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FEDERAL ENERGY REGULATORY COMMISSION

TECHNICAL CONFERENCE:

Regulations Governing the Conduct
Of Open Seasons For Alaska
Natural Gas Transportation Projects
Docket No. RM 05-1-000

Friday, December 3, 2004

Assembly Chambers
Municipality of Anchorage, Loussac Library
3600 Denali Street
Anchorage, Alaska
10:00 a.m.

1 Appearances:
2 Pat Wood, III, Chairman, FERC
3 Commissioner Nora Mead Brownell, FERC
4 Commissioner Joseph Kelliher, FERC
5 Commissioner Suedeen Kelly, FERC
6
7 Governor Frank H. Murkowski
8 U.S. Senator Lisa Murkowski
9 State Senate President Gene Therriault
10 State Representative Ralph Samuels
11 Chairman Kate Giard, Regulatory Commission of
12 Alaska
13 Commissioner Dave Harbour, RCA
14 Commissioner Jim Strandberg, RCA
15 Commissioner Mark Johnson, RCA
16 Commissioner Tony Price, RCA
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1 P R O C E E D I N G S

2 CHAIRMAN PAT WOOD: Good morning.
3 We would like to invite everybody who's still
4 standing to please take a seat. There are plenty
5 of seats here, thanks to the wonderful City.

6 I'm Pat Wood, Chairman of the
7 Federal Energy Regulatory Commission, and our
8 Commission is meeting here. So I will call this
9 meeting of our Commission to order to consider the
10 matter which is posted for this time and this
11 place. We always start our meeting with a pledge
12 to the flag, so please join us.

13 (Pledge of allegiance.)

14 CHAIRMAN WOOD: Thank you very
15 much. It's a real honor to be here. I want to,
16 first, do a few thank yous and then do a
17 perspective for today's hearing.

18 Thank you, first of all, to our
19 good friend the Governor. He was the reason Nora
20 Brownell and I got confirmed before the Senate
21 changed to the other party back in '01 when the
22 California energy crisis was on the energy agenda.
23 It's always good to be in his home state.

24 We're honored to have here with us
25 as well Lisa Murkowski, Senator from the State.

1 We had a nice visit last night. It's wonderful to
2 have you in a leadership position in the U.S.
3 Congress.

4 Our colleagues are here from the
5 Regulatory Commission of Alaska, and I'm pleased
6 to introduce Kate Giard, who's the chairman, and
7 her colleagues on the Commission. Let me make
8 sure I pronounce everybody correctly. Mark
9 Johnson, Tony Price and Jim Strandberg, and our
10 fifth commissioner, Dave Harbour, will be joining
11 us around lunchtime. It's a pleasure to be your
12 colleagues at the federal level, and we look
13 forward to continuing the nice working
14 relationship that our two organizations have had
15 for many decades in this matter of importance and
16 state and national interest.

17 We are also pleased to be joined up
18 here on the dais by Representative Ralph Samuels,
19 who is chair of the legislative Budget and Audit
20 Committee here in Alaska, and by Senator Gene
21 Therriault, the vice-chair of the Budget and Audit
22 Committee, but more importantly they're very
23 involved in the natural gas industry, and we look
24 forward to your thoughts later on today.

25 We have a real action-packed day. We

1 appreciate the warm welcome from the members of the
2 industry, citizens. And also for this wonderful
3 facility, we express our deep appreciation to the
4 City of Anchorage for their hospitality while we're
5 here in town.

6 I couldn't let the moment pass
7 without also acknowledging two people who are a big
8 part of why we're here, but who are not physically
9 here today, and that's U.S. Senator Stevens and U.S.
10 Representative Young. We have always appreciated
11 the great leadership that the three members of the
12 Alaska delegation have for these important issues,
13 not only for your state, but as you'll hear later
14 and throughout the day, for our whole country
15 because of the important role that Alaska and its
16 resources play in keeping our economy going in the
17 right direction.

18 For perspective, this Alaska natural
19 gas pipeline is the focus of today's discussion. It
20 is in my estimation the single most important thing
21 that we can do as a country to ensure our energy
22 security for decades to come. The U.S. Congress
23 took a step in October of this year that was
24 something I had hoped for long ago. In fact, when I
25 first came on the Commission in '97 one of the three

1 things that I hoped to have happen while President
2 Bush was leader of the country was to permit the gas
3 pipeline. Just because he got a four-year extension
4 on his term doesn't mean we need to wait four more
5 years for this pipeline to get permitted.

6 It is the single most important and
7 significant step that we collectively, industry,
8 customers, country, elected officials, appointed
9 officials can take to ensure that our energy
10 security is a good one and not one that could go the
11 other way. The history on this goes way back. I
12 won't be able to go into that today, but as you
13 know, there has been a prior attempt to get a gas
14 pipeline built in the '70s. The economics of gas
15 did not make that attractive at the time it was
16 developing henceforth, but I think the economics
17 here today will be a lot different. And I think
18 that's why the room is as full as it is and the
19 interest is as high as it is, because I think we all
20 perceive and know that this is a project whose time
21 has come.

22 We are looking today at the second
23 step. Congress took the first step. We're looking
24 at the second step from the government's side of the
25 fence, and that's to focus on a regulation that we

1 were asked as a Commission to promulgate within 120
2 days of the President's signature of the bill. So
3 that means by early February we have to adopt a
4 rulemaking on open access to this pipeline, which I
5 know is of significant interest to not only the
6 producers in Alaska, other than the large three
7 producers on the North Slope, but also to the
8 citizens and customers of gas service here in
9 Alaska.

10 We are very cognizant of the need for
11 the State itself to have its needs addressed in this
12 important investment. It's not just the investment
13 and the job to come with the pipeline, but it's the
14 product that comes over the pipeline that means so
15 much to the citizens, not only of Anchorage, but of
16 all users of natural gas in Alaska.

17 It is a great fuel. It's one that
18 personally I have been a fan of for a long time. It
19 has tripled in price since the time that Nora and I
20 joined the Commission. The prevailing price of gas
21 is now in the \$7 range, not in the \$2 range.
22 Despite that, it remains a very attractive fuel not
23 only for power generation, but for chemical,
24 petrochemical uses and, importantly, for heating and
25 for home use by residential customers and commercial

1 customers. So we're committed to the long-term
2 health of this fuel source. It is important for
3 America, important for North America. And we look
4 forward to the steps that are necessary to ensure
5 its affordability and its reliability because
6 they're both important.

7 A couple of meetings that have taken
8 place recently that are of interest to, I think, you
9 all. Earlier this week the Deputy Secretary of
10 Energy, Mick Slero, convened a meeting of the
11 different departments of the federal government that
12 will have a role, minor or major, in the permitting
13 of the Alaska natural gas pipeline.

14 What happened as a result of that
15 meeting was a number of agencies -- and I'd like to
16 just kind of give you a sense of who all they are --
17 the Department of Interior, including a familiar
18 face to many Alaskans, Drew Pierce, who is now
19 Secretary of Alaska Affairs in the Department of
20 Interior. These different agencies will all have a
21 role to play in the permitting. So the point of
22 this meeting this week was to do some scoping and
23 really get everybody lined up so that when an
24 application is being processed or is being prepared,
25 that everybody is lined up and nobody is slowing

1 down the critical path for the approval and ultimate
2 construction.

3 These include the Department of
4 Agriculture, the Army Corps of Engineers, the
5 Department of Commerce, the Council for
6 Environmental Quality, the Environmental Protection
7 Agency, the Justice Department, the Office of
8 Management and Budget, the State Department, the
9 Department of Transportation, and the Department of
10 the Treasury. And the interagency coordination for
11 all of these efforts will be handled by the
12 principal Deputy Assistant Secretary at the
13 Department of Energy, Mark Maddox. So we are really
14 looking forward to that teamwork.

15 Mr. Cupina, who you'll hear from
16 later today who works for us at FERC, and I were at
17 that meeting and in that coordination effort. So
18 please know that from the federal side of the fence
19 we are here and the time scheduled also includes a
20 lot of coordination with Alaska authorities, the
21 different agencies in Alaska that have to be
22 permitting, as well as our brother agency in Canada,
23 the National Energy Board, which I signed a
24 memorandum of understanding with back in May of this
25 year in preparation for the needed coordination work

1 that the U.S. and Canada will have to do to ensure
2 that this project realizes its potential on time and
3 under budget.

4 We are excited to be here. It's
5 always humbling for a Texan to come to Alaska,
6 because it's twice the size of what used to be the
7 biggest state. Nonetheless, it is a place that I
8 feel really at home in because of the can-do
9 attitude and the very strong interest in prudent
10 stewardship of our God-given natural resources.

11 It's my pleasure to invite my dear
12 friends and colleagues to -- I should add, this is
13 the first time -- we did a little check of the
14 history books. This is the first time that the
15 FERC, Federal Energy Regulatory Commission, has
16 convened in toto in Alaska, and in fact we've only
17 convened in a few other states in toto, period,
18 altogether, but we like taking our show on the road.

19 This is an important, important
20 project, not just for FERC because it's what we do,
21 but for this country. The State -- obviously many
22 of you in this room are from Alaska and you know
23 what the needs of the State are and how important
24 this project is to your economic health and your
25 social welfare. But please know how critically

1 important it is to the welfare of our country.

2 That's why we're here. We're here
3 also to get good ideas and get feedback, and please
4 be frank in your criticism of what we've got out
5 proposed and be helpful in your advice about what we
6 need to do to make it better. That's the point of
7 today's hearing.

8 So I'd like to invite my colleagues
9 to join us.

10 NORA MEAD BROWNELL: Thank you. I'm
11 thrilled to be here and I don't want to take much
12 time because we certainly want to hear from the
13 Governor and the Senator. But when I was here last
14 summer, I met with Governor Murkowski and he said,
15 What's it going to take to get this done? How can
16 we move this forward? And, Governor, I thought
17 about it, and there are three things I think it's
18 going to take and I think that we are there.

19 I think it's going to take
20 leadership, which you clearly see here; a
21 willingness at the federal and state level to work
22 together across jurisdictional boundaries to make
23 sure that our commitment is clear and that we are
24 efficient in how we deal with this.

25 Secondly, I think it's going to take

1 a sense of urgency. I met a lot of people last
2 night who said, I started my career on this project.
3 Well, I don't think we need to start anymore
4 careers; I think we need to end the careers and get
5 this built. And so I hope that we'll all share that
6 sense of urgency and recognize what I think is the
7 third most important thing and I think going to be
8 the most challenging.

9 We're going to have a lot of
10 competing interests. We're going to have a lot of
11 different ideas in how to approach this. And I
12 would urge all of us to step back from those
13 parochial interests and put the interests of Alaska
14 and the interests of America at the forefront as we
15 work towards resolution of these very complex
16 issues.

17 So, I'm excited about today. We're
18 going to come back in June, and we've asked the
19 legislature to ask us for lots of meetings because
20 we've all learned to love Alaska. Thank you for
21 having us.

22 JOE KELLIHER: This is my first trip
23 to Alaska, actually. Before I left I told my
24 children I was going to North Pole to see Santa
25 Claus, so they encouraged me to come for sure. As

1 the Chairman said, there really is no question that
2 the country needs Alaska natural gas. There is no
3 question that the pipeline will be built; the
4 question is when it will be built.

5 I think what we're trying to do here
6 today is remove an impediment, make the pipeline a
7 little bit closer to reality. I'm impressed with
8 the comments in response to the proposed rule, and I
9 look forward to the conference today. I appreciate
10 the hospitality that we have received so far. But,
11 anyway, I look forward to the meeting.

12 SUEDEEN KELLY: I echo the sentiments
13 of my colleagues. And the only thing that I'd like
14 to add is to thank you for being here today, and I'm
15 impressed with the outpouring of interest. It
16 really underscores the importance of this project
17 not only to the country, but to the State and people
18 of Alaska.

19 Thank you very much for having me
20 here.

21 CHAIRMAN PAT WOOD: Thank you,
22 Suedeen, Joe and Nora. It's my pleasure to
23 introduce the Honorable Governor of the State of
24 Alaska, Frank Murkowski, and he'll be followed by
25 some other elected officials who would like to

1 start the day in framing the issues for us.

2 So, Governor, it's a pleasure to be
3 in your home state.

4 GOVERNOR MURKOWSKI: Thank you very
5 much. Mr. Chairman, I feel kind of a kinship here
6 at least to two of you, because as noted, I was on
7 the other side of the dais and you were out there
8 and we went through a very successful
9 confirmation. I don't think any of us had in mind
10 exactly where we would be in December of this
11 year, but I'm glad you're here and Alaskans are
12 glad you're here. We're very happy that this
13 project is moving along.

14 I also want to recognize the other
15 members who are here, my fellow legislators. The
16 Senator on my left, unfortunately, got the good
17 chair. As you can see, I'm somewhat below and did
18 the best I could. I guess it comes with a degree
19 of seniority and maturity, but I won't dwell on
20 that.

21 I do want to highlight the
22 importance of this conference, particularly
23 recognizing many Alaskans are concerned about just
24 how this project is moving along and have failed
25 to grasp the complexities associated with

1 constructing the largest project ever undertaken
2 in North America, which involves a significant
3 financial risk, but a significant financial
4 return.

