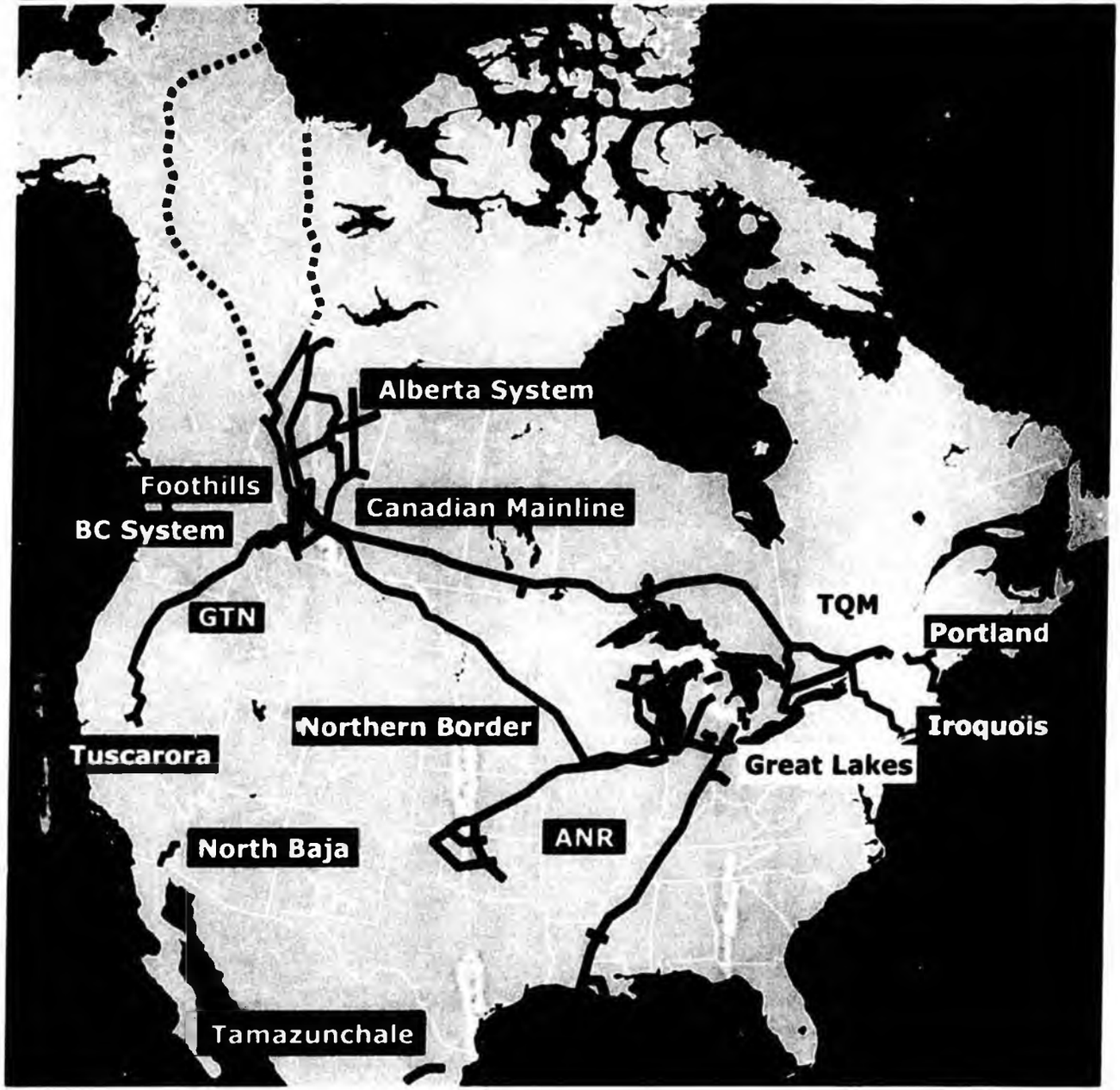
# TransCanada Natural Gas Pipeline Network




- **36,500 miles of wholly-owned pipeline**
- **Interests in an additional 4,600 miles of pipeline**
- **Unparalleled connections from traditional and emerging basins to growing North American markets**
- **Average daily volume of approximately 15 Bcf**

TransCanada

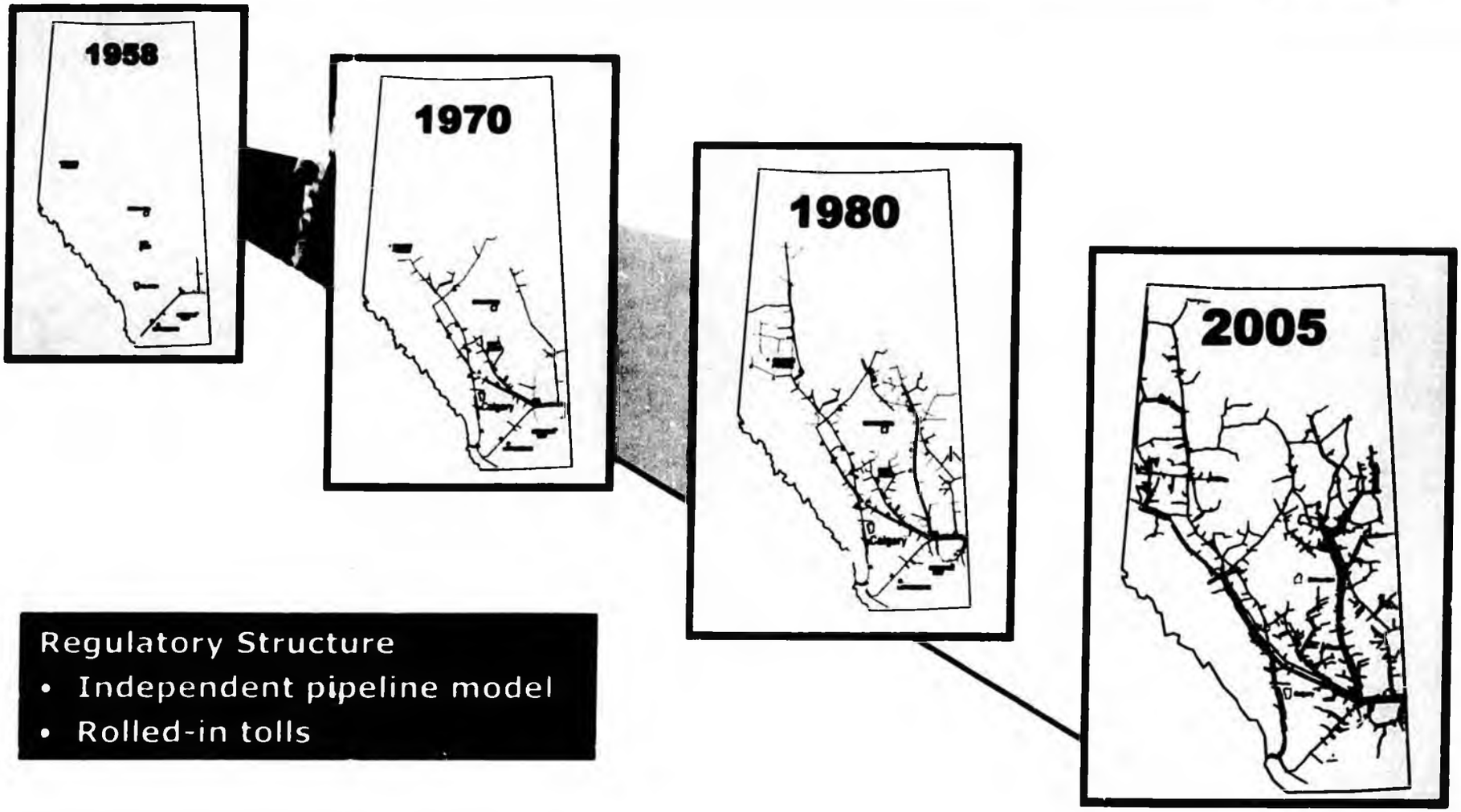
# TransCanada's Pipeline Assets

- TC is North America's largest gas transmission company, owning approximately 2/3 of the take-away capacity from Alberta hub to North American markets.
- TC owns 36,500 miles of natural gas transmission pipelines and provides service to Northeast, Midwest, Pacific NW, California, Eastern Canada and Western Canadian markets WCSB markets.
- TC also owns 360 Bcf of natural gas storage capacity.
- One-third of the Alaska Highway Pipeline Project is in the ground and transporting approximately 3 Bcf/d every day (Foothills Prebuild, Northern Border and GTN loops).
- TC has strong cash-flows (C$2.4 B in 2006) and growing financial capacity from its pipeline assets and 7700 MW of power generation assets (in-service or under development).
- TC has 50 years experience as a builder/owner/operator of cold-weather North American regulated pipelines.



TransCanada

# TransCanada - Proven Basin Developer

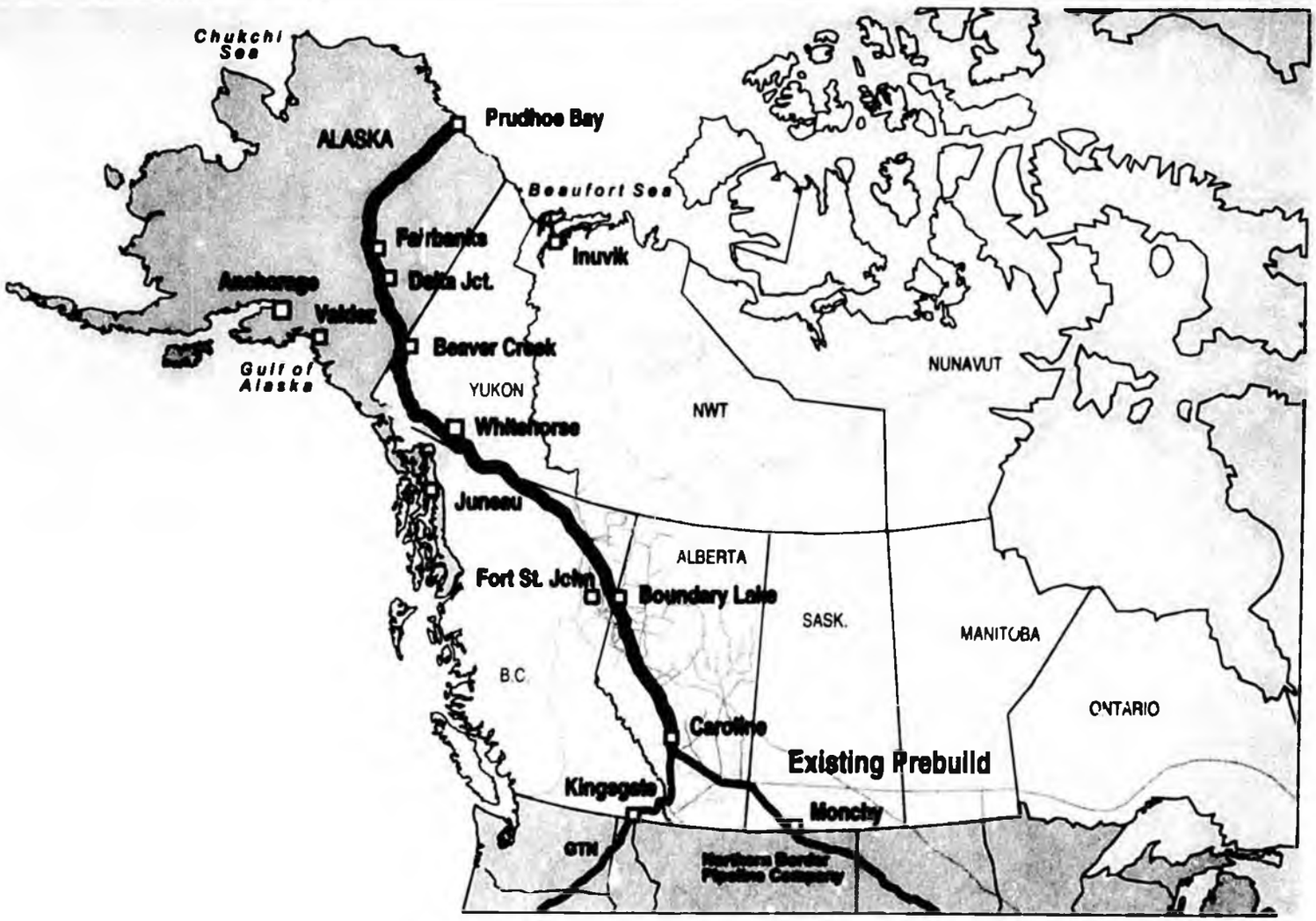



Regulatory Structure

- Independent pipeline model
- Rolled-in tolls

TransCanada

# Alaska Highway Pipeline




TransCanada

## TransCanada's Interest

- TransCanada (TC) has been a lead player in the project since its inception. We have more than $2B and 30 years invested in bringing Alaskan gas to market.
- TC's subsidiary, Foothills, holds valid and exclusive certificates issued under the Northern Pipeline Act (NPA) for Canadian section of the project – these certificates do not have a sunset or expiry date.
- Foothills is named Canadian Project Sponsor in Canada/U.S. Treaty.
- TC has an easement under NPA for entire route in Yukon recognized in Umbrella Final Agreement between Government of Canada, Government of Yukon and Yukon First Nations.
- TC holds key land and environmental permits in Alaska.



