presentation is based on the assumption that [illegible] added processing plants would not be created in Alaska. He pointed out that value added processing plants would create many long term jobs. He inquired as to whether Mr. Mulligan could also include some information based on value added processing plants. He further inquired as to Mr. Mulligan's perspective if an in-state gas pipeline was developed to provide cheaper gas to Alaskans.

MR. MULLIGAN answered that ARCADIS did not consider any employment impacts from industries that may be developed as a result of the development of a natural gas pipeline.

REPRESENTATIVE NEUMAN inquired as to what effect an [illegible] gasline would have on employment.

MR. MULLIGAN answered that he would hesitate to answer the employment effects of an in-state gas pipeline since he did not examine that aspect. He offered to examine exploration and development jobs on the North Slope for members.

3:25:19 PM

CHAIR HUGGINS related his understanding than any gas to liquids, value-added jobs would potentially happen in Alberta. He opined that "we owe it to Alaskans" to find out how having that sort of facility in Alaska might affect its job base. He asked Mr. Mulligan to look at that so the legislature would understand the numbers for the labor force.

COMMISSIONER BISHOP said he believed that his department could provide that information before the body reconvened.

[illegible] PM

MR. MULLIGAN referred to slide [illegible] labeled "Operations [illegible] Employment Results," and noted that ARCADIS assumed that new production facilities would be constructed on the North Slope. He reiterated that fields would be brought on line to keep the pipeline full at a given capacity, which for the best case scenario [illegible] bcf per day, and for the worst case scenario [illegible] 4.[illegible] bcf per day.

MR. MULLIGAN referred to slide [illegible] labeled "Results [illegible] Employment," and explained that the results from the modeling runs were [illegible] for the TransCanada scenario assuming [illegible] bcf per day throughput - approximately [illegible] exploration and development jobs during the [illegible] to [illegible] timeframe. He offered that a non open access project with [illegible] bcf per day throughput would produce approximately 4[illegible] exploration and development jobs over the 20[illegible] to [illegible] timeframe. He opined that job creation may be delayed in a non open access pipeline due to the characteristics of natural gas production and fields coming off plateau that could extend as late as 2026 versus a more optimistic timeframe of 2015 as exploration development begins in anticipation of that pipeline being available to carry the natural gas to market.

3:28:16 PM

CHAIR HUGGINS asked for the rationale for the 2026 date.

MR. MULLIGAN answered that the date is a function of when natural gas fields on the North Slope would begin their gradual decline. The non open access project scenario assumes that exploration and development work would not begin until the fields began to fall off of plateau. He referred to that point as a "capacity wedge" that would be available in the pipeline. Thus, that is how the timing of the exploration and development jobs was assessed.

3:29:10 PM

MR. MULLIGAN referred to his final slide labeled "[illegible] Employment," and opined that the timing of exploration and development job creation is likely to be a function of a pipeline's characteristics. Thus, an open access pipeline with reasonable tariffs and capacity expansions is likely to translate into jobs sooner, rather than a more restrictive scenario, which could cause a delay in job creation as noted in the previous slide. He stated that the importance of creating the new natural gas basin related jobs in Alaska will help offset the losses likely to occur as existing oil fields decline. He pointed out that Prudhoe Bay production continues to decline. Additionally, he offered that creation of new jobs will also help to maintain the existing skill sets and talent pool in Alaska.

3:30:41 PM

REPRESENTATIVE FAIRCLOUGH inquired as to whether law enforcement will be geared up and ready to combat crime since it takes a long time to train Alaska State Troopers or train law enforcement personnel.

COMMISSIONER BISHOP answered that the department has identified occupations, including law enforcement, fire safety, and health as part of AGIA.

3:32:11 PM

REPRESENTATIVE FAIRCLOUGH noted that all types of crime spiked during construction of the Trans-Alaska Pipeline System. She inquired as to whether the planning process outlines educational opportunities to offset unemployment issues that arise at the end of the construction cycle.