5 We hope that this will be the first
6 in a series of visits by FERC in its efforts to
7 advance the Alaska gas pipeline. I'm very pleased
8 to note that you'll be here again in June because
9 it's important that we have your understanding.

10 First of all, you know we're a long
11 way from Washington, D.C. You've already
12 experienced that. It takes a full day or a full
13 night of committed time. I think you're aware,
14 and you certainly will be by the end of the day,
15 that the energy wealth of North America lies in
16 the Arctic, and Alaska is the only state with
17 Arctic in it, so to speak.

18 Further, a recognition that Alaska
19 is a developing state. We're still developing
20 resources; oil and gas, timber, fish, and
21 minerals, our tourism. Unlike many other states
22 who have established their economy over a hundred
23 years or so, we've only been a state since 1959.
24 So correctly understanding the basis of the
25 reserves that this state has in resources, the

1 bountiful gas resources of the North Slope are
2 clearly the highest priority of my administration.

3 As you have already noted,
4 Mr. Chairman, the natural gas will make a huge
5 contribution to this nation's reducing its
6 dependence on foreign sources of energy. It's
7 good for the American economy; it's good for
8 American jobs. It's also good for offsetting the
9 deficit balance of payments that this country
10 currently has.

11 Now, my administration basically
12 has three goals: First is to get the pipeline
13 project under way as soon as possible.

14 Second, to make sure that the
15 pipeline project serves the Alaska domestic needs
16 for natural gas and, three, to make sure that the
17 pipeline is sized correctly and has the right
18 terms of access so that all explorers and
19 developers of Alaska's natural gas, whether
20 affiliated with the pipeline ownership or not, can
21 be assured that they can ship their gas on the
22 pipeline under fair, reasonable, and predictable
23 terms.

24 As you know, Mr. Chairman and other
25 members of the Commission, Alaska has adopted the

1 Stranded Gas Development Act, which gives the
2 State the authority to negotiate a fiscal
3 certainty contract designed to stabilize and make
4 predictable taxes and royalty arrangements for a
5 gas pipeline. In return, the State expects a
6 commitment to an early in-service for development
7 of the project and assurances that it will serve
8 the needs of Alaska's communities as well as
9 Alaska's citizens because Alaska will need a
10 portion of this gas.

11 Further, to ensure that the
12 opportunity for taking gas liquids off a pipeline
13 in Fairbanks, or some other point as the economics
14 dictate, and potentially moving the products to
15 market or to tidewater through the utilization of
16 the state-owned Alaska Railroad. Now, I can
17 report that our Stranded Gas Development Act
18 negotiations are advancing rapidly towards a
19 fiscal certainty, but I can't give you a date.

20 The contract which I intend to
21 submit to the legislature in the coming session is
22 a commitment by this administration and the
23 cooperation that we've had with the two applicants
24 under the Stranded Gas Act is encouraging, so I
25 believe that we will be able to maintain that time

1 frame. However, the pace of development of the
2 gas pipeline is accelerating on other fronts as
3 well.

4 As we know, Mr. Chairman, in
5 October the Congress did its part in passing the
6 Alaska Natural Gas Pipeline Act of 2004, which
7 includes the loan guarantee provision. The Act
8 puts in place the federal framework for expediting
9 the construction of the gas pipeline. And I want
10 to commend our delegation for their role in
11 pushing this legislation through. Now, however,
12 we're at the second stage, and that involves FERC
13 and, as a consequence, FERC must do its part.

14 I know that the subject of the
15 technical conference here today is the set of
16 proposed regulations that will govern the opening
17 season or the so-called open season for an Alaska
18 pipeline project. My administration's
19 representatives and legislative representatives
20 will speak on your panels with specific attention
21 to the details of the proposed regulations.

22 But, first, let me share a few of
23 my concerns. The first is that the proposed
24 regulations as they stand now do not address
25 access for in-state needs. They should. There

1 are real needs for access to natural gas in
2 Southcentral Alaska, and the opening season
3 regulations should speak in detail as to how those
4 needs will be accommodated.

5 As you know, we have two large
6 plants in the Kenai Peninsula. We have an L&G
7 plant that's been operational since the mid '60s
8 exporting natural gas from the Kenai to Tokyo Gas
9 and Electric. That contract has been renewed over
10 that time frame. A new series of ships have been
11 built, which is very important to the economy of
12 the Kenai as well as all of Alaska that an
13 adequate supply of gas be maintained for that
14 facility. There's a urea and ammonia facility
15 associated with the utilization of Cook Inlet gas
16 as well. So, as a consequence, it's very
17 important that we have access and recognition in
18 the FERC evaluation of the potential of supplying
19 gas to those two facilities as well as potential
20 expansion be accommodated.

21 Now, in its recently-enacted
22 legislation, Congress recognized any approved
23 Alaska pipeline project must have studied in-state
24 needs, specifically included tie-in points along
25 the pipeline for in-state access. The federal

1 legislation also permits the FERC to order the
2 pipeline owners to provide the State with, quote,
3 reasonable access, unquote, to the pipeline for
4 the in-state use of Alaska's royalty gas.
5 Nevertheless, the proposed regulations are silent
6 on how in-state needs will be accommodated in the
7 open-season process. So I would encourage you to
8 address that.

9 Second, the final open-season
10 regulations should provide as much certainty as
11 reasonably possible to explorers for natural gas,
12 that when they find new gas supplies, they will
13 have access to the pipeline and, hence, to the
14 market. That's extremely important to our state.
15 In this regard, Congress has established as a
16 guiding principle that the open-season regulations
17 foster competition in the exploration and
18 development of Alaska's abundant natural gas
19 resources. This is a broader mandate than the
20 FERC historically has addressed in its open-season
21 policy.

22 Mr. Chairman, I would encourage you
23 in your discussions to elaborate a little bit on
24 the application of the open season in the sense of
25 some of the proposals that we have before us.

1 For example, if the producers were
2 to indeed build the pipeline solely and with the
3 gas reserves the producers have, the application
4 of an open season directive from FERC obviously
5 would bring into consideration the recognition
6 that those that financed the pipeline take the
7 risk would quite naturally want their gas to flow
8 first and would not want their gas to be displaced
9 by another developer that had gas. Obviously, the
10 State of Alaska wants to encourage more
11 exploration and development.

12 So it's very important that we have
13 an open-access policy that's applicable to that
14 potential consideration, although at this time
15 there are other proposals for pipeline development
16 and ownership as well. I did want to elaborate a
17 little bit on that. I would urge the FERC to
18 require that a pipeline open-season process
19 establish as clearly as possible the rules of the
20 game for access by explorers to the pipeline both
21 in the initial open season and later.

22 There are two other access-related
23 issues that I would like to touch on.

24 First, at the outset, it's critical
25 that the pipeline be designed right and sized

1 right. It must have the capacity to accommodate
2 all serious long-term bids in the initial open
3 season and have a design that permits later
4 expansion to accommodate newly-discovered
5 resources.

6 Secondly, the Commission should
7 consider sooner, not later, regulations for
8 dealing with the expansion of the pipeline. Both
9 of these issues are related to ensuring access to
10 the pipeline for future natural gas supplies that
11 can then be made available both in Alaska and to
12 the Lower 48.

13 Initially, we appear to be looking
14 at a pipeline flow of about 4.5 billion cubic feet
15 a day with a design capacity somewhere in the area
16 of 6 to 6.5 billion cubic feet a day. We have a
17 proven reserve estimate of about 37 trillion cubic
18 feet a day, yet we have the U.S. geological
19 estimate of somewhere around 200 trillion cubic
20 feet a day. That would suggest perhaps a 50-year
21 supply, flowing at 4.5 or 6.5. These are
22 questions that obviously will come with further
23 discovery and evaluation of reserves that are
24 proven.

25 The last point I want to make, and

1 this is a little off the subject, but I think it
2 reflects on your consideration. In recognizing
3 that in legislation, Congress, of course, created
4 a new position of a federal coordinator
5 responsible for the expeditious discharge of all
6 federal agencies' activities for the Alaska gas
7 pipeline system and for ensuring compliance with
8 relevant law. The Secretary of Energy, as I
9 understand it, or his designee will be the federal
10 coordinator for at least the next 18 months. The
11 federal office coordinator will be responsible for
12 joint surveillance and monitoring of the State of
13 Alaska and arrangements similar to the ones used
14 during construction of the TransAlaska oil
15 pipeline.

16 As you'd expect, the government
17 will have the preliminary responsibility over
18 federal lands and the State over State lands. If
19 the Department of Energy receives a filing for a
20 pipeline application under the Alaska Natural Gas
21 Transportation Act during this 18-month period, it
22 will be responsible for issuing a certificate of
23 public necessity for construction and operation of
24 the pipeline. Any Natural Gas Act filing would
25 require a certificate and a certification from the

1 FERC.

2 Now, here's where the other element
3 comes in. If an application is not filed within
4 18 months, the Secretary of Energy then must
5 conduct a study of alternative approaches to
6 construction and operation of the pipeline. The
7 study would consider establishing a federal
8 corporation to construct the pipeline and secure
9 alternative federal financing and ownership. The
10 studies' conclusions would then be submitted to
11 Congress.

12 Now, these provisions were
13 obviously put in to encourage fast action by the
14 project participants, but I felt it was
15 appropriate. This should be pointed out because
16 we still have not achieved what we had hoped to
17 have achieved, and that would have been a response
18 from the producers by the latter part of November.
19 And now we're told that the producers probably
20 will not be able to respond to the State's
21 proposal until the second week of December.

22 I would remind my colleagues that
23 we are under a calendar that's dictated by our
24 legislative session, so I think this is important.
25 I'm sorry to have taken so much time, but I did

1 want to insert that for the record.

2 In conclusion, I want to emphasize
3 that there's obviously much work ahead, but
4 there's also much promise ahead. I think that's
5 why we're here today.

6 So, as Governor, I pledge that the
7 State will do its part to move this project along
8 and serve the interests of Alaskans and those
9 outside our State as well. I look forward to
10 working with you, Mr. Chairman, and the other
11 Commissioners of FERC as a partner, a partner in
12 developing the Alaska natural gas pipeline.

13 These hearings, Mr. Chairman, will
14 build the necessary regulatory foundation that's
15 going to be so important for the success of the
16 largest and most expensive project ever undertaken
17 in North America and will very substantially
18 anchor in our nation's gas supply from a U.S.
19 source here in Alaska rather than bring it in from
20 foreign sources.

21 Thank you, Mr. Chairman. I'd be
22 happy to respond to any questions at an
23 appropriate time.

24 CHAIRMAN PAT WOOD: Thank you,
25 Governor Murkowski. We appreciate, again, your

1 leadership here in the State on these issues and
2 your warm welcome.

3 It's my pleasure to invite Senator
4 Lisa Murkowski for her thoughts and advice to us
5 on this project. Senator.

6 SENATOR LISA MURKOWSKI: Thank you
7 and good morning. I would like to thank you,
8 Chairman Wood, and the other members of the
9 Commission, Commissioner Brownell, Kelly and
10 Kelliher. It is quite a statement the fact that
11 you are convened here in Alaska for the very first
12 time.

13 You are convened as an entire
14 Commission and what that tells us here in Alaska
15 is what we have known for so long, that this
16 project and the significance of this project to
17 Alaska goes far beyond Alaska, that the
18 significance of this project reaches the rest of
19 the country, and I think internationally, in terms
20 of what we can provide as the energy bank for this
21 country.

22 So, I'm pleased to see the
23 commitment of your presence here today. We had an
24 opportunity last night to grab a little bit of
25 dinner in the midst of our second snowstorm. You

1 missed the rain and the squalls in between. So
2 I'm glad that you woke up to nice fresh snow this
3 morning. Makes you feel like you're really in
4 Alaska and not in Erie, Pennsylvania.

5 As you have recognized, Chairman
6 Wood, and as the other Commissioners have also
7 recognized, the Alaska natural gas pipeline is a
8 project of critical importance both to the State
9 and the nation as a whole. And to recast a line
10 that we heard frequently during the recent
11 presidential campaign, it's the right project in
12 the right place at the right time, and your
13 presence here today confirms that. It also lets
14 us know here that the Commission intends to work
15 closely with us here in Alaska to bring all the
16 benefits that this pipeline can generate both to
17 Alaska and to the nation.

18 I'd like to keep my comments just a
19 little more general than the Governor did, and I
20 appreciate the specifics that were presented. But
21 to briefly review why the Commission's authority
22 to certify the Alaska gas pipeline project is so
23 important to both Alaska and to the country. We
24 know this is going to enhance our national
25 security and freedom on foreign policy issues by

1 providing that secure and domestic source of
2 energy.

3 We also need to look at the
4 critical feed stocks, critical feed stocks at a
5 reasonable price for chemical and agricultural and
6 other important sectors of the economy. As I
7 speak to my colleagues in the Senate, regardless
8 of what the mainstay of the industry is in their
9 state, whether it's agriculture, whether it's
10 manufacturing, they're all crying for affordable,
11 reliable sources of natural gas. Many of these
12 industries are facing near catastrophic
13 conditions, including a dramatic loss of markets,
14 plant closures and layoffs due to the high cost of
15 natural gas.