TransCanada

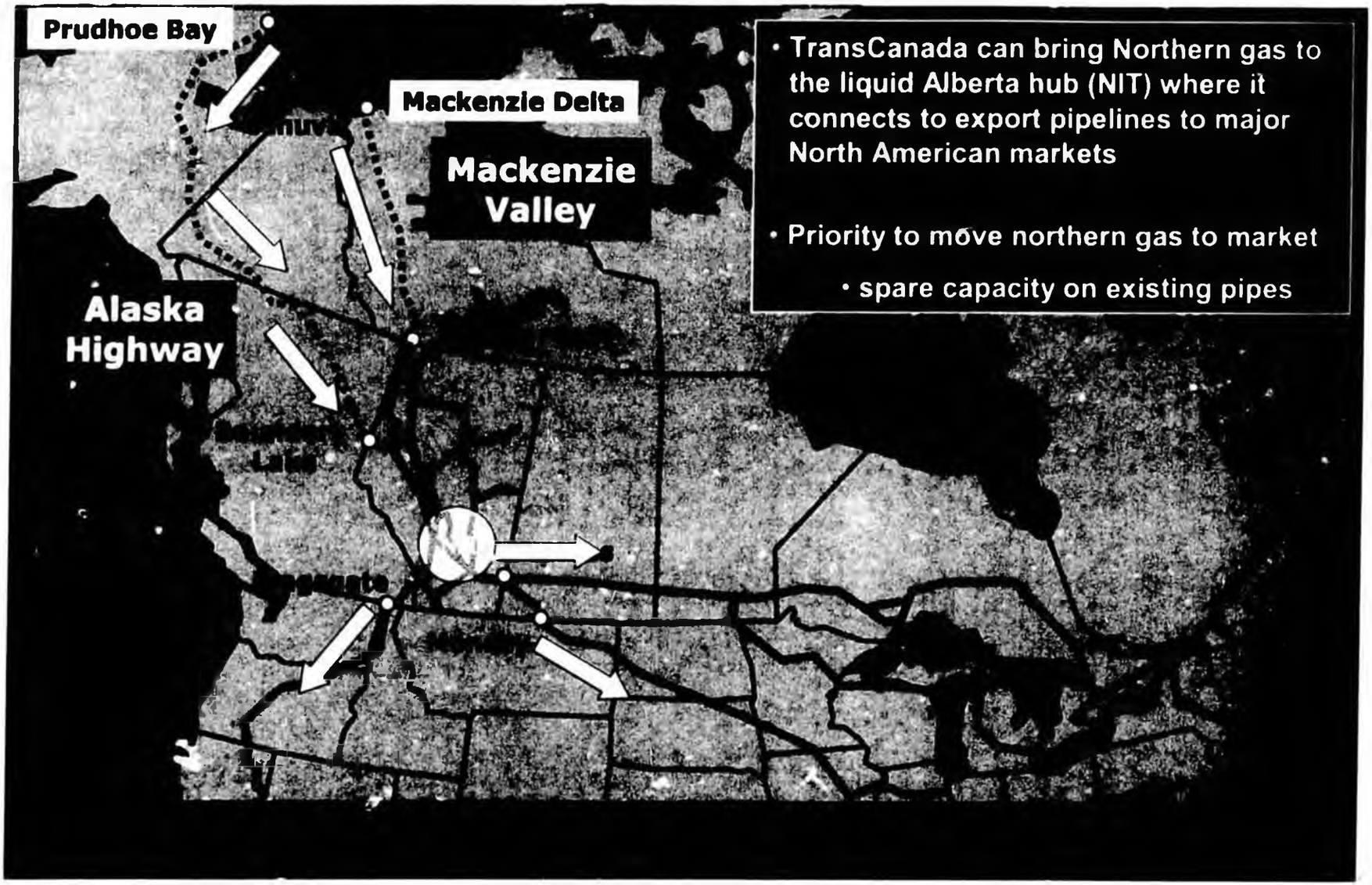
## Legislative/Regulatory Structure – Competitive Hearings Held, and Canadian Project Sponsor Selected

- NEB held competitive hearings, open to all parties
  - Selected Foothills as Canadian project sponsor
  - Rejected other applications (Arctic Gas)
- Canada / U.S. negotiated Treaty for Alaskan gas project
  - Canada obtained benefits in exchange for access across Canada for Alaskan gas
  - Foothills named Canadian sponsor in Treaty
- Canada enacted Northern Pipeline Act (NPA)
  - Enshrined Foothills rights and obligations
  - Established single-window regulator, complement to NEB
- Foothills granted exclusive rights – only reasonable interpretation.
  - Project expedition not achievable unless exclusive
  - No commercial party would invest necessary billions without exclusivity.
  - No expiry or "sunset" date in Foothills certificates.

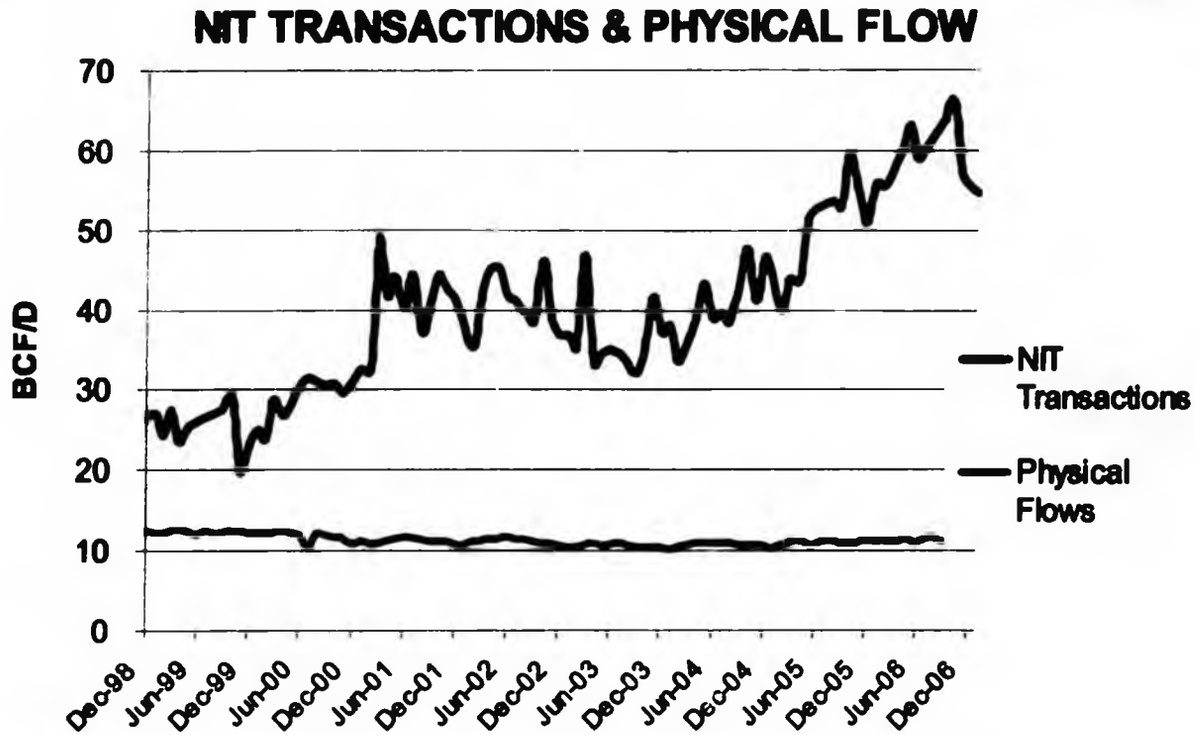


TransCanada

# TransCanada is ready to move Northern Gas to North American markets



# The Alberta Hub (NIT) is the most liquid natural gas market in North America

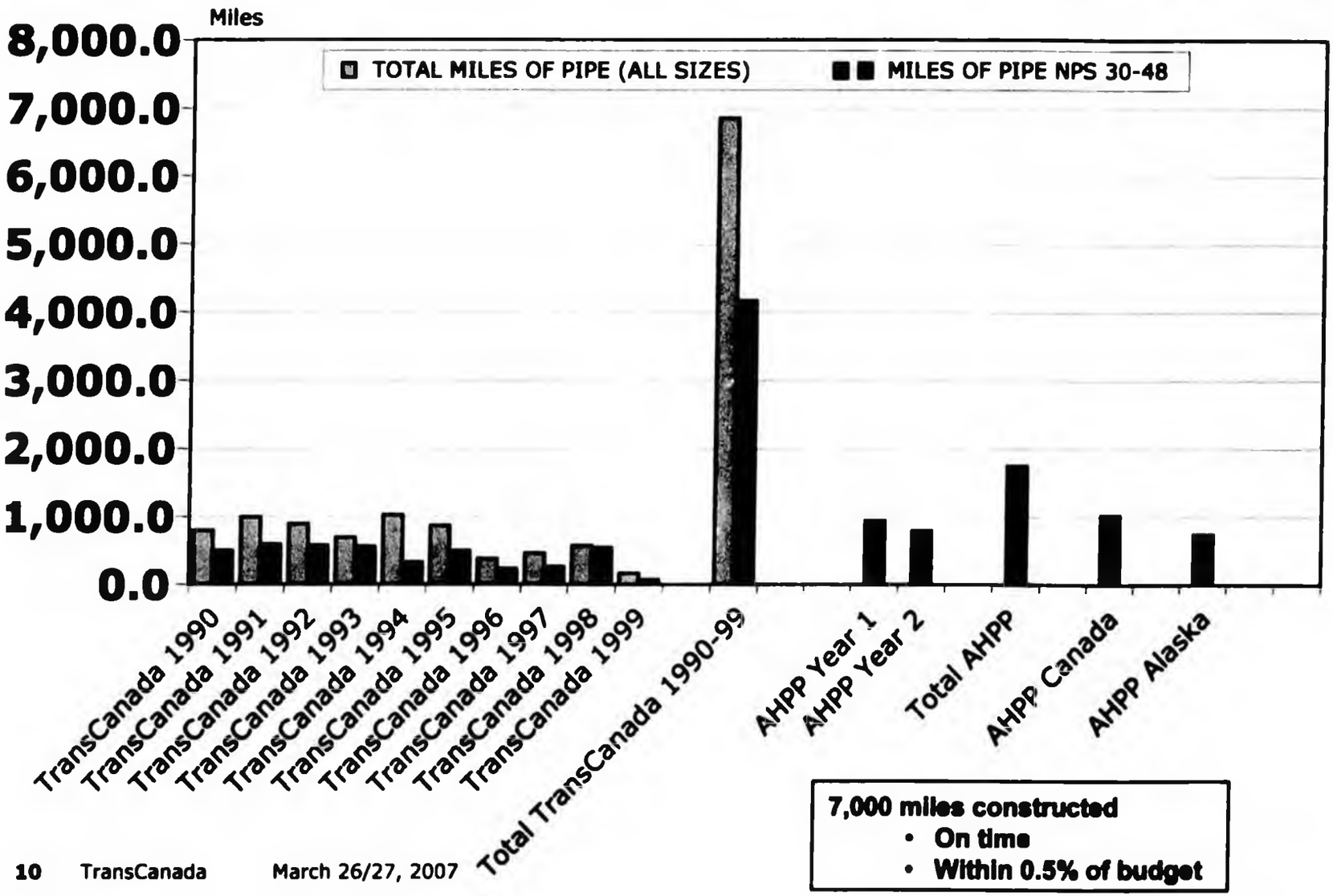



- **Alberta liquidity continues to grow**
- **Transaction statistics suggest that NIT is the most liquid market in North America**