COMMISSIONER BISHOP answered that some jobs will be transferable from construction to the expansion. [illegible] future training of incumbent workers is part of the [illegible]

REPRESENTATIVE FAIRCLOUGH pointed out that some of the infrastructure, such as the Haul Road, need [illegible] improvements. She further pointed out that Alaska's ports will need additional infrastructure.

CHAIR HUGGINS inquired as to the number of new jobs that are anticipated to be filled by non Alaskans, which he [illegible] be necessary.

3:35:06 PM

SENATOR STEVENS expressed his concern that Alaska has had a pretty poor record with assisting students with financial needs. He acknowledged that the state has done a reasonable job assisting high achievers. However, he recalled that the

National Conference of State Legislatures (NCSL) gave Alaska the grade of an "F" in terms of fiscal assistance for its students. He offered his desire to provide grants and scholarships to assist students and adults. He inquired as to what the department plans to do to help students financially.

COMMISSIONER BISHOP answered that his department will ask the legislature for financial assistance. He agreed with Senator Stevens that students seeking an Associate Degree or Vocational Education have not received much assistance. He stated that providing that assistance is one of his priorities and plans will be forthcoming that will expand scholarships [illegible] secondary students in the state.

SENATOR STEVENS acknowledged that the present system does not work. He pointed out that if the state continues on this same path, the problem will not get solved. He opined that it will take an enormous amount of money.

COMMISSIONER BISHOP summarized that [illegible] administration, and training plan [illegible] are coming together at a point in time in Alaska in which the state has the opportunity to set an historical standard. He pointed out that the [illegible] plan is not just about a pipeline. He noted that the funding this legislature appropriated for the training [illegible] used for mining and health care. This funding has been [illegible] by the department. He [illegible] He thanked the legislature [illegible] actions. He offered that this plan is not unlike "The Marshall Plan," which provided good foreign policy [illegible]. He asserted, "I think this training plan [illegible] legacy of our work here going forward." He noted that much work [illegible] be accomplished. He further opined that the [illegible] reason this country is the most successful country on the planet is that it provides the best educated and best trained workforce on the planet. He asserted that - with the legislature's help, with his help, and with his staff's help - "we're going to put Alaska back on that map." He further pledged that Alaska's 8,000 high school seniors and 1,500 general education development (GED) recipients will "get the first shot at these jobs."

3:38:18 PM

REPRESENTATIVE DOLL applauded Commissioner Bishop's efforts. She expressed concern with the timeframe and noted that it takes time to complete apprenticeship programs. She inquired as to whether the department can address that issue. She further inquired as to whether the workforce needs could be met even if the programs were fully functioning right now since the state might only be eight years out.

COMMISSIONER BISHOP acknowledged that the state is behind the curve. He related that the "baby boomers" represent a large labor force which has been diminishing. Furthermore, he opined that collectively Alaska needs to encourage employers to allow Alaskan children the opportunity to gain entry level [illegible]. He stressed the need for Alaska to make every effort for [illegible] incumbent workers, older workers, and all types of people to have a shot at the pipeline jobs. He agreed with Representative Fairclough, that Alaska must train its workers to be eligible for upstream jobs in exploration and development, petrochemical jobs or distribution jobs in Fairbanks. He stated that it should be Alaska's job to train its workers so that they can acquire the long-term legacy jobs.

3:41:15 PM

SENATOR DYSON, with respect to reciprocity for engineering credentials, noted that the United States/Canadian [illegible] Pacific NorthWest Economic Region (PNWER) has been performing some work on reciprocity. He opined that some progress has been made on engineering reciprocity and credentials. He indicated a degree of reciprocity exists for welder certification. To Commissioner Bishop he offered to provide contacts for people who have been working on this issue. He opined that organized labor will provide a huge asset to help facilitate that process. He noted that Alaska's Canadian neighbors have large construction projects in process and are very interested in working together on projects.

3:42:42 PM

CHAIR HUGGINS challenged Commissioner Bishop to assist [illegible] in facilitating cross-border projects.