16 We also have to look to the
17 opportunity for job creation. When we spoke of
18 the natural gas pipeline provisions moving through
19 the Congress in this last session, we referred to
20 this as the jobs bill. This is the jobs creator,
21 and not just for those of us here in Alaska, but
22 across the country. The estimates -- you take the
23 estimates with a grain of salt, if you will, but
24 the estimates of up to 400,000 jobs created across
25 the nation in every state in the country.

1 In addition, as we all know,
2 natural gas is clean-burning,
3 environmentally-friendly. It is the energy source
4 that we are all choosing to rely on. The
5 preference is there. Also, we look to the
6 revenues, not only to our state, but to the
7 federal revenues that we will see from this
8 project.

9 Now, this technical conference, as
10 you had pointed out, is being convened in order
11 for the Commission to implement the mandate under
12 Section 103(e) of the Alaska Natural Gas Pipeline
13 Act of 2004. That section requires the Commission
14 to issue the regulations governing the conduct of
15 open seasons for capacity on the natural gas
16 transportation project by February 10th, 2005.
17 And many of these requirements sound highly
18 technical and probably for most who would be
19 reading them appear to be of interest only to
20 those fascinated by the minutiae of natural gas
21 pipeline tariffs and I would suggest that you
22 probably do have that fascination and we're
23 encouraged by that.

24 But we also know that this is a
25 project, this is -- this conference we're taking

1 up today is where it really comes together. The
2 devil is in the details in these projects, and the
3 details of access to the Alaska natural gas
4 pipeline are critical to Alaskans. The specifics
5 of how any open season is conducted and how
6 capacity is allocated will unquestionably
7 determine whether Alaskans are able to secure the
8 full potential benefits that this pipeline can
9 bring to our state, and that's why I'm here today
10 to address you, to emphasize the importance to
11 Alaskans of the task that you are undertaking in
12 the rulemaking before you.

13 Now, before I get to some of the
14 specifics, I want to bring to the Commission's
15 attention -- I want to just kind of step back and
16 mention a few of perhaps the more overarching
17 reasons why this pipeline is so critical to us.
18 You mentioned in your opening remarks,
19 Mr. Chairman, the significance to Alaska and to
20 the country, and I have mentioned the jobs aspect
21 to us here in the state, a state where we have the
22 highest unemployment rate of any of the states in
23 the nation.

24 We look to this project and say
25 this will benefit us as individual Alaskans for

1 jobs and opportunities, good-paying jobs that can
2 sustain a family, but second are the energy costs
3 that we face as a state. Alaska, particularly
4 rural Alaska, has average energy costs that are
5 exponentially higher than most of America. This
6 is due in part to our geography, which you're
7 having an opportunity to experience, and I hope
8 with your future trips you will be able to
9 experience and even understand the challenges that
10 we face.

11 Most of our rural communities rely
12 on diesel to power their community. That diesel
13 fuel or their other energy sources often have to
14 be trucked or barged up the rivers into the remote
15 locations.

16 When you think about the fact that
17 we are powered by diesel in a state that is so
18 incredibly energy rich, a state where the air is
19 beautiful and clear and blue and the water is
20 clear, and yet you think of diesel and recognize
21 that as a fuel source this is not the cleanest
22 alternative for us. There is a substantial
23 negative impact on air quality and the overall
24 environment in many of the communities where it's
25 burned. So replacing the diesel fuel with

1 electricity generated by natural gas or by
2 compressed natural gas or propane will be of great
3 benefit to these communities.

4 And then also is the revenue aspect
5 to us in Alaska. The additional revenue from
6 natural gas can be used to address the health,
7 education and public safety needs of Alaska's
8 citizens. As the Governor had mentioned, we are a
9 young state. We are a developing state. So these
10 opportunities, the jobs, the revenue, really a
11 cleaner energy source, a reliable energy source
12 will truly benefit all Alaskans in our lifestyle
13 in the worlds in which we live.

14 Now, let me move to the rulemaking
15 that is the subject of this technical conference.
16 Some of the issues that I will bring up here are
17 not specifically mentioned in the rulemaking, but
18 nevertheless they are of great importance to
19 Alaska. I do believe that they are within the
20 proper scope of the rulemaking and believe that
21 they are issues that the Commission should address
22 when it does issue the final rulemaking.

23 The first issue concerns the
24 duration and procedures that will be adopted for
25 any open season. A number of different Alaska

1 entities will undoubtedly wish to become shippers
2 on the pipeline. These shippers could range from
3 large urban utilities to small cooperatives,
4 municipalities, electric generators and other
5 industrial and commercial customers. The
6 potential financial commitment required of these
7 entities to become shippers may well be enormous.

8 As you know, there is currently
9 little publicly available information about the
10 pipeline, particularly concerning its potential
11 rates, terms, and conditions of service and other
12 technical operational matters. So it is
13 critically important to potential Alaskan shippers
14 that this information be made available to them
15 before the commencement of the open season, or
16 that the open season is long enough for them to
17 adequately analyze this data before they are
18 required to make any capacity commitments at the
19 conclusion of the open season.

20 The Notice of Proposed Rulemaking
21 indicates the Commission's intent to ensure that
22 any open season provides a nondiscriminatory,
23 nonpreferential access to capacity on any Alaskan
24 pipeline project, and I applaud the Commission's
25 recognition of the critical importance of the

1 nondiscriminatory, nonpreferential access
2 conditions applicable to all shippers in any
3 Alaskan pipeline tariff.

4 The proposed rulemaking references
5 the known recoverable reserves of Alaska natural
6 gas of approximately 35 trillion cubic feet;
7 however, vast additional potential reserves of
8 natural gas appear to be available in locations in
9 northern Alaska. The Governor mentioned that
10 figure. There are vast reserves out there. We
11 don't know how much, but we know certainly that
12 it's well beyond the 35 TCF.

13 The Natural Gas Pipeline Act
14 recognizes these potential additional reserves in
15 Section 103(e)(2) where it states that any open
16 season regulations should promote competition in
17 the exploration, development and production of
18 Alaska natural gas. I strongly urge the
19 Commission to ensure that nothing in the final
20 rule establishes any precedent concerning rate
21 design or terms and conditions of service which
22 would discourage the investment that will be
23 necessary to develop and produce these additional
24 reserves.

25 I would like to conclude,

1 Mr. Chairman, by thanking you and the other
2 Commissioners for convening and attending the
3 technical conference. I, too, would like to
4 acknowledge all of those who have joined us here
5 this morning and will be spending the day either
6 presenting testimony or listening with great
7 interest as we take up this issue of huge concern
8 to those of us here in Alaska and to those of us
9 across the country.

10 Thank you for your time, and I do
11 hope that the rest of the conference goes well and
12 you'll have safe travels back to your homes.
13 Thank you.

14 CHAIRMAN PAT WOOD: Thank you,
15 Senator. Before I ask our state leadership to go
16 forward with their comments, I just want to throw
17 this out. I know we have the television station
18 here hearing us.

19 I want to just bring the lay
20 language -- what it is we're talking about when we
21 say "open season." By open season we mean the
22 opportunity prior to the construction of a
23 pipeline and then, perhaps, subsequently prior to
24 any expansions of the pipeline for additional
25 customers to come to that pipeline and have a

1 contract to ship gas on that pipeline.

2 Now, it sounds pretty simple, but
3 in the delicate jockeying to build really what is
4 the largest civil engineering project in my
5 lifetime, is what we're talking about here -- in
6 the jockeying that goes between the time it's
7 negotiated and the time it's built, there's the
8 ability for gas to be explored and discovered
9 elsewhere. Senator Murkowski just laid out maybe
10 perhaps three times the amount that's already been
11 identified and reinjected back into the North
12 Slope production area.

13 So the open season is the
14 opportunity that we have used at FERC across the
15 country, probably most recently successfully in
16 the Maritimes in the New England area, which would
17 be the Canadian provinces and Maine down through
18 New Hampshire and Massachusetts to allocate
19 capacity between different users of that pipeline.

20 It is something we have now used
21 across the board in all of our gas pipeline
22 projects. We haven't up until now however had the
23 open-season processes spelled out in a regulation.
24 The bill that passed in October, however, decided
25 to make some very specific demands on the

1 Commission to specify the details of the open
2 season and put in there the rationale and the
3 larger public policy goals that we have to
4 accomplish, such as nondiscrimination,
5 competition, service of the needs within the State
6 of Alaska as well as outside the State.

7 So, when we talk about open season
8 for the rest of the day, we talk about these
9 regulations that frame that and that's what we're
10 talking about, is the opportunity prior to the
11 construction of the pipeline for the balance of
12 the people who want to use it and are willing to
13 pay for it to have space and have their product
14 delivered on that pipeline.

15 At this time we are honored and
16 really pleased to introduce State Representative
17 Ralph Samuels from the State of Alaska.

18 REPRESENTATIVE RALPH SAMUELS:
19 Thank you, Mr. Chairman. I'd like to follow up on
20 what Senator Murkowski and the Governor said on
21 how much we actually appreciate you coming up here
22 in December. In May everybody likes to come.

23 I'd like to start by sharing some
24 numbers with you. If you don't mind, I'd like to
25 use the map for a second here. I'd like to start

1 off with a couple different numbers here. First
2 of all is the number 35, as in 35 TCF. That is
3 what we have right now in known conventional gas
4 underlying Prudhoe Bay and Point Thompson. Now,
5 Prudhoe Bay and Point Thompson is the area in here
6 between the two darker brown areas right here.

7 The second number is
8 four-and-a-half BCF a day. That's the pipe
9 capacity that would move that resource to markets
10 for about 20 years. And then the numbers are
11 going to get a little bigger here. It's 250 TCF.
12 Counting the 35 original that we've got, we've got
13 61 TCF in the NPRA, National Petroleum Reserve
14 Alaska, this section right here. Sixty under
15 State and Native lands, right here again. Four in
16 ANWR, which as everybody in this audience would
17 know, would most likely be a guess. Thirty
18 beneath the Beaufort Sea up here, and another 60
19 beneath the Chukchi Sea, which is up here.

20 Total of 250. Now, these represent
21 under USGS numbers, and you're going to hear from
22 the USGS a little later this afternoon. That is
23 the conventional undiscovered gas volumes in the
24 area. So if we assume that only 100 of that, only
25 100, and 35 we know we've got. If we've got 100

1 of it at four-and-a-half BCF a day, you can fill a
2 pipeline for 60 years and a BCF pipeline for 30
3 years. So the volume that we're talking about
4 here, or the potential volume that we're talking
5 about, is what we really want to try to hit home
6 with you guys today. The potential that we have
7 in the State of Alaska here is going to be larger
8 than any other single geographic region of this
9 country and possibly on the planet.

10 The third set of numbers we're
11 going to talk about today, and USGS will be able
12 to give you a lot more of the specifics on the
13 geology, are gas hybrids in the area between the
14 two dark brown areas up here. There are 37 to 44
15 TCF in the gas hydrates. And if you wanted to add
16 the mind-boggling number the USGS gives, is 32,000
17 TCF in the whole area of the Beaufort Sea and the
18 Chukchi Sea, particularly on the gas hydrates.
19 That is in addition to the 250, which was in
20 addition to the 35. So the potential as the
21 technology gets developed and the USGS will be
22 telling us today what we can expect on the 37 to
23 44 and what we can expect on the massive number
24 that we've got right there.

25 You're talking about a number which

1 we cannot sit here and limit and let certain
2 entities limit how we expand this pipeline if we
3 have this massive potential for gas resource.

4 The next set of numbers is what the
5 federal government did for us in the tax
6 concessions. The American people agreed to have
7 \$18 billion in loan guarantees and almost
8 \$300 million in tax credits for a gas treatment
9 plant on the North Slope, and \$441 million in tax
10 benefits associated with accelerated
11 depreciations. So on one hand, we've got the
12 American people who are willing to get some skin
13 in the game with their tax dollars to make the
14 project go forward, and on the other hand we have
15 the potential for massive resource.

16 Right now we're looking at the
17 economics of this thing at 35. We need to, on the
18 economics of it, we need to make it pay and we're
19 never going to advocate that this not pay, ever.
20 But we have to, when we start setting the
21 regulations, we need to have some vision at how
22 big this could possibly be and make sure that no
23 other entity has the ability to turn the spigot
24 off between the American people who put money into
25 this game and the massive resource which is

1 obviously going to help Alaskans, but it's going
2 to help the entire country become a little bit
3 more energy independent.

4 The second point I would like to
5 speak about today is the competitive factor we
6 find ourselves in right now. You're going to be
7 hearing from the big three producers; BP,
8 ExxonMobil and ConocoPhillips. They're all three
9 going to be testifying today. Competitively
10 speaking, at Prudhoe Bay originally there were 17
11 leasees. Now we have five. Three of them are
12 part of the producers. At Point Thompson there
13 were originally 26, down to five. Three of those
14 are also what we call producers. Together they
15 control 90 percent of the 35 TCF of reserves that
16 we have under these two units. The same three own
17 three of the five of the TransAlaska pipeline.
18 Originally there were seven.