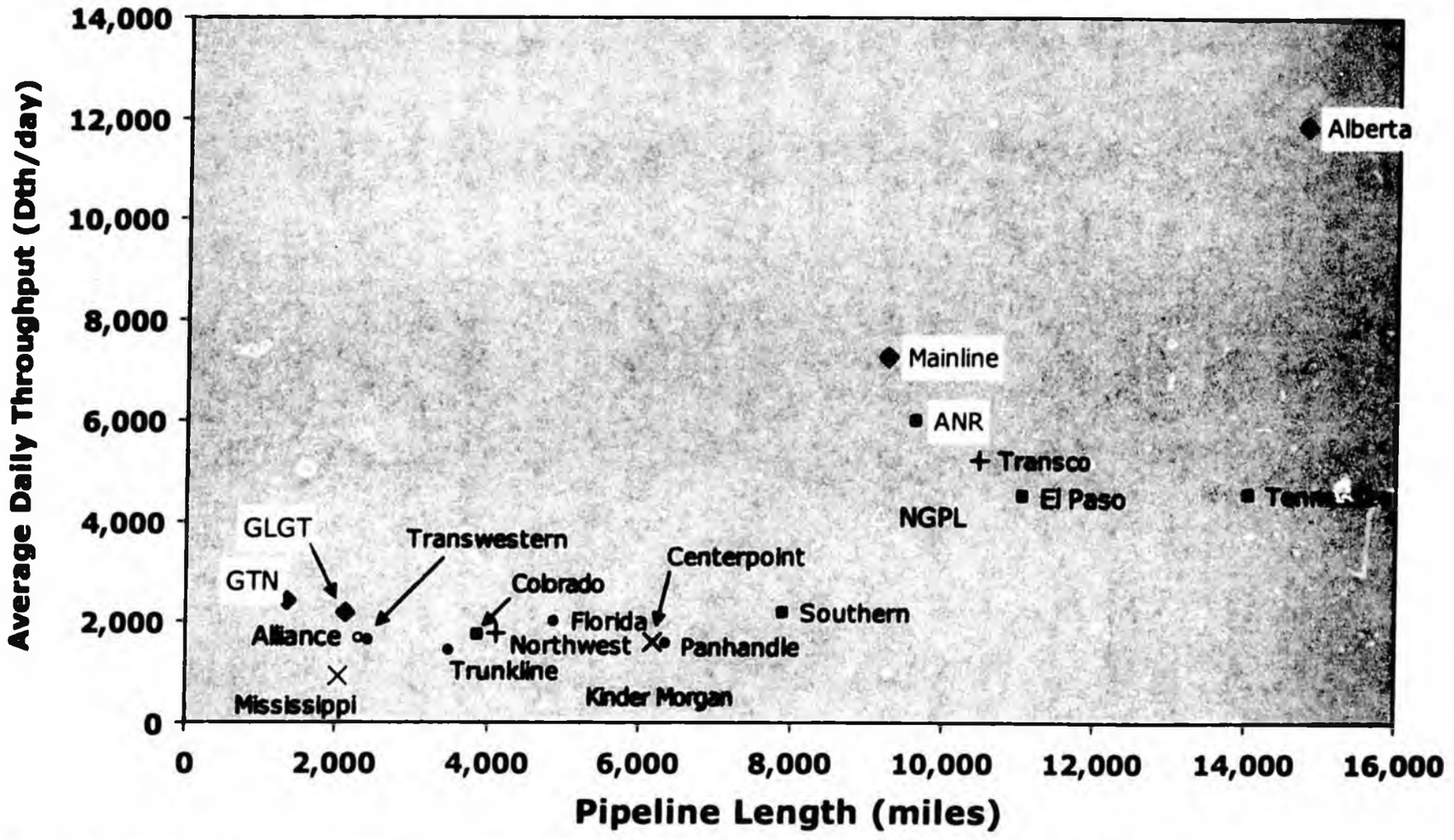
TransCanada

# Our Western Canada Track Record: 1990s Miles Constructed




**7,000 miles constructed**
- **On time**
- **Within 0.5% of budget**

# Operating Costs & Reliability – Study Participants

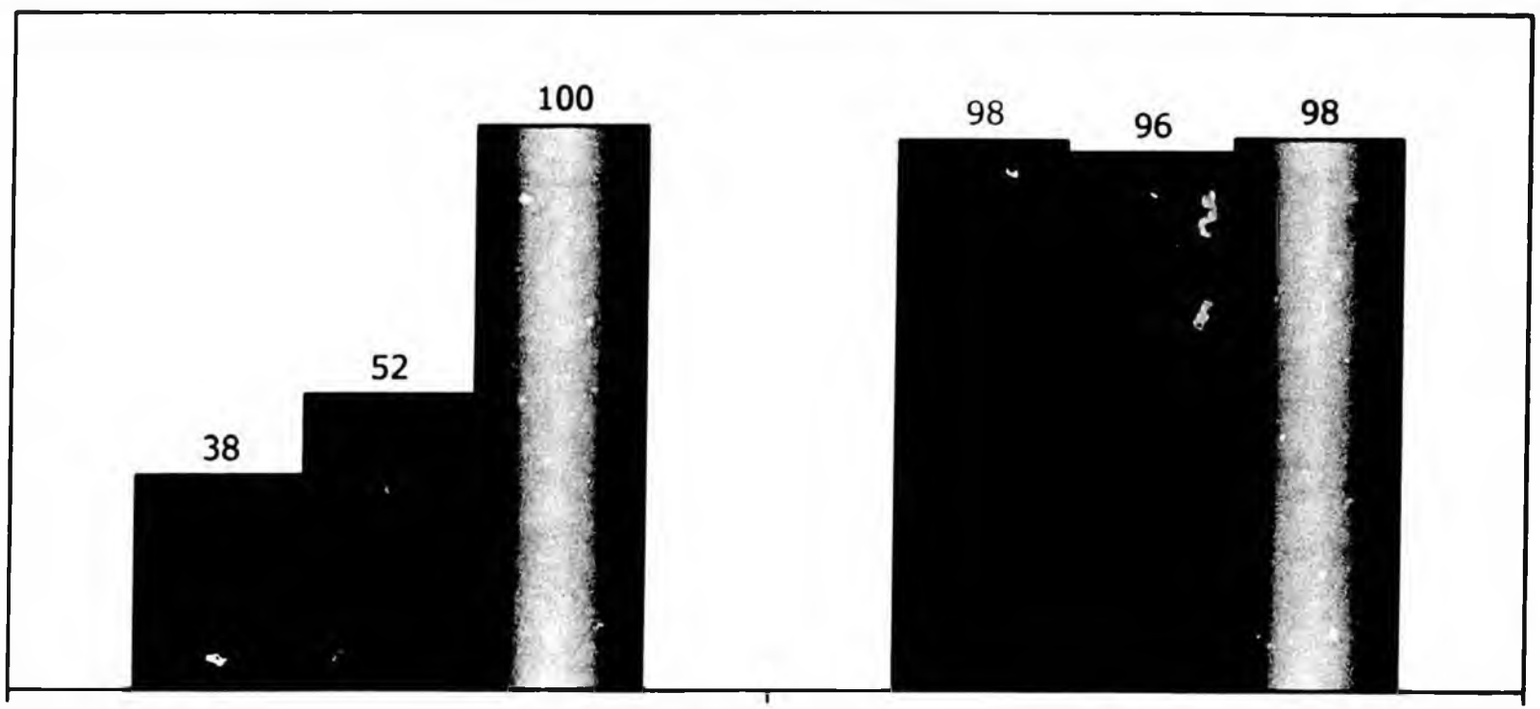



*Source (Operating data):* ***"Major Interstate Pipelines" (2004, Foster Associates)***



TransCanada

# Compression Maintenance Comparisons

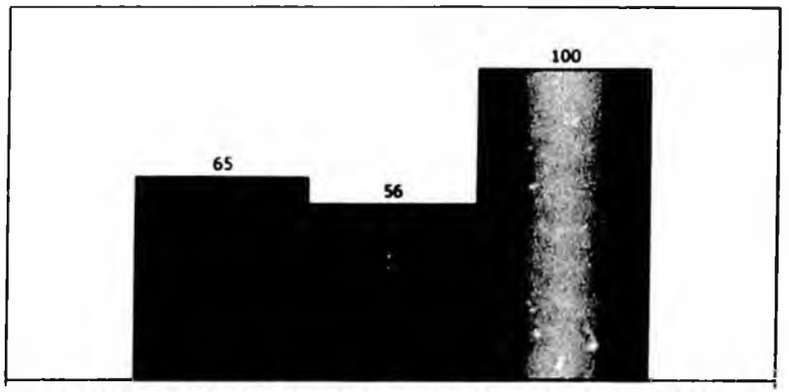



*Source: Solomon Associates Natural Gas Transmission System Performance Analysis for Operating Year 2004*

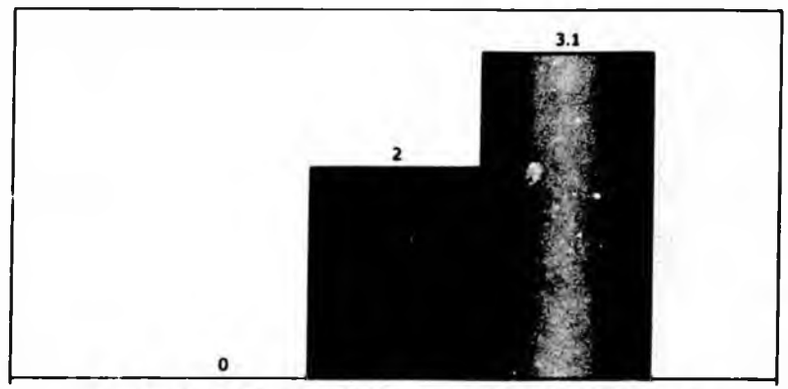


TransCanada

# Pipeline Maintenance Comparisons




Relative Cost Per Diameter Inch-Mile (% of Study Average)