COMMISSIONER BISHOP noted his plans to meet with the Premier of the Yukon Territory to seek ways in which Alaskans can work in the Yukon Territory and vice versa.

[illegible]:42:55 PM

CHAIR HUGGINS inquired as to whether the commissioner [illegible] sees the potential for the Alaska [illegible] Job Corps to modify its training approach [illegible] produce workers for a pipeline proposition.

COMMISSIONER BISHOP answered "Yes, absolutely." He offered that he has personally been involved in the [illegible] Job Corps for over [illegible] years. He said, "They are [illegible] on the radar screen for sources." He noted that he has already held discussions with the organization.

3:4[illegible]:03 PM

CHAIR HUGGINS announced that the next presenters would be Spencer Hosie, Hosie McArthur LLP, who [illegible], and A[illegible] Van Fleet, Greenberg Traurig LLP, for a panel discussion.

3:45:47 PM

G. ALLAN VAN FLEET, Attorney, Greenberg Traurig, LLP, presented legal issues affecting producer participation in the proposed TransCanada gasline project. He stated that the panel would focus on, "How do you get the gas?" Mr. Van Fleet proffered that asking how to get the gas is kind of like asking for the recipe for bear stew: For the stew, first get a bear; for the gas, first get a pipeline proposal that is attractive and can offer transportation services at commercially reasonable rates. He said although TransCanada was on the schedule to address the issue, Mr. Palmer has addressed all the questions about TransCanada's ability to build a pipeline that [illegible] offer transportation at commercially reasonable rates. He noted that along with Spencer Hosie, he would address legal issues that he [illegible] assured the producers will have [illegible] when [illegible] decisions. He noted that he and [illegible] would [illegible] information regarding producer and pipeline [illegible] and, in particular, would address some of the previous questions that Senator French asked the body. Mr. Hosie, he related, would discuss the issues that affect the relationship between the state as the owner of the land and the [illegible] the [illegible] of that land. He provided some [illegible] Mr. Hosie, such as that he has advised many [illegible] on the aforementioned relationship between [illegible] and the producers. He said he believes it [illegible] fair to say that Mr. Hosie is the country's expert on these issues. [illegible] further details regarding Mr. Hosie.

3:48:44 PM

SPENCER HOSIE, Attorney, Hosie McArthur LLP, presented legal issues affecting producer participation. He stated that he has practiced oil and gas for over 25 years. He noted that he was the lead trial lawyer for the State of Alaska for what was then known as the Alaska North Slope (ANS) royalty litigation, which established the "right method" for computing royalties on North Slope oil. He offered that for the past 10 years he has been the lead outside lawyer for the State of Louisiana in energy matters, and that he has worked with state attorneys general and the federal government. He said that it is fair to say that he has been involved in dozens and dozens of oil and gas matters, not just in Alaska, but throughout the Lower 48. He asserted that through those cases, he has had the opportunity to read millions of pages of oil company documents. He opined that this has given him a fairly detailed knowledge of how the oil industry thinks about upstream decisions what factors matter, which ones don't, and why the producers are willing to spend money in certain locations. He stated, "It's the [illegible] gritty real world, in the trenches experience I bring [illegible] very important question of the North Slope gasline."

MR. [illegible] [illegible] the [illegible] that [illegible] producers came to Alaska with the [illegible] that oil might exist on the North Slope. He stated [illegible] the producers recognized [illegible] the landowner did not [illegible] expertise for exploration and development [illegible] hydrocarbon. However, the oil companies had that [illegible]. Thus, the oil and gas producers reached an agreement [illegible] the oil and gas lease. The oil companies [illegible] to use their expertise to diligently explore, develop [illegible] market any hydrocarbons found. As a consequence [illegible] out, the oil companies are entitled to [illegible] percent of [illegible] of any oil and gas found and sold. The state's royalty share is 12.5 percent. He acknowledged that they get the "[illegible] of the royalty stream" due to the very promises [illegible]. Under the oil and gas leases for Alaska, which is [illegible] oil and gas leases generally, the parties have what the [illegible]