19 So they have made very good
20 business decisions. So as the volume of oil has
21 dropped, the normal business consolidations have
22 taken place as you would expect in any business
23 model, so it's not -- there's no bad blood between
24 what we call the producers and the State, however,
25 when we look at having a potential pipeline and

1 right now the administration, under the Stranded
2 Gas Act, has a couple of different applications
3 and entities they're negotiating with.

4 So as they negotiate with these
5 various entities, we want to be sure that if the
6 people that own the gas also own the pipeline, it
7 doesn't preclude anybody who wants to do any
8 exploration on the massive resource. We want to
9 make absolutely sure they have the ability to get
10 into the pipeline.

11 The further you get from Prudhoe
12 Bay, the less likely it is that you're going to
13 find oil; the more likely it is to find gas.
14 Nobody is going to go search for oil further and
15 further away, if they know they're just going to
16 find gas. If we want to have more oil in the
17 pipeline, once again, it's good for Alaska but
18 also for good for America. If we want to have
19 more oil, we have to have something to do, but if
20 they find the gas, they have to be able to get it
21 to market in an open season. They've got to bid,
22 but if they find the gas, they're going to get the
23 oil. It goes together. They're not going to go
24 look for the oil if they can't get rid of the gas
25 and sell the gas at the same time.

1 Specifically, along the idea of
2 making sure that we get the explorers that have
3 the access, which is why we will stand by the
4 remarks we gave to the FERC earlier last month, we
5 need to ensure that the presubscription of
6 capacity should be rejected by the Commission.
7 Presubscription is going to possibly tie up the
8 entire pipeline. Anybody with new gas comes in
9 and there's nowhere to go. And we can follow that
10 up with rolled-in pricing like the Canadians have
11 mostly rolled-in pricing structure and we would
12 encourage the FERC to adopt a rolled-in pricing
13 model.

14 As we look at expansions, if it
15 takes five or ten years and a billion dollars to
16 go get some gas, and you do not know if you'll
17 have access or what the price will be if the
18 compression comes in and Company A and all the
19 compression is used up until the looping comes in
20 at the expense of expansion and that's the time
21 you get your gas on line; you're not going to go
22 explore. You need to have some certainty. The
23 producers need to have certainty for getting the
24 gas to market and building the pipeline, but the
25 explorers need to have certainty also on they're

1 going to have the access and what the price is
2 going to be. They will take some market risks,
3 but shouldn't be able to take the shipping risk
4 also.

5 In my real life I work in the
6 airline industry. So if I started a route from
7 Seattle to Los Angeles, and somebody says, you can
8 do that all you want to but your competitor gets
9 to set your fares. They tell you what you're
10 going to charge your customers. You don't let
11 your competitors set your fares. That is one
12 thing that the FERC clearly needs to look at.
13 We're not going to have two pipelines up here.
14 There's not going to be a competence factor.
15 There's going to be a pipeline and there are going
16 to be expansions and that's all we're going to
17 have. We all know that.

18 When you set the regulations, which
19 we desperately hope that you set them now and set
20 them firmly in place now, we need to ensure
21 because of the massive potential that we have here
22 that if they choose to come and invest in Alaska
23 and choose to spend the dollars exploring that
24 they have someplace to put their product. If we
25 fail to do this, I believe that the federal

1 statute says that you have to promote competition,
2 which is a new gig for you all and we understand a
3 kind of new way of thinking in the grids that you
4 all deal with there is usually some form of
5 competition involved with it.

6 Up here it's specifically stated in
7 the federal statute that the competition, you must
8 promote it and that's why we feel strongly about
9 the rolled-in tariffs. There's another way it can
10 be done that's fine, but we still need to make
11 absolutely sure that somebody doesn't have the
12 pipeline and the gas and holding the spigot
13 between the American people and our resource right
14 now.

15 In the interest of time, I will
16 defer to Senator Therriault now. But I would like
17 to reiterate that I spoke to all four of you last
18 night. You said that you read through our brief
19 that we filed earlier. We would stand by the
20 details in there, and we will have another written
21 brief submitted to you and stand by the details.
22 It's going to be pretty much the same thing. Once
23 again, we sure appreciate you being here.

24 CHAIRMAN PAT WOOD: Thank you,
25 Representative Samuels. Senator Therriault.

1 SENATOR GENE THERRIAULT: I will
2 try to pick through my written comments to save a
3 little bit of time. Today we want to challenge
4 the Commission to think outside of the box when it
5 comes to establishing rules for obtaining the
6 access to any new Alaska gas pipeline. In doing
7 so, the Commission must address expansion matters
8 and it needs to do that now in the context of the
9 proposed regulations which you are addressing.
10 Why we think that it's important is because of the
11 long lead times that are involved with about
12 anything associated with expansions.

13 For example, the State of Alaska
14 has granted several producers certain exploration
15 licenses for oil and gas on State lands covering
16 roughly two million acres. Importantly, four of
17 these exploration license areas lie along or near
18 the probable pipeline grounds.

19 These exploration areas are located
20 in the Nenana Basin, the Copper River Basin, the
21 Susitna Basin and also other areas of the Yukon
22 Flats Basin. Given that these enormous tracts are
23 still in very early exploration stages, it is
24 unlikely that any appreciable production will be
25 available when the AGP goes into service.

1 However, and this is key, these areas will make
2 use of expansion capacity once the line is in and
3 the producers are able to start production.

4 However, certain things must happen
5 before the exploration licensees holding these
6 leases will invest the capital to expand and
7 develop these tracts. They must have at least
8 some assurance that the line will be expanded when
9 it becomes economic to do so along with knowledge
10 that the rules for access to expansion capacity
11 will allow all parties a fair shot at obtaining
12 needed levels of capacity. I recognize that the
13 FERC probably can't mandate expansion in what is
14 currently under discussion, but the FERC can adopt
15 rules that address access to future expansion
16 capacity. Next the exploration license producers
17 must know how expansion capacity is going to be
18 priced before they will begin to drill and develop
19 those enormous tracts. They must know up front
20 that the capacity will be priced on a rolled-in
21 basis. It's just that simple. Without knowledge
22 the pipeline owners will not be allowed to
23 withhold capacity and without knowledge now that
24 such a capacity will be available to all shippers
25 on a fair basis and without knowledge now that

1 such pricing of expansion capacity will be
2 reasonable, these enormous tracts of State land
3 will not be explored or the reserves exploited.
4 That will be a tremendous loss to Alaskans because
5 of the royalty and tax interest and a loss to the
6 Lower 48 gas consumers.

7 Recall that the new law requires
8 that the Commission's regulations must promote
9 competition in the production of gas in Alaska.
10 This obviously requires that the producers
11 presently engaged in Alaska gas exploration be
12 encouraged to do so. This in turn requires that
13 the regulation be adopted today that will provide
14 those three fundamental assurances. Anything less
15 than providing these assurances will effectively
16 foreclose competition as new producers will be
17 unwilling to sink the capital into developing
18 licensed areas. And an opportunity of a lifetime
19 will be missed. Accordingly, the FERC must take
20 steps in the current rules to ensure that those
21 current requirement will be met that these
22 expansions will be encouraged and based solely on
23 projected economics, that access to expansion
24 capacity will be fair and all future expansions
25 will receive a rolled-in rate treatment.

1 I recognize the Commission has new
2 powers under the ANCPA to order an expansion of
3 the gas pipeline and this is not a topic for the
4 current discussions. However, it is my hope that
5 the regulations you adopt regarding the open
6 seasons will provide incentives to the pipeline
7 owners to expand willingly whenever the project
8 economics demand what rationally support such
9 expansion.

10 Next I would like to touch a little
11 bit on in-state use. With a development of a
12 resource we have the potential of developing a
13 petrochemical industry that we already have in
14 Alaska and we have the potential of switching over
15 electric generation to gas turbine generation. We
16 have the potential in Interior Alaska for gas
17 distribution for heating, which we currently only
18 have a minimal amount of that. But to do that
19 it's going to take lead time and those industries
20 also need to know because they will not be ready
21 now with infrastructure to nominate for capacity.
22 They need to know that in the future that capacity
23 will be available. It will simply not be possible
24 for Alaska's in-state users to fashion access
25 rules on a case-by-case basis back in D.C. It's

1 too far and too expensive.

2 Thus the Commission must take pains
3 now to to fashion rules, soup to nuts, that govern
4 access to the initial pipeline capacity and
5 expansions. It would be a mistake to rely on the
6 sort of complaint-based enforcement and compliance
7 process as the Commission has done in much of its
8 regulations in the Lower 48 pipelines and is
9 inherent in the current draft rules. For example,
10 the draft regulations now placed on the pipeline
11 sponsor the obligation of developing mechanisms
12 for allocation of capacity in the event there is
13 insufficient pipeline capacity for all bids
14 received in the open season. In another area the
15 Commission's draft regulations simply dictate that
16 capacity shall be allocated without undue
17 discrimination or preference of any kind. Both of
18 these areas are vital to the potential shippers
19 and in-state users, and unless the Commission
20 fleshes them out, they will likely be sources of
21 litigation for years to come.

22 As I mentioned earlier, that
23 litigation is distant and expensive. This is the
24 sort of litigation that my constituents simply
25 cannot afford to pursue. Given that so many

1 stakeholders in the Alaska pipeline must look to
2 the anticipated expansion phases in order to
3 obtain capacity or arrange business affairs to
4 accommodate Alaskans gas consumers, the true
5 parties and interests may not know now that they
6 are stakeholders or that they will be affected by
7 the FERC rules. By making the details of access
8 and allocation a matter of binding commission
9 regulation rather than leaving them to be shaped
10 by expensive litigation, the Commission can truly
11 do its job now and let those potential future
12 players know what the rules are going in.

13 It will be a step that you can take
14 now to truly protect the little guy in the future.
15 It would seem to be advisable for the Commission
16 to cover these vital areas in its regulations at
17 the outset. That indeed seems to be what the new
18 statute requires. It mandates that the
19 Commission's rules should establish procedures for
20 the open seasons and establish procedures for the
21 allocation of capacity. The Commission should
22 flesh out in order to comply with the statute and
23 best interest to all parties affected by the
24 pipeline.

25 Finally, I would like to touch on

1 the studies. Studies by the pipeline sponsors of
2 in-state needs are required by ANCPA Section
3 103(g). This is an important decision designed to
4 protect in-state users of Alaska gas. The
5 presence of the pipeline can be expected over time
6 to generate its demand for gas in Alaska.
7 Industries and utilities will be leading the
8 expansion of the line, accordingly this study must
9 not be a one-time event.

10 The Commission should require in
11 its regulations that any open season conducted by
12 the pipeline sponsors must be preceded by a
13 Section 103(g) study by the sponsors. In so doing
14 the Commission should also establish guidelines as
15 to what must be included in such a study. And we
16 anticipate in our next written presentation to you
17 to flesh out what we believe the different
18 components in that study should be.

19 In conclusion, I believe the
20 comments from the three presenters before myself
21 on behalf of the State of Alaska. The Commission
22 must write rules respecting how capacity is
23 awarded and allocated and not leave that up to the
24 sponsors to develop. We believe the Commission
25 should prohibit presubscription of capacity

1 outside of transparent open season. We believe
2 that the dynamic of this project in particular
3 noting the skin the American public has basically
4 put into the game compels you to not allow the
5 presubscriptions of capacity. We also believe
6 that the Commission must decide in 2005 how
7 expansion capacity will be priced. The Commission
8 must be guided by the statutes which require that
9 your regulation promote competition and
10 exploration.

11 We think that is key to the pricing
12 methodology that will be used for future
13 expansions. Leaving the rate treatment must be
14 considered to be the unknown at this time and the
15 existing policy of incremental pricing is the
16 operative rule and we believe that if that is left
17 out, there is sort of the default that will have a
18 chilling effect on the attraction of capital for
19 exploration in the State of Alaska.

20 We believe that probably
21 competitive exploration is part of a charge that
22 Congress recently gave to you. We believe that
23 incremental pricing will stifle competition in the
24 state. We encourage you to use rolled-in pricing
25 methodology. We will be expanding on these points

1 in written comments to be filed by December 17th.
2 I want to thank you for your time today for the
3 opportunity to convey matters of particular
4 concern to Alaskans and Alaska's future.

5 And just in closing I want to just
6 touch on the comments by Commissioner Brownell in
7 her opening statement. We believe the things that
8 the State is requesting of you, and Representative
9 Samuels and I believe that what you have heard
10 here from the four presenters have said are pretty
11 much uniform. We believe it not only is in the
12 best interest of the State of Alaska, we believe
13 it is truly in the best interests of the citizens
14 of the United States. Thank you.

15 CHAIRMAN PAT WOOD: Thank you,
16 Senator Therriault, and we appreciate your
17 leadership and look forward to doing what we
18 can -- from the federal side of the fence -- to
19 support your efforts in the coming months to
20 provide a lot of clarity for the project going
21 forward. So on this effort that we're talking
22 about today and anything else in Section 105 we
23 will continue to have a very close dialog and I
24 look forward to that.