# of Leaks or Ruptures that required Immediate Action

■ TC Mainline ■ TC Alberta □ Study Average

■ TC Mainline ■ TC Alberta □ Study Average

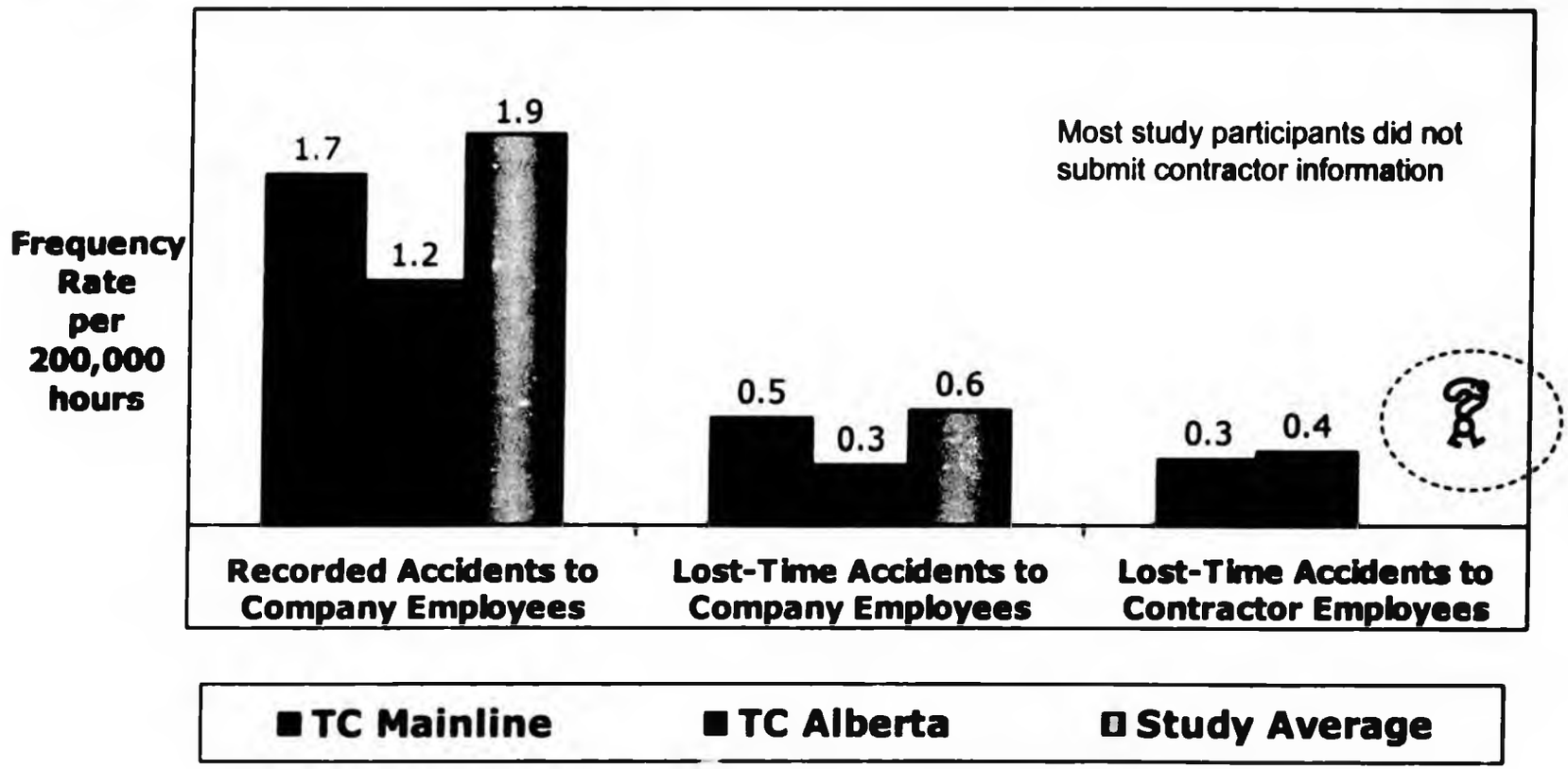
*Note: Diameter Inch-Mile (DIM) is calculated by multiplying each pipe diameter by its length and summing the products*

*Source: Solomon Associates Natural Gas Transmission System Performance Analysis for Operating Year 2004*



TransCanada

# Safety Performance

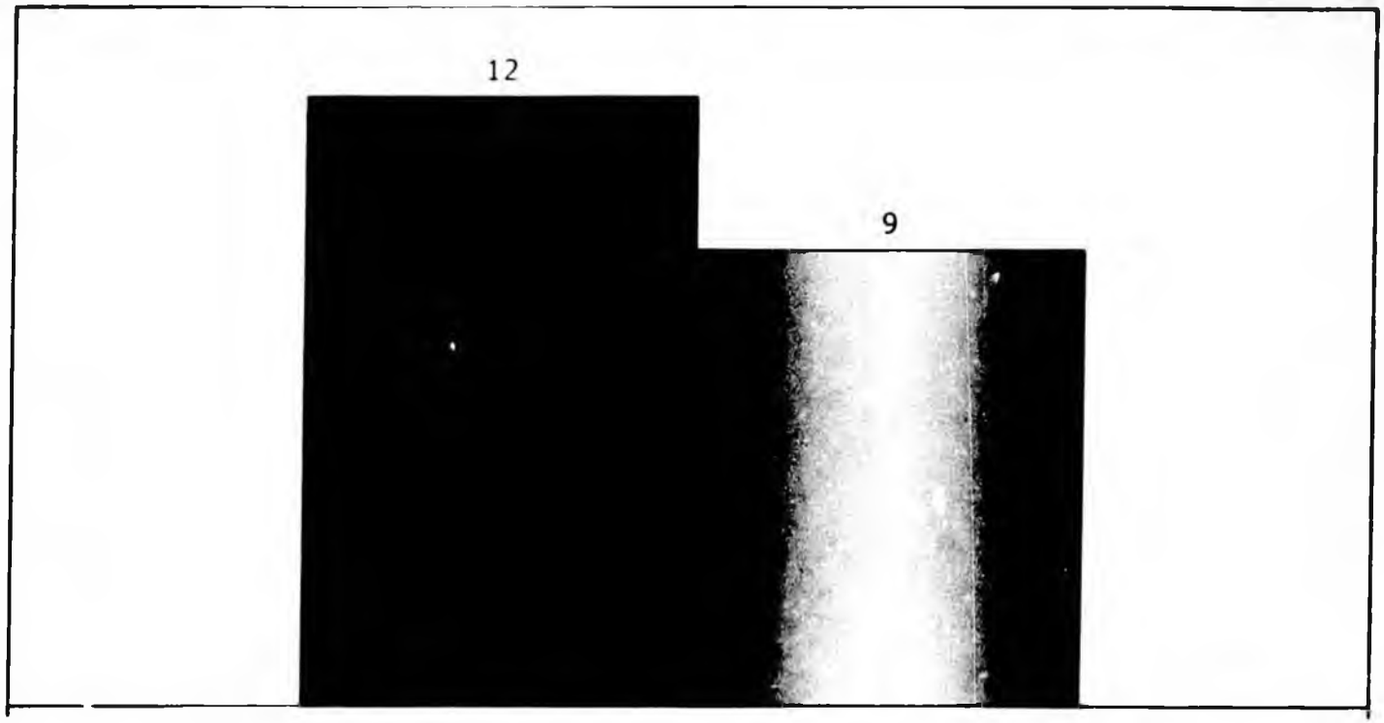



**TransCanada expects the same high standards of Health, Safety and Environmental (HSE) performance from its contractors as from its employees**

*Source: Solomon Associates Natural Gas Transmission System Performance Analysis for Operating Year 2004*

TransCanada

# % of Total Pipeline Length Inspected Annually

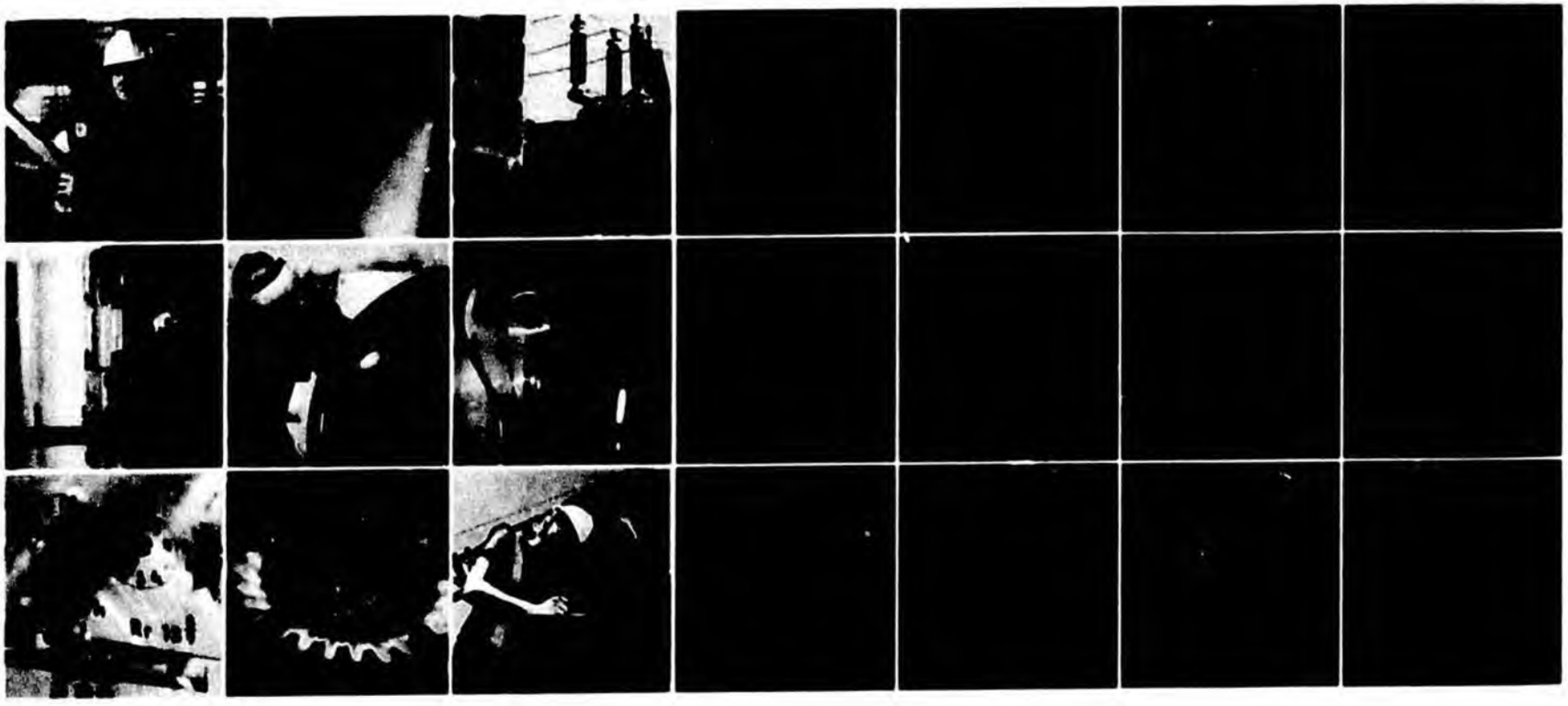



**Mainline is a similar type of pipeline as the proposed Alaska project**

***Source:** Solomon Associates Natural Gas Transmission System Performance Analysis for Operating Year 2004*



TransCanada



# Thank You

TransCanada

*In business to deliver*

**Alaska Gasline**
**Port Authority**

**Testimony to Senate Resources Committee**
**March 26, 2007**

**Comments and recommendations for**
**Alaska Gasline Inducement Act**

Mr. Chairman and Members of the Committee,

My name is Bill Walker and I am General Counsel and Project Manager for the Alaska Gasline Port Authority. Joining me today is Mr. Paul Fuhs, our governmental relations representative, and on the telephone is our financial advisor, Mr. Radoslav Shipkoff, with Greengate, LLC.

As you may know, the Alaska Gasline Port Authority is a Municipal Port Authority formed in 1999 pursuant to Alaska statute to build or cause to be built an Alaska gas pipeline. Since its inception, the Port Authority has received an IRS ruling confirming our tax exempt status and has purchased the exclusive rights to the Yukon Pacific Corporation's state and federal regulatory permits and environmental data for this Project.

Additionally, we have, worked with internationally recognized firms such as Bechtel Corp, Sempra Energy, TOTE, and Mitsui OSK lines to bring together the entities that have the experience and the ability to put together a gasline project that is commercially viable, and brings the greatest benefit to the people of the state of Alaska. That is our charge....we are an "Alaska benefits" driven project.

As we look at the development of Alaska's North Slope natural gas, our mission is the same as yours...to maximize benefits of Alaska's gas to the people of the state of Alaska. We are, as you are, working hard towards ensuring a gas line

project that is the best for all Alaskan's to finally commercialize the vast resources of gas on the North Slope.

It is from that perspective that we come before you today to discuss (HB 177, or SB 104) the Alaska Gasline Inducement Act, and to offer our suggestions as to how it can advance an Alaska North Slope natural gas pipeline.

First, let me describe for the Committee the basics of our Project. We are proposing to build or cause to be built an initial 2 to 2.5 bcf/day Project that is expandable as required by the marketplace. Our pipeline would run parallel to the existing TAPS line to Valdez where the gas would be liquefied. If a Canadian project applicant requested, and made a commitment for firm transportation, we would pre build sufficient capacity in the line to Delta Junction for an eventual Canadian line. An important component of our Project is the supply of 250 to 500 million cubic feet of gas per day to South Central Alaska to satisfy gas demand requirements in that region.

We have entered into a Memorandum of Understanding with the Alaska Natural Gas Development Authority to share information that would benefit ANGDA's efforts towards a spur line from Glennallen to Palmer to bring ANS gas into the South-Central gas grid.

From our Project, gas will be made available along the route to Fairbanks and to every community where the need for gas is demonstrated and provision is feasible.

AGPA views itself as a facilitator of a project, bringing together all the participants necessary for a successful project – producers, pipeline builders and operators, LNG terminal builders and operators, LNG ship owners and most importantly the markets for Alaska's gas. We have been encouraged to hear the producers

promise you that they will sell gas necessary for a gasline. This would allow a third party to make firm transportation commitments without risk to the producers.

It is from this perspective that the Alaska Gasline Port Authority views the AGIA legislation and how it can benefit Alaskans.

**AGIA APPROACH.**

The Port Authority endorses the open and transparent approach of AGIA in which all applicants have the opportunity to submit a proposal that outlines what they require in order to begin work on a gasline project, but also specifies what benefits their project will bring to the state. We do not believe that the state needs to regress back to the position of attempting to negotiate tax breaks with leaseholders in an effort to encourage them to move forward on a gasline project when there are other entities willing and eager to develop the project themselves without such concessions.

We are pleased that the AGIA would require applicants to address certain criteria on issues very important to Alaskans, and then to use these criteria to evaluate proposals. This process ensures that Alaskan interests will be addressed in what most likely will be the most important project for the future of our state.

And now we will comment on some of the specific requirements in the AGIA:

- We support the requirement for rolled in rates on expansion tariffs. We believe that rolled in rates make expansion more likely, and thereby allow for increased exploration and production of our resources. Greater exploration and production is what will ultimately drive the growth of our economy and improve the quality of life for all Alaskans.

- We also are supportive of the requirement for gas offtake points along the pipeline that allows for the maximum use of ANS gas by Alaskans. Gas off take valves are not a prohibitive expense in pipeline construction, and to provide for opportunities for Alaskans to benefit from a cleaner burning, more cost effective energy, plus feed stock for additional petrochemical industries, will truly provide the greater benefit to the people.

- Regarding the $500 million state match, AGPA did not request that this be included in the bill. However, we believe it is appropriate for the state to be willing to invest in commercializing ANS gas for the benefit of its people. In it's current form in the bill, it is not an outright grant, but a reimbursement match by the state for actual work that is done to move a project forward. We believe this provision can be helpful in advancing a project. It also sends a strong message that the State of Alaska is committed to the development of its gas resources. Unlike the previous Administration's proposed contract that provided for in excess of $10 billion in concessions to current North Slope producers, this inducement is available to all pipeline project applicants.

- Industry representatives have come before you insisting that the state contract for "fiscal certainty", or guaranteed tax rates on oil and gas before they will proceed with a gasline project. The Port Authority believes that in order to protect the interests of the people of Alaska, the state legislature should retain the authority to make decisions on the rate of taxation. You should be perfectly clear here that this request is an attempt to go back to the failed process of the stranded gas act.

While the Port Authority would be willing to submit an application under the AGIA in it's current form, we believe the bill can be improved through the legislative process and make the following suggestions for improvements to this legislation:

1. Section 43.90.140(2) (D) ii requires approximately 10 specific areas of information for an LNG project applicant, however if you are an applicant for a project through Canada there are little specifics required as to that route. We would suggest a Canadian line project applicant include (a) a detailed description of all access and tariffs for downstream elements (b) if it is a project to Alberta, how does it get from there to the Midwest (tariffs and terms) (c) where do they intend to offtake the liquids and at what terms (d) who will own and control the facilities. Basically, the same things that they are asking from the LNG project should be included for a Canadian line.
2. Applicants requiring an initial offtake from PBU in an amount greater than that presently allowed by the Alaska Oil and Gas Conservation Commission (AOGCC) should be required to have already filed an application with the AOGCC for a determination that the amount of offtake in excess of the current Rule 9 limit on Prudhoe Bay offtake will be allowed.
3. If the applicant's project requires the discovery of additional gas, they should include a cost estimate and timeline for the additional gas exploration.
4. The applicant should be required to provide an analysis of how their project would affect oil loss and ultimate oil recovery of a field.
5. An additional criterion should be added which would identify if the applicant is making gas liquids available within Alaska for value added processing.
6. Timeliness of project construction should be given a high priority in the evaluation. Alaskans need access to our gas now. Previous net present value analyses have shown that an earlier project brings substantial value to the state.

**MANAGING RISK**

Throughout the testimony on AGIA so far, much of the discussion has centered around risk associated with a gas line through Canada. The project is described as being so big and unprecedented, it is so expensive, costs have doubled for steel, labor rates have gone up, there is potential volatility in the market, there are insufficient known reserves for a project the size of the proposed Alcan highway project, there is the possibility of cost overruns.

AGPA shares these concerns and offers the following comments:

The most important decision will be in choosing the right sized project – a project that is actually doable within a reasonable time frame that can deliver gas to Alaskans, and that carries the lowest risk of failure.

Some have concluded that a larger project is obviously better. However, if an applicant were to propose a project of 8 to 12 bcf/day, would those same people support that project, assuming it was better, or would the size of the project raise serious questions?

A massively expensive 3600 mile pipeline with rapidly escalating costs through a foreign country requires 4.3 to 6.0 bcf/day to be remotely feasible. However, a project of this size contains certain inherent risks. First, it requires the full participation of every producer on the North Slope. The testimony given and the history of negotiations in the past administration shows clearly that there are different levels of commitment and urgency among the companies involved.

When one company can hold out for maximum leverage against the state and the other participants, everyone is in a compromised negotiating position. Furthermore, such a project requires immediate commencement of significant

exploration activities, as the gas reserves required to supply such proposed volumes exceed what is currently discovered on the North Slope.

An initial 2bcf/day project as proposed by the Port Authority can be done with the state's gas, one or two of the majors, and a group of independent explorers and producers. The project can be expanded later through additional LNG trains when new reserves are identified and produced, or through the implementation of a tie in at Delta Junction for a Canadian Highway line.

The major factor in cost increases of the Canadian gasline is the uncertainty surrounding the capital cost of the pipeline, including the cost of steel. In this regard the much shorter pipeline length of an All Alaskan project is a distinct advantage as a smaller fraction of overall project cost will be subject to the high cost overrun risk associated with the pipeline. By comparison, the costs of liquefaction facilities and LNG tankers will be subject to a substantially smaller degree of uncertainty. For example, BGT, an LNG shipping company with whom we have a memorandum of understanding, has 8 US built LNG tankers that are already in existence that will be available to transport LNG from our project. The ships are already built, thereby avoiding any risk of unknown construction costs associated with the shipping.

The Port Authority's view of how our project will come together also mitigates financing and cost overrun risk. Our view is that we will facilitate a consortium of producers, pipeline builders, LNG terminal builders and operators, tanker owners and operators and end market buyers to secure financing for the project. These elements can be committed and financed by the companies specializing in these areas, thereby reducing the risk to the overall project. You have heard testimony from many of these potential participants and I think you would have to agree that they all bring important contributions to a project.

A Canadian highway pipeline project also carries the risk of legal and regulatory uncertainty based on competing claims of permits and licenses, unresolved First Nations claims, new environmental permitting requirements. etc.

By comparison, the Port Authority already holds the right of way and many of the senior environmental and regulatory permits for its project, giving a timing advantage over a project that would have to start from scratch. This also includes a right of way agreement with the Ahtna Corporation, the only private land owner on the route. The Port Authority project is in the congressionally designated corridor for gaslines and does not require extensive negotiations with thousands of land owners in its route.

An LNG project must address the risk of available receiving terminals and end markets on the West Coast and must also identify total transportation costs. We recognize these challenges and will address them in detail when we present our project.

AGIA clearly requires that an applicant address cost overrun and potential delay factors in its application. The open and transparent nature of AGIA ensures that you will have full access to this information, so that you can judge this for your selves.

Without question, we feel that an All Alaskan project will carry a much lower risk profile than a much larger Canadian project, may be more practical in terms of feasibility, and may be able to move ahead in a more timely fashion that will deliver gas to Alaskans.

The risk profile of greatest concern to all of us should be the risk to Alaska's future if Alaska gas misses the market window in the lower 48. Almost all project risks can be mitigated. However, if Alaska's gas misses this market opportunity, it will be Alaska alone that suffers the consequences.

We ask that you keep an open mind and allow the AGIA process to move forward so that all these issues can be addressed in an open, comparative process.

Thank you for your time and we would be happy to answer any questions you may have.

# ALASKA STATE LEGISLATURE

Sen. Charlie Huggins, Chair
Sen. Bert Stedman, Vice Chair
Sen. Lyda Green
Sen. Gary Stevens
Sen. Lesil McGuire
Sen. Bill Wielechowski
Sen. Thomas Wagoner

State Capitol, Room 119
Juneau AK 99801-1182
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## Senate Resources Committee

**Butrovich Room 205**

**Tuesday, March 27, 2007**

# AGENDA

- **SB 104 – Natural Gas Pipeline Project**
  "An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