25 At this time we would like to shift

1 the face here back to the actual proposal that our
2 Commission put out last month, and I would like to
3 use this opportunity while we're setting up to
4 recognize four of our topnotch staff.

5 Rob Cupina is our deputy director
6 of energy projects, which is our largest division
7 in the agency, and joining him we have Brian Lee,
8 one of our internal affairs staffers. Sarah
9 McKinley's friendly face is the one who met you
10 all at the door.

11 On this next panel will be our
12 staff attorney for this project, Whit Holden.

13 Rob, I'll turn it over to you.

14 ROBERT CUPINA: Good morning. I'm
15 Robert Cupina with the office of energy projects.
16 Our office is responsible for the engineering and
17 environmental analysis of any project that gets
18 filed. My job today is to learn as much as
19 possible from you all and to keep us on time. I
20 made some progress on the first, but I'm already
21 in trouble on the second.

22 From a staff standpoint a few
23 observations: This open season is a necessary
24 first federal regulatory step toward an Alaskan
25 pipeline. When an application is filed or a

1 prefiling request comes in, FERC is the lead
2 agency and that's part of the legislation. FERC
3 is positioning itself to meet its statutory
4 20-month timeline after a formal application is
5 eventually filed.

6 To do that it's critical that any
7 sponsor use the prefiling process and interagency
8 cooperation is essential. We have already started
9 along that program. I have some program
10 announcements, and then we'll turn it over to
11 Whit.

12 We have scheduled a lunch break at
13 1:00, and that's different than the agenda
14 schedule that went out November 29th. We made a
15 few tweaks last night, so the agenda that's
16 available in the back of the room is the correct
17 one. Attendees are free to come and go throughout
18 the day. There's a snack bar in the building on
19 the second level.

20 An agenda correction between the
21 29th and today is that Mr. Irwin and Corbus will
22 be trading places on their respective panels.

23 With that, I want to introduce
24 Edwin "Whit" Holden. He's with the FERC's general
25 counsel's office, and he drafted the NOPR and will

1 present it for us.

2 WHIT HOLDEN: Thank you. My name
3 is Whit Holden. I'm with the office of the
4 general counsel of FERC, and I have the privilege
5 of being selected as one of the Commission staff
6 members who will be working on the Commission's
7 regulations for conducting open seasons for the
8 Alaska natural gas transportation projects. I am
9 also the FERC's informational contact person in
10 connection with this effort. So if you have any
11 questions throughout this process, you can reach
12 me at FERC at 202-502-8089 or my e-mail address is
13 edwin.holden@ferc.gov.

14 The Alaska Natural Gas Pipeline Act
15 became law on October 13, 2004. The objective of
16 this Act is to facilitate the timely development
17 of an Alaska natural gas transportation project to
18 bring Alaskan natural gas to markets in Alaska and
19 in the Lower 48 states to meet an expected
20 dramatically increasing demand for natural gas.
21 It is clear from the Act that Congress views this
22 effort as urgent, important and unique.

23 The urgency is of this effort is
24 demonstrated by a number of provisions in the law,
25 including those calling for expedited

1 environmental review and Commission certificate
2 approval processes, as well as expedited judicial
3 review in connection with any environmental impact
4 statement or final federal agency order issued
5 under the Act. Moreover, the Act establishes an
6 independent office of federal coordinator who is
7 empowered to oversee and coordinate the
8 expeditious federal permitting processes in
9 connection with any Alaska natural gas
10 transportation project.

11 The importance of this effort is
12 demonstrated by other provisions of the Act, such
13 as those providing for a statutory presumption of
14 public need for the project as well as a federal
15 loan guarantee up to 80 percent of the project's
16 cost, up to \$18 billion.

17 The unique nature of this effort is
18 demonstrated by still another group of provisions
19 of the Act, including those which give the
20 Commission the authority to require an expansion
21 of any Alaska natural gas transportation project
22 at the request of one or more persons, those
23 provisions aimed at protecting Alaska's in-state
24 needs for gas, and of course Section 103 (e) of
25 the Act which directs that within 120 days from

1 the enactment of the Act, the Commission is to
2 issue regulations governing the conduct of open
3 seasons for Alaska natural gas transportation
4 projects, including procedures for the allocation
5 of capacity.

6 To meet that mandate, on November
7 15, 2004, the Commission issued in Docket No.
8 RM05-1 a Notice of Proposed Rulemaking, or NOPR,
9 containing the Commission's proposed Alaska
10 natural gas transportation project open season
11 regulations. As stated in the NOPR, the
12 Commission intends to issue its final regulations
13 by February 10, 2005. For anyone who has not yet
14 reviewed the NOPR or has been unable to secure a
15 copy of the Alaska Natural Gas Pipeline Act, I
16 have brought with me 50 copies of the NOPR and the
17 Act, which I will make available when we take a
18 convenient break.

19 This proceeding is what is often
20 referred to as a "notice and comment" rulemaking.
21 It's a simple, informal and straightforward
22 process in which agencies are required to publish
23 a NOPR that includes either the terms and
24 substance of the proposed rule or a description of
25 the subjects and issues involved, and interested

1 persons are to be given an opportunity to
2 participate in the rulemaking through submission
3 of written data, views or arguments, with or
4 without opportunity for oral presentation.

5 The NOPR in this process contains
6 the terms of the proposed regulations, and
7 additionally, poses five general questions on
8 which public comment is sought. Moreover, in
9 addition to NOPR's December 17 deadline for
10 written public comments, we are here today to
11 gather oral comments. This technical conference
12 is being reported, and arrangements can be made
13 with the court reporter to obtain transcripts on
14 an expedited basis for a fee. Otherwise, the
15 transcript should be available for all to review
16 on the Commission's web site in seven days. Also,
17 interested persons are free to file more than one
18 set of comments, so long as the comments are
19 received by the December 17 deadline. If anyone
20 wishes to submit written statements or information
21 today as a part of their presentation, they can
22 give it to me and I will see that they are
23 included in the official public file. Otherwise,
24 you can file your materials with the Commission in
25 the RM05-I docket through e-mail or regular mail.

1 Today's focus is on issues relevant
2 to the subject of open season regulations for
3 Alaska natural gas transportation projects.
4 Section 103(e) of the Act states that these
5 regulations must, one, include the criteria for
6 and timing of any open season, two, promote
7 competition in the exploration, development, and
8 production of natural gas, and, three, for any
9 open seasons for capacity exceeding the initial
10 capacity, provide for the opportunity for the
11 transportation of natural gas other than from the
12 Prudhoe Bay and Point Thompson units.

13 This conference is a unique
14 opportunity in which all of the Commissioners of
15 the Federal Energy Regulatory Commission will be
16 able to hear in one day, and on the record,
17 comments from public officials and
18 representatives, and from all segments of the
19 public that will be impacted by any open season
20 rules. It is also a unique opportunity for all of
21 you who are interested in submitting written
22 comments on the NOPR to hear the views of others.
23 This, no doubt, will help you in the preparation
24 of your own comments and will lead to a more
25 focused and meaningful public participation

1 through the written comments that will follow.

2 Even before the NOPR was issued
3 the Commission received comments and suggested
4 open season requirements from several interested
5 parties, including natural gas producers,
6 potential project sponsors, and members of the
7 Alaska legislature. The comments received to date
8 provide informed discussion of many issues unique
9 to capacity allocation on any Alaska natural gas
10 transportation project. Those comments are
11 currently available on the Commission's web site
12 at www.ferc.gov. If you have trouble accessing
13 these comments or any other part of the rulemaking
14 record, please give me a call. If I can't help
15 you, I will know who can.

16 Some comments received to date
17 express concern that if the capacity of an Alaska
18 pipeline is monopolized by production from the
19 North Slope, other Alaska explorers and
20 developers, unsure whether they will be able to
21 gain access to the pipeline's capacity, might be
22 discouraged from further exploring for and
23 developing other natural gas reserves.

24 A number of comments stress the
25 need for a transparent and flexible process to

1 ensure that capacity is made available on a
2 nondiscriminatory, open access basis.

3 Another issue that was discussed at
4 length involves the issue of whether the
5 Commission should issue regulations with respect
6 to the pricing and rate structure of Alaska
7 pipeline expansions in order to ensure that open
8 seasons for expansion capacity provide the
9 opportunity for transportation of gas other than
10 from Prudhoe Bay or Point Thompson. The materials
11 submitted to the Commission raise a host of other
12 concerns and offer numerous suggested provisions.
13 However, one should not assume that a given
14 comment or recommended open season provision was
15 ignored or rejected because it did not find its
16 way into the NOPR's proposed regulations. Anyone
17 interested in submitting comments will be well
18 served to review the rulemaking record to date by
19 way of the Commission's web site, although the
20 presentations today will undoubtedly reemphasize
21 most, if not all of the matters of concern already
22 raised. The presentations will brought to the
23 Commission's attention.

24 Currently, there are no Commission
25 regulations respecting open seasons. To date, the

1 Commission's policy, developed through its orders
2 and opinions, is that all new interstate pipeline
3 construction be preceded by a nondiscriminatory,
4 nonpreferential open season process through which
5 potential shippers may seek and obtain firm
6 capacity rights. Congress has determined that it
7 is necessary to supplant Commission policy with
8 specific regulations governing the conduct of open
9 seasons for an Alaska natural gas transportation
10 project in order to take into account long lead
11 time associated with the tremendous size, scope
12 and cost of an Alaskan pipeline, environmental
13 sensitivities, and the competitive conditions that
14 are unique to such a project.

15 As stated in the NOPR, the
16 Commission sees as its goal the creation of an
17 open season process that provides
18 nondiscriminatory access to capacity on any Alaska
19 natural gas transportation project, while at the
20 same time ensuring sufficient economic certainty
21 to support the construction of the pipeline and
22 thereby provide a stimulus for exploration,
23 development and production of Alaska natural gas.

24 The proposed open season
25 regulations apply to any application to the

1 Commission for a certificate or other
2 authorization for an Alaska natural gas
3 transportation project, whether filed pursuant to
4 the Natural Gas Act, the Alaska Natural Gas
5 Pipeline Act of 1976, or the Alaska Natural Gas
6 Pipeline Act, and also to pipeline applications
7 for expansion of such projects. Additionally, the
8 Commission could direct in a given case that the
9 regulations apply to an expansion of Alaska
10 natural gas transportation project ordered by the
11 Commission at the request of others pursuant to
12 Section 105 of the Act.

13 Under the proposed regulations, the
14 Commission will dismiss as deficient any
15 application for a certificate of public
16 convenience and necessity for a proposed Alaska
17 natural gas transportation project that fails to
18 show that the applicant conducted an open season
19 that fully complies with the open season rules.

20 The criteria for and timing of
21 Alaska natural gas transportation project open
22 seasons are spelled out in proposed Section
23 157.34. A 30-day prior notice of any open season
24 is proposed in order to level the playing field
25 between those potential shippers possessing prior

1 knowledge of the open season and those potential
2 shippers without such prior knowledge.
3 Additionally, this 30-day period would allow time
4 for potential shippers and project sponsors to
5 address and possibly resolve any issues regarding
6 the open season terms and conditions.

7 Proposed Section 157.34(b) lists
8 the information that any notice of open season for
9 an Alaska natural gas transportation project must
10 contain. There are 17 items listed in that
11 section. As Senator Murkowski said, the devil is
12 in the details, and this is one of the areas which
13 the Commission specifically requests public
14 comment in fashioning the final rule, particularly
15 from those who have to make their respective
16 business decisions based on the information
17 provided during the open season process.

18 Proposed Section 157.34(c) requires
19 that any Alaska natural gas transportation
20 project's open season remain open for at least 90
21 days. The Commission proposes this as an adequate
22 period for any potential shipper, whether or not
23 they may have had advance information relating to
24 the pipeline's proposed services, tariff
25 provisions, and cost projections, to evaluate the

1 open season materials, again, thereby leveling the
2 playing field for all potential shippers. The
3 Commission considers this as essential to ensuring
4 that the regulations promote competition in the
5 exploration, development, and production of Alaska
6 natural gas, and will consider comments as to the
7 need to shorten or lengthen this period to meet
8 this goal.

9 The regulations coincide with
10 requirements that all capacity allocated in an
11 open season for an Alaska natural gas
12 transportation project be awarded without undue
13 discrimination or preference of any kind and that
14 any open seasons for expansion capacity on an
15 Alaska natural gas transportation project must
16 provide for the opportunity for the transportation
17 of gas other than Prudhoe Bay or Point Thompson
18 production.

19 Finally, as I mentioned earlier, in
20 addition to the proposed regulations, the NOPR
21 listed five areas of public inquiry. First, what
22 procedures could the Commission employ to
23 facilitate the expeditious resolution of
24 objections or concerns regarding any open season.
25 Second, should the Commission also issue at this

1 time regulations pertaining to its authority under
2 Section 105 of the Act to require expansion of any
3 Alaska natural gas transportation project,
4 including regulations dealing with expansion rate
5 treatment? Third, should the Commission allow
6 presubscribed, reserved capacity on any Alaska
7 natural gas transportation project? Fourth, the
8 Commission invites discussion on whether any
9 tension exists between its existing policies and
10 the Act's requirement that the open season rules
11 must promote competition in the exploration,
12 development, and production of Alaska natural gas.
13 Finally, should the regulations deal with
14 allocating capacity at gas treatment facilities
15 associated with any Alaska pipeline project?