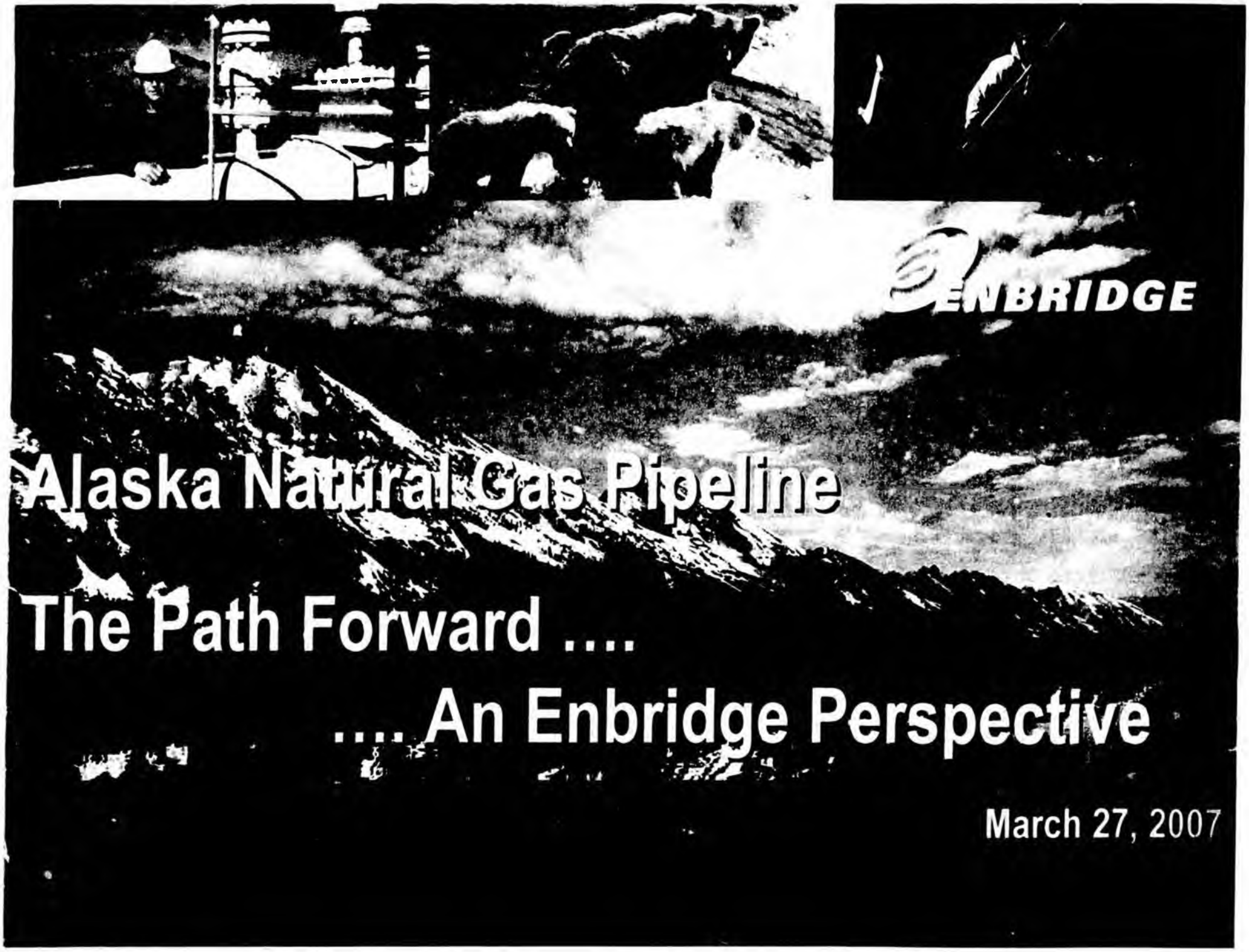
**3:00 – 6:00**

## Presentation

**Enbridge Inc.**

**Ron Brintnell – Director, Gas Development**

**Darren T. Cleveland – Manager, Gas Development**



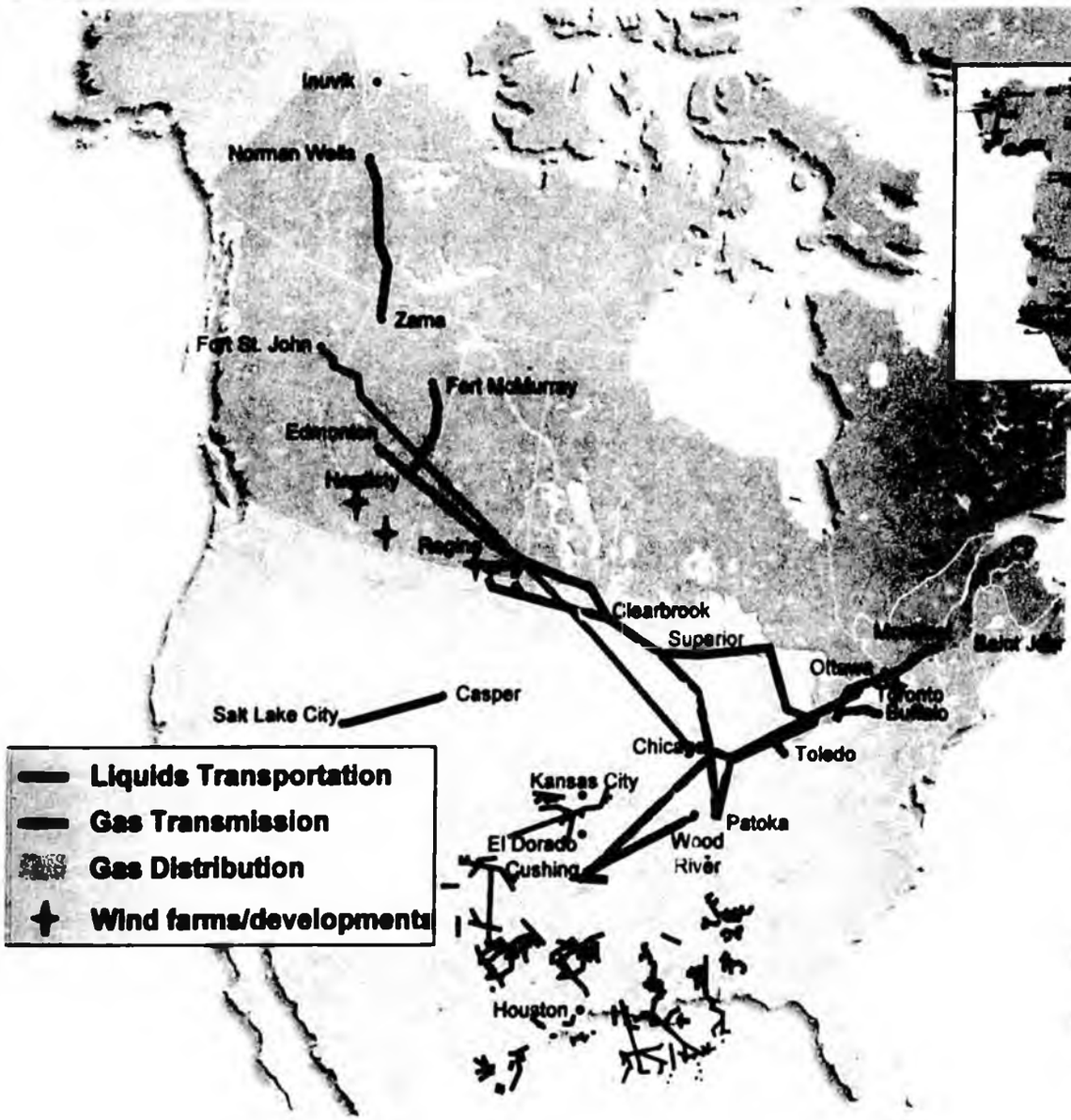

# Alaska Natural Gas Pipeline

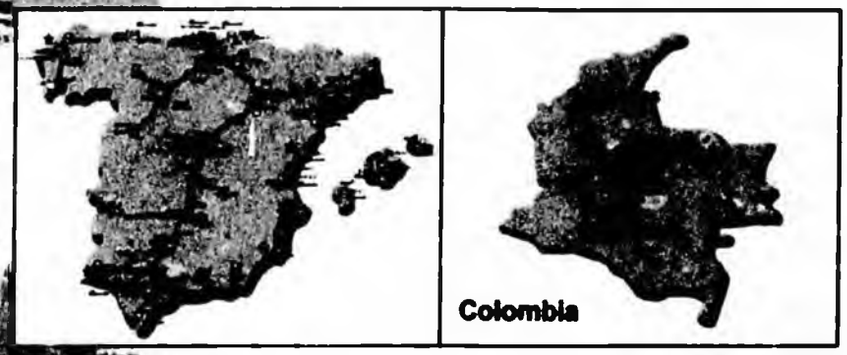
# The Path Forward ....

# ....An Enbridge Perspective

March 27, 2007

# Enbridge Overview



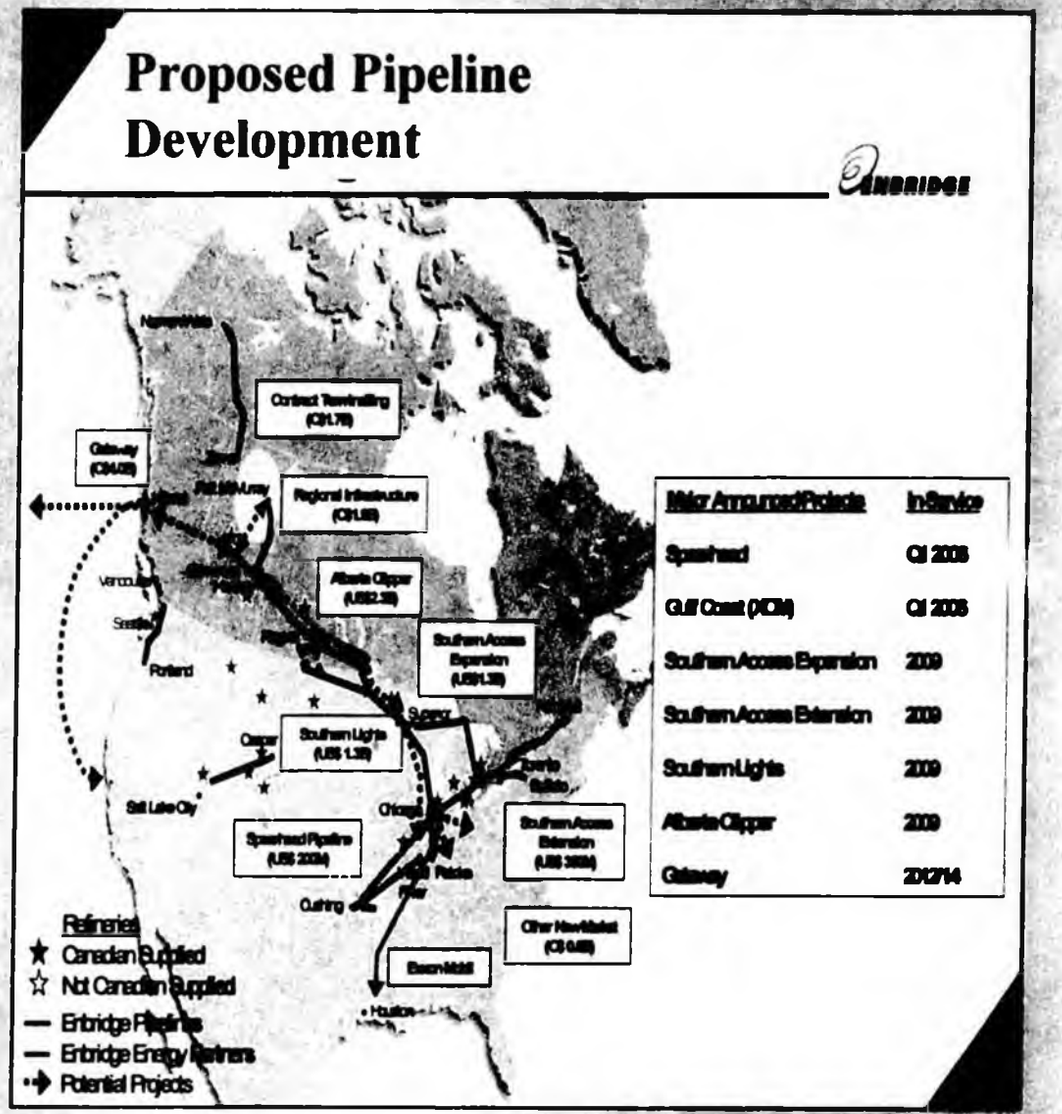




- **Interest in 50,000 miles of pipelines**
- **Own and operate world's longest liquid petroleum pipeline**
- **Deliver 70% of WCSB crude oil production**
- **Deliver half of deep water Gulf of Mexico natural gas production**
- **Canada's largest natural gas local distribution company**
- **Employ 4,900 people**
- **One of the *Global 100 Most Sustainable Corporations in the World***

# Unparalleled Experience
# Recent Pipeline Development

ENBRIDGE

- $15 billion over the next 10 years
  - Unmatched recent experience managing labor, construction, procurement, environment, regulatory and cost-control challenges
  - Today's development environment is substantially different than 10 years ago
- Alliance Pipeline
  - Technical and commercial similarities



# Moving the Pipeline Forward

ENBRIDGE

- Process ***Requires State – Producer alignment***
  - No producers No pipeline
    - Timing is Key – market degredation/capital competition
    - Focus on what is essential vs. what is desirable
      - Producers' goals / motivations
      - North American supply / demand fundamentals make timing critical
      - The FERC Regulatory process is well defined and will work

# Moving the Pipeline Forward

ENBRIDGE

- AGIA introduced as a catalyst to expedite the construction of a natural gas pipeline
  - Applaud the new Administration's high priority given to moving the pipeline development forward
- AGIA process will likely not produce the desired results because:
  - AGIA focus is on the pipeline and not Producer alignment
  - Project is too risky to move forward without Producer commitment
    - Enbridge will not participate in AGIA or any other similar process unless we are part of a consortium that includes producer commitment
- AGIA adds unnecessary regulatory layer
  - FERC process well defined and effective

# Why Producer Involvement is Important

ENBRIDGE

- Promotes efficient development through:
  - Alignment
  - Financial resources
  - Previous experience
- Most importantly they will bear lion's share of risk

# Project Progression

ENBRIDGE

- Binding shipper commitment is required prior to spending significant $'s on regulatory applications
  - Not commercially prudent to assume producers will show, or that gas can be "acquired"
  - Risk too high even with government cost sharing
- Even binding shipper/pipeline agreements will have conditions including:
  - An acceptable FERC Certificate
  - Acceptable Financing
  - Shipper resolution of Alaska state taxation issues
  - Defined project milestones / timing
- An unconditional commitment to proceed will not happen
  - Regulatory certificates may have conditions making project uneconomic
  - Events between application and certificate could make project uneconomic

# Regulatory Application

- FERC and NEB (Canadian) applications require:
  - Detailed project cost evaluation
  - Project management plan
  - Environmental assessment
  - Stakeholder engagement
  - Finalization of tariff structure (Cost of Service / Incentives)
  - Environmental assessment

# In Conclusion

ENBRIDGE

## Enbridge believes:

- AGIA does not resolve producer fiscal (tax) concerns
- Producers unlikely to commit to pipeline brought forward by another company under AGIA unless and until fiscal issues resolved
- Producer support is required and achievable without AGIA
- Government financial assistance not essential
- Government can achieve key goals without adding to regulatory process
- An unconditional commitment to proceed with project is not achievable

# ALASKA STATE LEGISLATURE

Sen. Charlie Huggins, Chair
Sen. Bert Stedman, Vice Chair
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Sen. Lesil McGuire
Sen Bill Wielechowski
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## Senate Resources Committee

**Butrovich 205**

**Thursday, March 29, 2007**

# AGENDA

- **SB 104 – Natural Gas Pipeline Project**
  "An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

**5:00 – 6:30**

## Presentation

**Kern River Transmission Co**, subsidiary of **Mid American Energy Holding Co.**

**Kirk Morgan, President**

Testimony of Kirk Morgan, President Kern River Gas Transmission Company
to the State of Alaska
Senate Resources Committee
March 29, 2007

Good afternoon.

Thank you Mr. Chairman, I appreciate the opportunity to testify to this committee on behalf of MidAmerican Energy Holdings Company concerning the proposed Alaska Gasline Inducement Act.

My name is Kirk Morgan. I am president of Kern River Gas Transmission Company, a wholly owned subsidiary of MidAmerican Energy Holdings Company. MidAmerican has assets totaling $37 billion and an employee base of 18,000. MidAmerican, through Kern River and its sister company, Northern Natural Gas, owns and operates more than 17,500 miles of interstate natural gas transmission pipelines with a combined capacity exceeding 6.4 Bcf/d. MidAmerican's pipelines deliver approximately 8.3% of the natural gas delivered in the United States. The Kern River pipeline, which our company built in 1991, brings natural gas from the Rocky Mountain supply basins across 926 miles of rugged mountainous and remote desert terrain to customers in Utah, Nevada and California. Kern River was the largest gas pipeline project to have been built in the United States in more than a decade. In 2003, Kern River expanded the pipeline, more than doubling its capacity, adding 717 miles of 36-inch and 42-inch diameter pipeline. The $1.2 billion project was completed on time, $87 million under budget, and helped restore stability to energy markets in the Western United States.

MidAmerican is a subsidiary of Berkshire Hathaway, Inc. Berkshire is one of only a few companies in the world with a AAA credit rating. Berkshire has a market capitalization in excess of $160 billion. It is recognized world-wide for financial strength, investment acumen and integrity.

The development of Alaska's huge natural gas reserves is essential to both Alaska and the United States. Projected market growth, combined with a decline in North American production, has created a growing supply/demand imbalance that cannot be adequately addressed by traditional gas supply basins alone. Alaska's natural gas is needed to help ensure energy security, reliability and price stability in the United States.

The Alaska natural gas pipeline project is unprecedented in its scale and complexity. The successful development of the project will require an alignment of stakeholder interests, including the state of Alaska, the North Slope producers, future North Slope explorers and producers, a pipeline developer, shippers and the federal government.

Projects of this scale can be easily delayed. (That has been the history of this project.) Only through proper planning, organization and execution can the project achieve its goals to accelerate development of Alaska's natural gas resources and transport gas to lower 48 markets at the lowest reasonable cost. To do otherwise will relegate this project and development of this resource to reacting to the next energy crisis where goals are frequently compromised in the interest of expediency.

MidAmerican has a serious interest in developing this project in a manner that is consistent with the state of Alaska's interests. From our perspective, the negotiations conducted by the pervious administration under the Stranded Gas Act were not fruitful for many reasons. Foremost among these were that they produced proposals not supported by the people of the state; they failed to give serious consideration to alternative proposals for development; and they consumed years without advancing the project.

We believe AGIA is a positive step toward revitalizing the gas pipeline development process in a way that will move the project forward. The bill will allow consideration of competing proposals and ideas for developing the pipeline. The state benefits from such competition. The bill offers positive inducements to those who already have discovered gas to commit to the pipeline, while defining tariff provisions that will encourage new exploration. And the bill offers inducements to a pipeline developer to advance the project in a manner that the state defines as in its best interest. Perhaps most importantly, the bill establishes a process where each party that proposes to develop the line must make meaningful commitments to development milestones for the legislature and the public to see what it will and will not do and by what dates.

AGIA is a good first step. AGIA is an open, transparent and competitive process designed to advance the project on a deliberate schedule and in a manner that achieves the overarching goals of the State which are to 1) encourage new exploration on the North Slope, 2) provide for expansion of the pipeline as new reserves are brought into production, 3) achieve the lowest cost commercially reasonable tariff, 4) create jobs for Alaskans, and 5) provide natural gas to Alaskans for in-state use.

AGIA recognizes the magnitude of front-end development risks and offers to share that risk, in a significant way, by offering dollar-for-dollar matching of initial development expenditures, by offering worker training for Alaskans, and by committing to expedite state permitting requirements. These, plus separate inducements offered to resource owners, are significant commitments which signal to the marketplace that the project is moving on a serious and credible path to completion. In the absence of such progress, markets will have no alternative than to seek other means to meet market demand. The most significant alternative would be to allow imported LNG even greater market access, uncontested by development of Alaska's natural gas resources.

While LNG is certainly a necessary part of the natural gas resource mix, it makes little policy sense to unnecessarily increase our reliance on foreign energy from many unstable and unpredictable regions around the world. This project, in MidAmerican's view, is undeniably necessary and the time is now to push it forward. The key to moving the project forward is to determine the appropriate balance of risks and rewards for all stakeholders.

There is an alternate approach. The North Slope producers have for years articulated their "must haves" before advancing the project. You have heard these prerequisites before including: 1) tax and royalty certainty on gas and on oil, 2) regulatory certainty in both the U.S. and Canada, 3) cost reductions through technological advancements, and 4) federal enabling legislation.

This approach is effectively saying that the project will get started if and when all of the pre-conditions have been met and all concessions have been extracted. This approach has proven to be ineffective in advancing the project.

MidAmerican's approach is different. We believe the project can be advanced concurrent with resolution of issues that today remain outstanding. I want to emphasize MidAmerican's view that alignment of stakeholder interests is essential. Parties will understandably act in their self-interest and in their own business interest. That is why stakeholder interest alignment is critical to a successful project. That alignment must clearly set forth the roles and responsibilities of each party, as well as the commercial structure which will balance the risks and rewards, such that investment expectations will be known up front. Our approach does not exclude interested parties or discount new ideas which may be offered to help manage project risks. We know that even if the pipeline is developed by an independent developer, the North Slope producers will play the crucial role as shippers on the line and sellers of gas to other shippers. MidAmerican, as an independent pipeline, is impartial and in a unique position to help facilitate solutions when stakeholders' interests diverge. We are confident that an appropriate capital structure and rate design, coupled with our low cost of capital and project experience, can result in a project structure with appropriate allocations of risk and reward for all stakeholders, including the state of Alaska and the producers.

Indeed, MidAmerican believes that an independent pipeline provides the best alignment of interests. National energy policy promotes, in fact requires, competition and the unbundling of market segments. For example, the market structure in the United States typically requires that exploration and production, interstate transportation, marketing and distribution be performed by separate companies. Competition, not market concentration, will lead to efficient markets. MidAmerican has no upstream, downstream or global commercial interest that would create any conflicts of interest or raise any type of market power concern with respect to this project. Accordingly, MidAmerican's interests align extremely well with the state of Alaska and include:

1) Accelerating development of this critically important project;
2) Achieving the lowest cost commercially reasonable tariff;
3) Offering a commercial structure that encourages new exploration and production to both expand and extend the life of the pipeline. Thirty-five Tcf implies only a 22-year project life, and new discoveries are critical to fill the pipeline over its useful life;
4) Providing open-access, non-discriminatory transportation services to ensure both receipts and deliveries are provided for in-state use; and
5) Ensuring Alaskan jobs and workforce development. The state's commitment to workforce training and development is extremely important. Skilled labor shortage is one of the contributing factors in construction cost increases throughout the industry. A skilled Alaskan workforce will not only ensure jobs for Alaskans, but will help address an industry-wide demand for these workers.

The process set forth in AGIA will allow these ideas, and all parties' ideas and proposals, to be advanced and tested in an open and transparent manner. We support that process and while we can understand debate over what constitutes the best pipeline development proposal, it is harder to understand why parties would object to a process that calls for an open and transparent comparison of proposals. We urge the legislature to approve this legislation this session, so that a pipeline developer can be selected in a time frame that will allow a productive 2008 field season for engineering and environmental programs to be conducted.

That concludes my prepared testimony. Thank you for the opportunity to appear before you today. I would be happy to address any questions.

# JUST THE **FACTS**

## Kern River Gas Transmission Company

### Overview

The Kern River pipeline system transports natural gas for delivery into Utah, Nevada and California. Extending from the gas-producing fields in Wyoming to Bakersfield, Calif. Kern River delivers more than 1.7 billion cubic feet of natural gas per day to customers along the pipeline system.

Kern River is a subsidiary of MidAmerican Energy Holdings Company.

### Design Capacity

Kern River has a design capacity of 1.7 billion cubic feet per day – enough to serve more than 10 million typical residential natural gas customers per day.

### Pipeline Length and Size

The Kern River pipeline system totals 1,680 miles, of which more than 1,300 miles are 36-inch diameter steel pipe. By state, 154 miles are located in Wyoming, 712 miles in Utah, 276 miles in Nevada and 538 miles in California.

### Compressor Stations

The Kern River system has 11 compressor stations – four in Wyoming, four in Utah, two in Nevada and one in California. Total system compression is approximately 286,000 horsepower.

### 2006 Revenues

$325.2 million

### History

- February 1992 – Original pipeline system placed in service
- July 2001 – California Action Project placed in service
- May 2002 – 2002 Expansion Project placed in service
- August 2002 – High Desert lateral and meter station placed in service
- December 2002 – Bighorn lateral and meter station placed in service
- May 2003 – 2003 Expansion Project placed in service


### Officers

Kirk T. Morgan, President
Micheal G. Dunn, Vice President, Operations, IT and Engineering
John T. Dushinske, Vice President, Marketing and Regulatory Affairs
Richard N. Stapler, Jr., Vice President and General Counsel

### Offices

Headquarters
- Salt Lake City

District Offices
- Evanston, Wyo.
- Fillmore, Utah
- Las Vegas

Kern River
GAS TRANSMISSION COMPANY
A MIDAMERICAN ENERGY HOLDINGS COMPANY

February 2007

about | us

## Fact Sheet

| | |
|---|---|
| **Operating Revenues:** | $10.3 billion |
| **Total Assets:** | $36.4 billion |
| **Customers (total gas and electric):** | 6.9 million |
| **Electric:** | 6.2 million |
| **Natural Gas:** | 696,000 |
| **Total Generation Capacity:** | Approx. 20,500* megawatts |
| **Total Electricity Distributed (2006):** | Approx. 121 billion kilowatt-hours |
| **Total Natural Gas Supplied (2006):** | Approx. 1.81 billion dekatherms |
| **Electricity Transmission and Distribution Lines:** | Approx. 158,400 miles |
| **Natural Gas Transmission and Distribution Pipelines:** | Approx. 40,000 miles |
| **Natural Gas Transmission Pipeline Design Capacity:** | Approx. 6.7 billion cubic feet per day in service |
| **Total Employees:** | Approx. 17,800 |

* Owned, contracted and in operation, construction and advanced development

**Senior Management:**

| | |
|---|---|
| **David L. Sokol:** | Chairman and Chief Executive Officer |
| **Gregory E. Abel:** | President and Chief Operating Officer |
| **Patrick J. Goodman:** | Senior Vice President and Chief Financial Officer |
| **Douglas L. Anderson:** | Senior Vice President, General Counsel and Corporate Secretary |
| **Keith D. Hartje:** | Senior Vice President, Communications, General Services and Safety Audit and Compliance |
| **Maureen E. Sammon:** | Senior Vice President, Human Resources, Information Technology and Insurance |