16 I should also mention that in a
17 November 29 supplemental notice of technical
18 experience, the Commission raised a number of
19 topics focusing on capacity allocation issues
20 considered unique to the circumstances in Alaska
21 and presenters today were invited to discuss those
22 issues. It would be helpful to the Commission if
23 written comments addressed these capacity
24 allocation issues as well. These topics can be
25 reviewed by accessing the record in this

1 proceeding and referring to the November 29th
2 supplemental notice.

3 A couple telephone numbers: Ace
4 Reporting Company for securing the transcript,
5 202-347-3700 or 800-336-6646 and also another
6 commission staff member, Richard Foley,
7 202-502-8955 or richard.foley@ferc.gov. Richard
8 is another member working on this effort.

9 I will now turn the proceedings
10 back over to Robert Cupina.

11 ROBERT CUPINA: We will call our
12 first panel of potential project sponsors. I
13 appreciate you all serving on the same panel. I
14 agree with Representative Samuels. There will be
15 one project. And this is our initial attempt to
16 get together with that.

17 Tony Palmer with TransCanada.

18 TONY PALMER: Good morning. My
19 name is Tony Palmer. I am vice president for
20 Alaska Business Development TransCanada Pipelines
21 Limited. A copy of my remarks were distributed at
22 the beginning of this session, and I will
23 abbreviate to fit within the time contract today.

24 TransCanada is a
25 longstanding developer of major new pipeline

1 systems in North America, with significant
2 expertise in frontier and cold-weather areas.
3 TransCanada owns Alaska Northwest Natural Gas
4 Transportation Company, the entity selected by the
5 President, the United States Congress and the FERC
6 to construct and operate the Alaskan segment of
7 the Alaska Natural Gas Transportation System and
8 the holder of the NGA certificate of public and
9 necessity for the ANGTS.

10 TransCanada, through its subsidiary
11 Foothills Pipe Lines Limited, also holds the
12 authorizations, granted by Act of Parliament
13 pursuant to the Northern Pipeline Act, to own and
14 construct the related transportation facilities
15 through Canada, which are also recognized in a
16 treaty between the government of Canada and the
17 United States. Foothills built, and has expanded
18 numerous times, the prebuild facilities, which now
19 transport approximately one-third of all gas
20 exported from Alberta into the lower 48 states.

21 TransCanada has been, and remains,
22 firmly committed to build and operate the
23 transportation infrastructure necessary to
24 transport Alaskan gas reserves to North American
25 markets.

1 TransCanada and Alaskan Northwest
2 are actively engaged in pursuing the
3 commercialization of a pipeline for Alaska gas,
4 and in obtaining the remaining regulatory
5 approvals needed to construct an independent
6 pipeline to deliver gas from Alaska to the Lower
7 48 states. TransCanada, Alaskan Northwest and
8 their affiliates do not own interests in any
9 Alaskan gas reserves. TransCanada has
10 consistently expressed its willingness, even its
11 preference, that the project be developed jointly
12 with multiple stakeholders, including independent
13 pipeline developers/investors, natural gas
14 producers and Alaskan interests, including
15 specifically the State of Alaska. No matter who
16 participates, TransCanada's vision is an
17 independent, transportation only pipeline whose
18 sole corporate goal will be to maximize throughput
19 by constructing a pipeline large enough to
20 accommodate all interested initial shippers and by
21 expanding the pipeline when new reserves and
22 shipping commitments are available. Such an
23 independent pipeline will support the interests of
24 both initial and future shippers on the pipeline.

25 The effort of TransCanada and

1 Alaskan Northwest to construct an Alaskan pipeline
2 system has a long, complex history. The full
3 background will be described in more detail in our
4 formal written comments to be filed later this
5 month.

6 In 1977 the Commission issued a
7 conditional certificate under the Alaska Natural
8 Gas Transportation Act to the persons designated
9 by the President to construct and operate the
10 ANGTS. In 1980 the Commission issued final
11 certificates authorizing construction and
12 operation of the eastern and western legs of the
13 ANGTS in the United States. In Canada prebuild
14 facilities were constructed under the original
15 certificates and have been expanded five times,
16 most recently in 1998. In 1982, however, market
17 changes resulted in decreased demand for gas and
18 Alaskan Northwest announced suspension of
19 activities on the yet to be build Alaska portion
20 of the ANGTS.

21 For the last 27 years the
22 ANGTS sponsors have been active in acquiring and
23 maintaining the approvals necessary to permit
24 prompt and efficient construction of the ANGTS
25 when market conditions improved.

1 Despite the delay in completing the
2 northernmost portions of the ANGTS, the
3 certificates and permits obtained by Alaskan
4 Northwest remain valid as confirmed by Section 110
5 of the recently enacted legislation. In addition,
6 the related certificates in Canada held by
7 Foothills remain valid and exclusive.

8 For the last few years TransCanada
9 has expended substantial money and worked
10 diligently to update the pending Alaska
11 right-of-way application. In June 2004
12 TransCanada, through Alaskan Northwest and
13 TransCanada Alaska Company, LLC, submitted an
14 updated application for the State right-of-way
15 lease. On October 15, 2004, the State of Alaska
16 published for comment its draft findings in
17 support of the grant of the necessary State
18 right-of-way lease as well as the draft lease
19 document itself. Public hearings and comment are
20 now under way. In fact, there was a public
21 hearing in Anchorage this Wednesday evening.
22 Following a public comment and hearing process,
23 TransCanada anticipates that the Commissioner of
24 the Alaska Department of Natural Resources will
25 issue a final determination and grant of the State

1 of Alaska right-of-way lease for the ANGTS in the
2 first quarter of 2005. Clearly, that's the State
3 prerogative and their decision to make.

4 TransCanada appreciates the focused and determined
5 efforts of the State's administration to move this
6 application forward.

7 TransCanada presented testimony and
8 participated generally in the many legislative
9 inquiries that led to enactment of the Alaska
10 Natural Gas Pipeline Act. In our view the open
11 season requirements of that Act were designed to
12 allow for a resolution of competing interests for
13 pipeline capacity in a way that best serves the
14 public interest. Specifically, the open season
15 requirement along with the provisions for
16 voluntary and Commission-mandated pipeline
17 expansion are designed to bring to market proven
18 reserves that so far have been stranded on the
19 North Slope as soon as possible, while promoting
20 the exploration and development of potentially
21 significant additional reserves by ensuring that
22 future reserves can obtain meaningful access to
23 the pipeline.

24 We think the rules proposed by the
25 Commission fulfill the spirit and the requirements

1 of the ANGPA. The proposed rules are not overly
2 prescriptive and provide a fair and open process
3 for allocating capacity on an Alaska pipeline. At
4 the same time, the proposed rules recognize that
5 at this stage of development project sponsors
6 require flexibility to design both initial and
7 expansion open seasons that will yield firm
8 transportation contracts necessary to secure the
9 capital to develop and construct a project of this
10 scale. In our view, that is such flexibility is
11 critical to promote the timely and essential
12 delivery of Alaskan natural gas to the Lower 48
13 states, the primary goal of the legislation.

14 Regarding the proposed regulatory
15 text, TransCanada expects to have additional
16 written comments, but today I would like to
17 comment on only one issue. The balance of my
18 remarks will address the general questions posed
19 by the Commission.

20 Firstly, Section 157.33(b)(17), the
21 requirement to make information available. We
22 think the proposed rule is too broadly worded. To
23 avoid unnecessary burdens, covered information
24 should be limited to data that is relevant to
25 avoid undue discrimination and ensure transparency

1 in the open season process. For instance, open
2 season participants have a legitimate interest in
3 understanding how recourse rates were developed,
4 knowing what factors were involved in a
5 prearranged deal, and understanding any
6 projections of the costs of future expansions.

7 As an active participant since
8 ANGTA was enacted, Northwest Alaskan has
9 accumulated a vast quantity of data, including
10 engineering data, land surveys, and environmental
11 studies, spanning over 27 years. Much of the data
12 is proprietary to Alaskan Northwest and virtually
13 none of it is relevant to the design of, or
14 participation in, an open season today.
15 Nevertheless, if an affiliate of Northwest Alaskan
16 or any other pipeline partner is interested in
17 shipping gas on the pipeline, the proposed
18 regulation might be interpreted to require the
19 production of information that could be useful to
20 a competitor but would have no practical value to
21 participation in an open season. Instead of
22 referring generally to "all other information that
23 may be relevant to the open season," we think the
24 proposed requirement should give more specific
25 guidance on the type of data that is considered

1 relevant to the open season process.

2 TransCanada intends to provide
3 specific language to address this concern in its
4 written comments later this month.

5 In addition to comments on the
6 proposed rules, the Commission has asked for
7 comments on several specific questions. There are
8 some specifics I would like to refer to and offer
9 today.

10 Firstly, with regard to the notice
11 and comment on open season proposals. The
12 Commission's proposed rules, if adopted, would
13 provide sufficient guidance as to what is required
14 to conduct an open season. Also, the proposed
15 rules require an applicant to post notice of an
16 open season on its web site at least 30 days in
17 advance of commencement. Therefore, we think that
18 additional requirements for prior notice and
19 comment on the open season are unnecessary.

20 It might be helpful, however, to
21 allow an applicant the option to file an open
22 season proposal for a 45-day comment period and
23 request a predetermination from the Commission of
24 its compliance with the regulations, if the
25 applicant is uncertain whether its particular

1 proposal is in conformance with the open season
2 rules. The flexibility to allow the project
3 sponsor to decide whether and at what stage to
4 seek a Commission predetermination will
5 accommodate the many scenarios under which the
6 project may unfold. TransCanada recommends that
7 the Commission forego mandatory review, but allow
8 project sponsors voluntarily to seek prior
9 approval of their open season processes.

10 In its NOPR the Commission asks
11 whether it should allow presubscribed, reserved
12 capacity such as was allowed for certain pipelines
13 on the Outer Continental Shelf. TransCanada
14 believes that such presubscriptions should not be
15 precluded and, in fact, may be necessary for the
16 pipeline to secure the significant capital
17 required for even the preapplication stages of a
18 project. Given the expense, risk, and long lead
19 time for construction that an Alaskan project
20 presents, investors will not provide either the
21 equity or debt financing without firm
22 transportation, or at least binding precedent
23 agreements. The Commission acknowledged this
24 reality in the Garden Bank and Green Canyon cases,
25 which represented far less risk and expense than

1 an Alaskan pipeline.

2 Therefore, TransCanada believes
3 that in order to attract capital for a project of
4 this scale, pipeline sponsors should be allowed to
5 enter agreements for presubscribed capacity,
6 provided that such presubscriptions do not deny
7 other bidders a fair opportunity to secure initial
8 capacity. Preagreements with anchor shippers
9 could take a variety of forms, all of which could
10 provide a fair and reasonable balance between the
11 interests of anchor and subsequent shippers.

12 For example, project developers may
13 negotiate prearranged precedent agreement with
14 prospective shippers who will then be obligated to
15 bid into the open season subject to being outbid.
16 Such prearranged agreements are probably a minimum
17 permissible type of agreement for a project of
18 this scale and gap between concept and in-service
19 date.

20 Another commercial option may be
21 for the project developers to secure binding
22 prearranged precedent agreements from backstop or
23 transition shippers who are willing to sign firm
24 transportation agreements if no other shipper
25 comes forward but who are willing to step down

1 their capacity commitments to preagreed levels in
2 favor of other shippers deciding to bid into the
3 open season on terms acceptable to the project
4 developers, but not necessarily at a higher net
5 present value. Such flexibility in awarding
6 capacity, provided the rules are clear in the
7 notice, may be necessary to jumpstart this
8 project. Flexibility, transparency and reasonable
9 opportunities for all shippers should be the
10 guiding hallmarks of the Commission's rules in
11 this area.

12 TransCanada is appreciative of the
13 Commission's concerns for transparency coupled
14 with reasonable rules of the road. However, it is
15 also clear to the entire industry in both Canada
16 and the United States that this project is under
17 consideration, that is an understatement, who the
18 key players are, and that any final project must
19 balance the need to deliver today's known reserves
20 and provide access to Lower 48 markets for
21 additional reserves. Thus, TransCanada submits
22 that the Commission should lean more in the
23 direction of granting much needed flexibility to
24 project sponsors and prospective shippers rather
25 than prescribing strict, inflexible or impractical

1 regulations. The Commission should remain open to
2 creative attempts to allocate capacity in a way
3 that will help the project attract financing, as
4 long as the process is open and fair to all.

5 The Commission asks whether it
6 should issue regulations now pursuant to its
7 authority to require expansions under Section 105
8 of the ANGPA. We believe that it should not. At
9 this point it makes sense to focus on the
10 requirement to establish open season rules for
11 initial construction and expansion initiated by
12 the pipeline.