**Primary Subsidiaries:**

| | |
|---|---|
| **MidAmerican Energy:** | MidAmerican Energy Company<br>InterCoast Capital Company<br>Midwest Capital Group |
| **PacifiCorp:** | PacifiCorp Energy<br>Pacific Power<br>Rocky Mountain Power |
| **CE Electric UK:** | Northern Electric Distribution<br>Integrated Utility Services<br>Yorkshire Electricity Distribution<br>CalEnergy Gas (U.K.) Ltd. |
| **CalEnergy Generation:** | CE Generation LLC (50 percent interest)<br>CE International Investments, Inc.<br>CE Electric (NY) Inc.<br>CalEnergy Pacific Holding Corp. |
| **Kern River Gas Transmission:** | Design capacity: More than 1.7 Bcf/d |
| **Northern Natural Gas:** | Design capacity: 4.9 Bcf/d |
| **HomeServices of America, Inc.:** | Carol Jones REALTORS<br>CBSHOME Real Estate |

Champion Realty
Edina Realty Home Services
Esslinger-Wooten-Maxwell REALTORS
First Realty/GMAC
Harry Norman, REALTORS
HOME Real Estate
Huff Realty
Iowa Realty
Jenny Pruitt and Associates REALTORS
Long Realty
Prudential California Realty
Prudential Carolinas Realty
RealtySouth
Rector-Hayden REALTORS
Reece & Nichols
Roberts Brothers, Inc.
Semonin REALTORS
Woods Bros. Realty

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# ALASKA STATE LEGISLATURE

Sen. Charlie Huggins, Chair
Sen. Bert Stedman, Vice Chair
Sen. Lyda Green
Sen. Gary Stevens
Sen. Lesil McGuire
Sen. Bill Wielechowski
Sen. Thomas Wagoner

State Capitol, Room 119
Juneau AK 99801-1182
907-465-3878
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## Senate Resources Committee

**Butrovich Room 205**

**Friday, March 30, 2007**

# AGENDA

- **SB 104 – Natural Gas Pipeline Project**
  "An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

**1:30 – 5:30**

## Evaluation and Discussion w/Governor's Cas Team of Public, Industry, Government & Consultants Input Since Introduction of AGIA

Tom Irwin, Commissioner, DNR
Marty Rutherford, Dep. Commissioner, DNR
Pat Galvin, Commissioner, DOR
Marcia Davis, Dep. Commissioner, DOR
Kevin Banks, Director, Division of Oil & Gas, DNR
Kurt Gibson, Dep. Director, Division of Oil & Gas, DNR

# LEGAL SERVICES

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Deliveries to: 129 6th St., Rm. 329


**MEMORANDUM** March 30, 2007

**SUBJECT:** CSSP 104(RES) (Work Order No. 25-GS1060\C)

**TO:** Senator Charlie Huggins
Chair of Senate Resources Committee

**FROM:** Donald M. Bullock Jr.
Legislative Counsel

Enclosed is a draft version of CSSB 104(RES). Please read this version carefully to ensure that it is consistent with your intent.

This version makes the tax and royalty inducements to shippers a matter of contract. Although the state's leases are contracts with the leaseholders, suspending or contracting away the power to tax is prohibited by art. IX, sec. 1 of the state constitution. In my opinion, the tax inducement is not an exemption granted by general law for the purposes of art. IX, sec. 4 of the state constitution that provides exceptions to art. IX, sec. 1.

Although the draft language you provided me proposed the use of the appeal and protest provisions in the state's procurement code for an appeal or protest of the licensing process in the bill, those provisions use terms and references that are incompatible. In this draft of the bill, the commissioners are directed to adopt regulations that provide appeal and protest procedures that are "substantially similar" to those under the procurement code.

In this draft, the commissioner of labor and ...force development will have the responsibility for developing the job training program in article 4. The language you provided, "the state will develop," lacks the specification of which agent of the state will actually develop the program. "The state will develop" language does not establish the program, but designating a commissioner to take action will provide for the development of the program.

DMB:lmb
07-084.lmb

Enclosure

25-GS1060\C
Bullock
3/30/07

# CS FOR SENATE BILL NO. 104(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - FIRST SESSION

**BY THE SENATE RESOURCES COMMITTEE**

**Offered:**
**Referred:**

**Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

## A BILL

## FOR AN ACT ENTITLED

**"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."**

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

*** Section 1.** AS 43 is amended by adding a new chapter to read:

**Chapter 90. Alaska Gasline Inducement Act.**

**Article 1. Inducement to Construction of a Natural Gas Pipeline in this State.**

**Sec. 43.90.010. Purpose.** The purpose of this chapter is to encourage expedited construction of a natural gas pipeline that

(1) facilitates commercialization of North Slope gas resources in the state;

(2) promotes exploration and development of oil and gas resources on the North Slope in the state;

(3) maximizes benefits to the people of this state of development of oil and gas resources in this state; and

(4) encourages state oil and gas lessees and other persons to commit natural gas from the North Slope of this state to a gas pipeline system for transportation to markets in this state or elsewhere.

**Article 2. Alaska Gasline Inducement Act License.**

**Sec. 43.90.100. Gas project.** (a) The commissioners may award an Alaska Gasline Inducement Act license as provided in this chapter. The person awarded a license under this chapter is entitled to the inducement set out in AS 43.90.110.

(b) Nothing in this section precludes a person's pursuing a gas pipeline independently from this chapter.

**Sec. 43.90.110. Natural gas pipeline project construction inducement.** Subject to the limitations of this chapter, a license issued under this chapter entitles the licensee or its designated affiliate to receive

(1) state matching contributions in an amount not to exceed $500,000,000, paid in total to the licensee over a five-year period; the payment period may be extended by the commissioners under an amendment or modification of the project plan under AS 43.90.220; the payment period commences on the date of the issuance of the license; payments under this paragraph shall be made according to the following:

(A) on or before the close of the first binding open season, the state shall match the licensee's qualified expenditures at the level specified in the license; however, the state's contribution may not be more than 50 percent of the qualified expenditures incurred before the close of the first binding open season;

(B) after the close of the first binding open season, the state shall match the licensee's qualified expenditures at a level specified in the license; however, the state's matching contribution may not be greater than 80 percent of the qualified expenditures incurred after the close of the first binding open season;

(C) qualified expenditures are costs that are incurred after the

license is issued under this chapter by the licensee or the licensee's designated affiliate, and are directly and reasonably related to obtaining a certificate of public convenience and necessity from the Federal Energy Regulatory Commission or the Regulatory Commission of Alaska, as appropriate, for development of the project; in this subparagraph, "qualified expenditures" does not include overhead costs, litigation costs, assets, or work product predating the issuance of the license, or civil or criminal penalties or fines; and

(2) the benefit of an Alaska Gasline Inducement Act coordinator who has the authority prescribed in AS 43.90.400.

**Sec. 43.90.120. Abandonment of project.** (a) If the commissioners and the licensee agree that the project is uneconomic and should be abandoned, inducement provided for in AS 43.90.110 terminates, and, except for requirements imposed on the licensee under (d) of this section and AS 43.90.230, the state and the licensee no longer have any obligations under this chapter with respect to the license.

(b) If the commissioners or the licensee independently determines that the project is uneconomic and should be abandoned, but the other party does not agree, the disagreement shall be settled by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event of arbitration, each party shall select an arbitrator, and the two arbitrators shall appoint a third arbitrator from the American Arbitration Association's National Roster who shall serve as the chair of the three-member arbitration panel. If the arbitration panel determines that the project is

(1) uneconomic and should be abandoned, the state and the licensee no longer have any obligations under this chapter with respect to the license, except for requirements imposed on the licensee under (d) of this section and AS 43.90.230;

(2) not uneconomic and should not be abandoned, the project may not be abandoned, and the obligations of the licensee and the state continue as provided under this chapter and the license.

(c) If the state makes a payment to the licensee under AS 43.90.540, the license is considered abandoned, and the state and the licensee no longer have any

obligations under this chapter with respect to the license, except that the licensee must comply with the

(1) requirements imposed on the licensee under AS 43.90.230 regarding state money received by the licensee before the license was considered abandoned; and

(2) requirements of AS 43.90.540.

(d) If the licensee and the state agree or if a licensee prevails in an arbitration in establishing that the project is uneconomic and should be abandoned, the licensee shall assign to the state or the state's designee all project data, engineering designs, contracts, and permits related to the project that are acquired by the licensee during the term of the license upon reimbursement by the state to the licensee of the licensee's net costs.

**Sec. 43.90.130. Request for applications for the license.** (a) The commissioners shall commence a public process to request applications for a license under this chapter within three months after the effective date of this chapter.

(b) The commissioners may use independent contractors to assist in developing the provisions for the application for a license and in evaluating applications received under this chapter.

(c) The provisions of AS 36.30 do not apply to requests for applications under this chapter, but the commissioners shall adopt regulations that provide protest and appeal procedures relating to the solicitation of applications and award of a license that are substantially similar to the procedures in AS 36.30.550 - 36.30.699.

**Sec. 43.90.140. Application requirements.** An application for a license must be consistent with the terms of the request for applications under AS 43.90.130 and must

(1) be filed by the deadline established by the commissioners in the request for applications;

(2) provide a detailed description of a proposed natural gas pipeline project for transporting natural gas from the North Slope of this state to market, including

(A) the route proposed for the natural gas pipeline;

(B) receipt and delivery points and the size and design capacity of the proposed natural gas pipeline at the proposed receipt and delivery points, except that this information is not required for in-state delivery points;

(C) an analysis demonstrating the project's economic and technical viability as required in the request for applications;

(D) an economically and technically viable work plan, timeline, and associated budget for developing the proposed project, including how the applicant will perform field work, environmental studies, design, and engineering, and how the applicant will comply with all applicable state, federal, and international regulatory requirements that affect the proposed project; the work plan must address the following:

(i) if the proposed project involves a pipeline into or through Canada, a description in detail of the applicant's plan to obtain necessary rights-of-way and authorizations in Canada; a description of the transportation services to be provided and a description of rate-making methodologies the applicant will propose to the regulatory agencies; and an estimate of rates and charges for all services;

(ii) if the proposed project involves marine transportation of liquefied natural gas, a description of the pipeline route, system, and capacity to bring North Slope gas to tidewater, including a description of transportation services to be provided and a description of proposed rate-making methodologies; an estimate of rates and charges for all services by third parties; a detailed description of all access and tariff terms the applicant would propose for liquefaction services or, if third parties would perform liquefaction services, identify the third parties and the terms they would offer; a complete description of the proposed ownership, control, and cost of liquefied natural gas tankers, the management of shipping services, liquefied natural gas export, destination, re-gasification facilities, and pipeline facilities needed for transport to market destinations, and the entity or entities that would be required to obtain necessary export

permits or a certificate of public convenience and necessity from the Federal Energy Regulatory Commission for the transportation of liquefied natural gas in interstate commerce if United States markets are proposed; and all rights-of-way or authorizations required from a foreign country;

(3) commit that if the proposed project is within the jurisdiction of the Federal Energy Regulatory Commission, the applicant will

(A) conclude, by a date certain that is not later than 36 months after the date the license is issued, a binding open season that is consistent with the requirements of Subpart B of 18 C.F.R. Part 157 (Open Seasons for Alaska Natural Gas Transportation Projects) and 18 C.F.R. 157.30 - 157.39;

(B) apply for Federal Energy Regulatory Commission approval to use the pre-filing procedures set out in 18 C.F.R. 157.21 by a date certain, and use those procedures before filing an application for a certificate of public convenience and necessity; and

(C) apply for a Federal Energy Regulatory Commission certificate of public convenience and necessity to authorize the construction and operation of the proposed project described in this section by a date certain;

(4) commit that if the proposed project is within the jurisdiction of the Regulatory Commission of Alaska, the applicant will

(A) conclude, by a date certain that is not later than 36 months after the date the license is issued, a binding open season that is consistent with the requirements of AS 42.06; and

(B) apply for a certificate of public convenience and necessity to authorize the construction and operation of the proposed project by a date certain;

(5) commit that after the first binding open season, the applicant will assess the market demand for additional pipeline capacity at least every two years through public nonbinding solicitations or similar means;

(6) commit to expand the proposed project in reasonable engineering