13 Indeed, under TransCanada's vision
14 for an ANGPA pipeline and the tests established by
15 Section 105, TransCanada believes that it is very
16 likely that any expansion that would satisfy the
17 tests of Section 105 would be voluntarily embraced
18 by the pipeline. We note that TransCanada and its
19 subsidiary, Alaskan Northwest, are independent
20 pipeline companies whose goal is to deploy capital
21 in search of a profitable rate of return. As
22 such, Alaskan Northwest has a clear incentive to
23 maximize throughput on its facility and can be
24 expected to make fairly compensated investments to
25 accommodate all initial commitments as well as to

1 expand its system as new reserves come on line.
2 And I should mention, we have lived under the
3 Natural Energy Rules in Canada that have required,
4 mandated expansions of our pipeline in Canada for
5 many, many, many years.

6 Finally, the Commission has asked
7 whether any tension may exist between the goals of
8 promoting open competition in the exploration,
9 development and production of Alaskan natural gas
10 and the application of existing Commission
11 policies to the open access rules. On this issue
12 we agree with views expressed by Anadarko
13 Petroleum Company that the rate uncertainty
14 accompanying serial expansions of an Alaskan
15 system could discourage exploration and
16 development and the concerns that the nature of
17 pipeline expansions could create a wide range of
18 rates for shippers who are similarly situated.

19 Under existing policy the
20 Commission approves a rolled in rate for a
21 pipeline expansion only if the rolled in rate will
22 be equal or less than the pipeline's existing
23 recourse rates. For this unique project, though,
24 we think the Commission should give an early
25 signal that it will be open to rolled in pricing,

1 under other scenarios, in order to promote
2 exploration and development and to avoid
3 regulation that creates different rates for
4 similar services. Indeed, given the long lead
5 time and extraordinary expense required to explore
6 for and develop the reserves necessary to support
7 future expansions, we think the Commission should
8 establish a rebuttable presumption in favor of
9 rolled in rates for expansions of an Alaskan
10 pipeline.

11 Thank you for the opportunity to
12 offer my comments on behalf of TransCanada and
13 Alaskan Northwest. I'm happy to answer any
14 questions.

15 ROBERT CUPINA: Mr. Richard
16 Guerrant from ExxonMobil.

17 RICHARD GUERRANT: Thank you. Good
18 morning, Chairman Wood, FERC Commissioners, RCA
19 chairman and Commissioners, Representative Samuels
20 and Senator Therriault. ExxonMobil would like to
21 thank you for the opportunity to speak here today.

22 My name is Richard Guerrant and I'm
23 ExxonMobil's vice president of gas marketing for
24 the Americas. First, I would like to say that
25 I'm very happy to see that progress is being made

1 toward making the commercialization of Alaska gas
2 a reality. In recent legislation progress is
3 being made and work on these open season
4 regulations are all positives for these projects.
5 I commend the State of Alaska officials, the U.S.
6 Congress and the Commission for their initiative
7 on getting us where we are today.

8 The recent National Petroleum
9 Council study made it clear that North America can
10 accommodate Alaska gas, with demand continuing to
11 grow and traditional domestic supplies continuing
12 to decline. It's good to see a concerted effort
13 by everyone involved to work to get this project
14 moving in my time.

15 Today I will cover four topics.
16 First, commercial viability of this project.
17 Second, our support of the proposed regulations.
18 Third, the importance of allowing some flexibility
19 in the open-season regulations and, lastly, some
20 comments regarding competition amongst producers.

21 We will file written comments by
22 December 17 and will provide more details on our
23 positions concerning the questions proposed in the
24 NOPR, as well as commenting on specific aspects of
25 the proposed regulations.

1 As you know, finding a way to
2 develop North Slope gas has been a major
3 challenge. Since the mid 1970s many projects have
4 been evaluated and yet for one reason or another
5 have failed to materialize. The project now
6 before us has great potential but challenges still
7 exist. It will take a combination of factors for
8 Alaska's gas pipeline to become commercially
9 viable. This includes the passage o and
10 implementation of a fiscal contract with the State
11 of Alaska, a U.S. federal enabling legislation and
12 clear and predictable regulatory processes in
13 Canada, and a reduction in project costs and a
14 market outlook that we encourage by the progress
15 on all sufficiently encouraging over the life of
16 the project and particularly by the passage of the
17 enabling legislation.

18 However, it is critical that this
19 be implemented in a way that is consistent with
20 the overall statutory regulations of advancing the
21 project. In particular, the open season
22 regulations need to be clear, predictable and
23 appropriate. ExxonMobil believes that the
24 Commission is on target with the proposed
25 regulations and the proposed rule if implemented

1 would fully comply with the requirements of the
2 Alaska Natural Gas Pipeline Act. The regulations
3 as proposed will assure nondiscriminatory
4 allocation of pipeline capacity and are
5 pro-competitive and will address in-state needs.

6 For the most part proposed
7 regulations are not overly burdensome and allows
8 the pipeline sponsor some flexibility in its open
9 season. This is very important when we're trying
10 to marry up the open season regulations in the
11 U.S. side with the Canadian side. The notice and
12 duration periods are reasonable for a project of
13 this magnitude.

14 The bidding guidelines are adequate
15 to allow potential shippers to make decisions.
16 The proposed regulations are consistent with the
17 ruling in previous open season orders and this in
18 our view is very, very important. These orders
19 have established precedents accepted by all
20 parties and provided certainty to pipeline
21 shippers alike. These open season policies have
22 worked well in the Lower 48 providing a way for
23 parties to access pipeline capacity. We
24 discourage adding overly -- provisions that may
25 result in added costs. The NOPR includes a broad

1 and open-ended requirement to covering, quote, all
2 other information that may be relevant, unquote.

3 This catchall provision is
4 problematic and unnecessary. The other provisions
5 of the proposed rule are adequate to cover the
6 informational needs for the potential shippers and
7 in addition there are other parties seeking to
8 construct and operate an Alaska pipeline, thus
9 some of this information could be proprietary.
10 It's critical that the final regulations strike
11 the best balance between accessing
12 nondiscriminatory access to capacity for shippers
13 and assuring those investing in the pipeline that
14 a viable project exists. Overly prescriptive
15 rules could result in delays or worse, a project
16 that never gets off the ground.

17 It's important that a project
18 sponsor retain some flexibility in determining the
19 appropriate time to commence an open season. And
20 particularly in light of trying to marry up the
21 open seasons on the Canadian side with the open
22 seasons on the U.S. side. An example of being
23 overly prescriptive would be eliminating the
24 anchor shipper concept. The NOPR seeks comments
25 specifically prohibited in the anchor shipper

1 final regulations. Although we're not necessarily
2 convinced that some version of the anchor shipper
3 concept is essential for this project, excluding
4 this option by writing it into the regulations
5 would be short-sighted if having anchor shippers
6 is the only way to move this project forward.

7 I have a few comments about
8 competition among producers. The recently-passed
9 legislation states that among other things new
10 regulations shall promote competition, and we
11 believe the best way of ensuring continuing
12 competition is to get this pipeline built and
13 operating. Competition will encourage producers
14 to develop these leases. Once the initial
15 infrastructure is in place, the ability to expand
16 the capacity will provide new opportunities for
17 new volumes of gas.

18 We believe existing industry
19 practices for expansion are adequate. Legislation
20 for this project also provides further assurance
21 of access to expanded capacity providing the
22 Commission authority to require expansions, a
23 unique provision that doesn't exist in the Lower
24 48. Personally, I don't believe we will ever need
25 to use this because the pipeline owners will want

1 to expand if viable opportunity exists. But there
2 is a safety net if needed. In contrast, a guiding
3 theme of the enabling legislation is the
4 expeditious resolution of issues impacting the
5 Alaska project.

6 This is in recognition of the huge
7 financial implications caused by delays to the
8 project. Large investments are involved. There
9 is significant economic risk to the project.

10 So let me sum up. First, the
11 proposed regulations are a target. Second, it's
12 important that this pipeline operate under
13 established principles. ExxonMobil is committed
14 to those principles. Having an expansion pipeline
15 in place will support competition and, finally,
16 the regulations for the Alaskan open season is a
17 critical piece of this puzzle. It is critical
18 that it comes in on time and on budget.

19 As I stated earlier, we'll be
20 submitting written comments that will provide more
21 specifics on the proposed regulations.

22 ROBERT CUPINA: Ken Konrad from BP.

23 KEN KONRAD: My name is Ken Konrad.
24 I'm vice president for BP Alaska. Thank you for
25 the opportunity to speak today as part of this

1 technical conference. This sets the stage for
2 federal legislation that was passed this October.
3 These regs are particularly significant because it
4 will govern the conduct in North American history
5 and the Alaska natural gas pipeline.

6 Construction of this project would
7 connect the vast resources increasingly in need of
8 diverse and clean-burning natural gas and will
9 provide billions of dollars in U.S. revenues. The
10 currently envisioned project will depend on future
11 exploration projects and throughput in the first
12 30 years alone. An Alaska gas pipeline project is
13 a massive undertaking.

14 Approximately four-and-a-half
15 BCF will be compressed. From Alberta, gas would
16 move to major American markets by some
17 communication of newly-built pipe. The total cost
18 has previously been estimated at \$20 billion in
19 2001. Allowing for cost inflation, the actual
20 installed cost would be higher.

21 My comments are focused on the
22 Alaska portion of the project. While these Alaska
23 project elements are the subject today, we hope
24 and expect the FERC and Canada are interested.
25 The reality is that the wrong regulations could

1 eliminate the prospects for a commercially viable
2 project. Implementation of the proposed rule
3 would meet the requirements of the Alaska Natural
4 Gas Pipeline Act.

5 I would like to share with the
6 Commission several points that are important to my
7 company both as a major North Slope owner and as a
8 project sponsor. Whether LDC or gas markets in
9 the state Of Alaska should have the ability to
10 contract for capacity on a nondiscriminatory
11 basis, there should be no preferential treatment
12 at all for any category shipper. BP supports
13 robust guidelines, but carefully balances the need
14 to be prescriptive with the need to provide
15 flexibility.

16 To facilitate capacity allocation
17 in a manner that is common practice for U.S.
18 pipeline projects, flexibility is needed in the
19 regulations. The ability to assure that the
20 pipeline is properly sized and can operate at a
21 high-load factor after its in-service date in
22 critical. While important for all pipelines, this
23 is absolutely critical for an Alaska project. The
24 regulations should not require preapproval for
25 open-season notice documents.

1 This could simply create delay and
2 inefficiency that would be harmful to a project.
3 FERC oversight should not be started until open
4 season is announced. The best indicator of the
5 Alaska market needs are working hard on this topic
6 already and we expect they and others have
7 participated an open season consistent with need.

8 Tie-ins to the local Alaskan
9 customers would be good news for the project. No
10 one wants to sell gas 3500 miles away if a local
11 market exists. We also urge the Commission to not
12 burden itself. The Commission is not required to
13 act on this in the 120-day period and there is not
14 a need to address this topic at this time. It
15 would unnecessarily complicate the rulemaking.

16 The issue of whether an expansion
17 should be considered on a rolled-in or incremental
18 basis is part of Commission's policy at this time.
19 To address this topic now would be premature. BP
20 seeks confirmation of its interpretation of
21 Section 346 as it is currently written. BP
22 prepares this section as not pipeline capacity
23 reserve while stating the rates on an MMBTU basis.

24 The heavier components are obtained
25 for shipment to gas processors. Pay for the

1 amount of pipeline space they actually use and
2 shippers using that capacity pay for that
3 capacity. One potential problematic issue is
4 Section 157.3417 because it would require
5 providing and I quote, all other information that
6 may be relevant. We are concerned about the
7 sweeping nature of this language and that the term
8 relevant is undefined and could be included to
9 mean costly information that's not involved in an
10 open season process.

11 Just like these proposed open
12 season regulations would apply to the pipeline
13 regardless of GTP, they will be regulated by the
14 Commission regarding unbundling of services.
15 Therefore, the open season regulation does not
16 need to address these issues.

17 Provide confidence that the project
18 sponsors can ensure the front end cost. Any
19 creditworthy party can become a shipper. Those
20 who are willing to commit to become an anchor
21 shipper help the project.

22 In conclusion, we're supportive of
23 the draft regulations and believe they meet the
24 requirements of the Alaska Natural Gas Pipeline
25 Act. There is no preferential treatment for any

1 category of shipper.

2 Section 3417 should be reviewed to
3 be sure only necessary information is targeted.
4 This concludes my comment today. We plan to
5 provide written testimony before December 17th.
6 Thank you again, Chairman Wood, and I'd be happy
7 to answer any questions.

8 ROBERT CUPINA: Thank you. Joe
9 Marushack representing ConocoPhillips.

10 JOE MARUSHACK: Thank you. Good
11 afternoon. My name is Joe Marushack, vice
12 president, and I'm here to testify on behalf of
13 ConocoPhillips today. ConocoPhillips along with
14 BP and ExxonMobil have spent much effort over the
15 past three decades to find an economic way to
16 bring gas to market. Challenges remain. We
17 believe the federal government can do much to help
18 us progress an Alaskan pipeline project.

19 It's unprecedented in size and
20 scope. At an expected cost of around \$20 billion,
21 this project is at least five times as large as
22 the Alliance natural gas pipeline project, which
23 in itself is a very significant project for the
24 Lower 48 states. The immensity of the Alaska
25 pipeline also creates unprecedented financial

1 risks for the project sponsors and investors.

2 In 2002 ConocoPhillips, BP and
3 ExxonMobil completed a \$125 million study to
4 access the viability of a pipeline to the Lower
5 48. Based on that study and other work, we
6 concluded the best option for getting gas to the
7 market was through a pipeline from Prudhoe Bay
8 through Canada. However, it was equally clear
9 that even this most promising option still faced
10 commercial challenges.

11 To approve the commercial viability
12 of the project, we realized we had to reduce the
13 project's key risks. One such risk is the
14 regulatory uncertainty associated with permitting
15 such a large and complex endeavor. We were very
16 pleased in October when the President signed the
17 Alaska Natural Gas Pipeline Act which provided
18 legislation specifically designed to address this
19 risk. The legislation reflects the input of
20 numerous interested parties, including the State
21 of Alaska, the Alaska delegation, BP, ExxonMobil,
22 ConocoPhillips, other North Slope producers,
23 several pipeline companies and other interested
24 parties.

25 In addition to the regulatory

1 certainty, the legislation also reflects the
2 strong support of Americans for bringing North
3 Slope gas to market. This support is
4 understandable as this project will bring
5 thousands of construction jobs, hundreds of
6 operating jobs, between 100 and \$200 billion of
7 tax revenues as well as the long-term supply of
8 natural gas to Lower 48 consumers.

9 The FERC's open-season rulemaking
10 is one of the main requirements of the Alaska
11 Natural Gas Pipeline Act, and it's fully supported
12 by ConocoPhillips. This regulatory process, like
13 the project, is unprecedented. Outlining the
14 requirements for an open season should add
15 certainty to the process, help minimize disputes,
16 and ensure that all parties are treated in a
17 nonpreferential manner.

18 We also appreciate the fact that
19 FERC has already met with some of the State of
20 Alaska agencies, local municipalities, Native
21 organizations, as well as several federal agencies
22 that require their due process for the project.
23 Well-managed coordination among the agencies is
24 essential to the success of the project.
25 Discussions, meetings and workshops can be useful

1 tools in helping FERC address the challenges of
2 this massive project while providing Alaska with
3 information and an opportunity to be heard on FERC
4 regulatory review and approval processes including
5 the innovative FERC prefiling NEPA process.

6 ConocoPhillips encourages FERC to
7 continue this type of stakeholder engagement.
8 While regulations the Commission has proposed in
9 Docket RM05-1 are reasonably balanced, a properly
10 constructed open season will allow the pipeline
11 feasibility while giving all shippers certainty
12 that they will be provided adequate information to
13 make a timely, reasonable decision.

14 Generally, the proposed rulemaking
15 achieves these goals. There are, however, a
16 number of areas deserving careful consideration.
17 ConocoPhillips is concerned that the proposed
18 Section 157.3517 which requires disclosure of all
19 information relevant to the open season that was
20 made available to or in the hands of any potential
21 shipper prior to the issuance of public notice of
22 open season is too indefinite and overbroad.

23 The standard is too indefinite
24 because the relevant standard could be interpreted
25 in an extremely broad and burdensome manner and

1 lead to controversies and delays regardless of
2 whether the information in dispute is in fact
3 reasonably necessary to make a shipping
4 commitment. The standard is also overbroad in
5 that it would purport to require the pipeline
6 company to provide information in the hands of the
7 shippers even if the pipeline company did not
8 provide the information to an affiliate shipper.

9 This also may not be in the best
10 interest of shippers. Shippers may want to make
11 some disclosure to pipeline prior to the open
12 season including indications of reserves or other
13 sensitive data. By making this data available to
14 all shippers, a shipper could be compromised.

15 ConocoPhillips believes that the
16 key issue is that an open-season regulation should
17 require that the pipeline provide sufficient
18 information to allow all shippers to make reasoned
19 commercial decisions about their shipping
20 commitments. Open-ended requirements are not
21 justified and are likely to lead to unproductive
22 disputes, which could delay the project.

23 Moreover, such a requirement is
24 unprecedented in the FERC's experience with open
25 season gas pipelines. We urge the Commission to

1 consider the implications of this proposal and
2 modify or delete this requirement. We believe it
3 appropriate the proposed regulations not include
4 mandates regarding the right treatment in an
5 open-season rulemaking.

6 Enabling legislation does not
7 require these complex issues to be addressed at
8 this time. At this point no one has enough
9 certainty about the final design to justify
10 prescriptive requirements. Doing so may cause
11 unintended discriminatory treatment and may
12 adversely effect the commercial viability of the
13 project.

14 The goal of this rulemaking should
15 be to create certainty around the open-season
16 process and to ensure that all potential shippers
17 are assured that they will have sufficient
18 opportunity, time and information in which to make
19 an informed decision. This will better ensure
20 that the rulemaking and its related subsequent
21 open seasons should result in a commercially
22 viable and regulatory-supportable open-access
23 pipeline.

24 In order to balance the commercial,
25 financial and regulatory requirements of this

1 project, the open-season rulemaking needs to
2 create the certainty that will allow flexibility.
3 Certainty is created by establishing no
4 transparent requirements for an open season.
5 Given the current preliminary status of the
6 pipeline project, these requirements should allow
7 flexibility and not be overly prescriptive.

8 ConocoPhillips supports existing
9 FERC policies regarding the open season that are
10 designed to ensure open access and the belief that
11 they are used to achieve the desired result for
12 this project.

13 We believe the fundamental issue
14 and one that cannot be overemphasized is that to
15 promote a healthy, competitive environment on the
16 North Slope there must first be a natural gas
17 pipeline constructed, and it must be economic and
18 consistent with existing FERC policy. Open access
19 must be ensured.

20 Congress gave FERC the
21 unprecedented power in the Alaska Natural Gas
22 Pipeline Act to mandate the pipeline expansion
23 that certain criteria were met. In response to
24 the Commissioner's questions, requirements for
25 mandatory expansions are important, but they are

1 not required by this rulemaking and we would
2 question if this issue should be addressed at this
3 time given the early stage of project development.

4 The design of future expansions,
5 whether mandatory or voluntary, should not be
6 prescribed in any open-season rulemaking nor
7 should any class of shipper be granted special
8 privilege, such as being kept whole on their bid,
9 whether in initial or expansion open season.
10 Proposing disproportionate burdens on the other
11 pending shippers is particularly inappropriate
12 because they are the parties taking the greatest
13 risks, taking additional risks, and jeopardizing
14 the project open-season process for additional
15 capacity.

16 The Alaska Natural Gas Pipeline Act
17 has granted potential future shippers the
18 unprecedented ability to force expansion to the
19 pipeline if certain criteria are met. This should
20 provide reasonable assurance that an economic
21 project will be able to proceed in a timely manner
22 with potential to require expansion in the future.
23 It should be noted that the very existence of the
24 right to force expansion provides future shippers
25 with considerable power to meet their needs.

1 Some have argued that rolled-in
2 rates should be required for any mandatory
3 expansion. However, this would conflict with
4 existing FERC policies. Moreover, to be
5 consistent with the statutory requirements,
6 rolled-in rates could be applied only if existing
7 shippers are not negatively affected.
8 Consequently, it would be inappropriate to mandate
9 rolled-in treatment in this rulemaking and in fact
10 a mandate such as this could effectively make a
11 voluntary expansion much more contentious.

12 Expansion issues are more
13 appropriately addressed after the pipeline
14 application is filled with the Commission, when
15 the design and other attributes of the pipeline
16 are fully defined. The Commission's focus should
17 be on creating an open-season structure that
18 provides nondiscriminatory access for all
19 interested shippers and ensures enough economic
20 stability to construct a budget. Prescriptive
21 regulations regarding rates and rate treatment for
22 expansion at this time are premature and
23 potentially damaging to the project.

24 The Commissioner also asked for
25 comments on the anchor shipper concept. We

1 believe this concept could be an important element
2 in moving the project forward. An anchor shipper,
3 a shipper that commits a large volume of gas to
4 the project, has financial support for the initial
5 design of the project. Having a large capacity
6 commitment to the project is necessary to move it
7 forward.

8 While the pipeline sponsors have
9 not come to any conclusion on this issue, we would
10 also not want to propose any options at this
11 point. The anchor shipper concept has been
12 effectively used in other similar situations to
13 assure sponsors that the proposed pipeline has
14 sufficient commitment for the pipeline to move
15 forward with certainty on its engineering and
16 design.

17 The work required to take this
18 project through the record of decision could cost
19 a billion dollars or more, far more than the full
20 cost of construction of most Lower 48 pipeline
21 projects. We believe that the concept could be
22 applied in a nondiscriminatory manner that allows
23 access to any shipper prepared to make the
24 necessary firm transportation commitments.

25 Any anchor shipper open season or

1 request for subscription would be public and open
2 to all interested parties willing to make firm
3 transportation commitments. Such an anchor
4 shipper open season may allow for an additional
5 open season for potential shippers to obtain
6 pipeline capacity.

7 The prospect of subsequent open
8 seasons could actually provide explorers in Alaska
9 additional time and opportunity to discover and
10 commit further gas volumes to the project while
11 assuring the underpinning economic viability of
12 the pipeline that they would obtain capacity for
13 which they were financially committed.

14 In effect, any efforts to have
15 proven helpful in progressing complex projects
16 should not be foreclosed at this early stage of
17 project development and the legislation required
18 for the open season to promote competition in
19 exploration and development and production of
20 Alaska natural gas. ConocoPhillips believes that
21 rulemaking that ensures regulatory and economic
22 certainty will enable the pipeline project to
23 progress and the pipeline to be built.

24 The rules must ensure that access
25 is granted on a nondiscriminatory basis. If the

1 pipeline is built and effectively gives open
2 access, then the mandate of the legislation will
3 be achieved. In addition, the mandate of FERC
4 policies are completely consistent. FERC policies
5 were created to balance the needs for access to
6 nondiscriminatory pipeline capacity where there
7 may be limited pipeline infrastructure while
8 creating sufficient certainty for the project
9 developers to commit capital.

10 FERC's open-season principles were
11 specifically designed to promote competition as
12 they reduced barriers. In addition, with
13 additional opportunity for forced expansion under
14 Section 105, all parties would have the ability to
15 access needed capacity above and beyond the
16 initial open seasons.

17 In conclusion, ConocoPhillips is
18 broadly supportive of the FERC's efforts to date
19 on open-season rulemaking. They support the
20 regulations that offer clarity and certainty to
21 the project, but are flexible enough to avoid
22 unintended consequences and allow the most optimal
23 solutions to be found.

24 The goal is to create open-season
25 regulations that ensure that all parties that are

1 willing to enter into long-term, firm
2 transportation commitments are able to obtain
3 capacity. This is in the best interests of the
4 producers, the explorers, the State and the
5 pipeline project and will ensure the mandate of
6 assuring promotion of competition in exploration,
7 development and production of natural gas is met.

8 This project is complex; it's
9 costly; but it's worth it. Significant steps are
10 being made to reduce these risks to allow the
11 project to move forward. ConocoPhillips is very
12 encouraged by the support shown by the Alaska
13 delegation, the State, FERC and others helping to
14 move the project forward. As previously stated,
15 the project can provide benefits to many, but we
16 must first ensure that the project comes to
17 reality.

18 Thank you for your time and we also
19 will be providing written comments before the
20 17th.

21 ROBERT CUPINA: Thank you.

22 Ron Brintnell of Enbridge Energy.

23 RON BRINTNELL: Good morning. My
24 name is Ron Brintnell. I work for Enbridge as
25 project director, Alaska gas. I have over 20

1 years experience in the natural gas industry. On
2 behalf of Enbridge, I thank you for the
3 opportunity to present our views as you proceed in
4 the rulemaking process for the Alaska natural gas
5 project.

6 I'd like to begin by providing some
7 overall commentary and then speak specifically to
8 the five questions raised in the notice. As
9 mentioned by many, we believe the time is right to
10 align all interests and cooperate to bring Alaska
11 gas to market. The Alaska natural gas
12 transportation system will be one of the largest
13 natural gas systems ever authorized by government
14 and will serve the vital need of bringing Alaska
15 natural gas to the Lower 48.

16 The successful development of the
17 project will require the active cooperation of all
18 stakeholders for it to be built in a timely
19 fashion to meet the needs of North American
20 natural gas consumers.

21 We congratulate the Commission in
22 promptly moving forward to put the regulatory
23 pieces in place to accomplish this objective. The
24 open season for the process should assure that the
25 needs of project sponsors and potential shippers

1 are met. The Commission's open-season rules must
2 provide for maximum flexibility in allowing the
3 project sponsors and the shippers to shape the
4 project in a fashion that meets the needs of
5 potential shippers, but also assures that the
6 project is capable of being financed and is
7 personally viable to project sponsors.

8 That means that the open season
9 should provide the project sponsor and the
10 shippers with the opportunity to develop the
11 project to meet the present and future needs in an
12 economically and reasonable manner. North
13 America's energy needs are best met if FERC rules
14 permit and encourage binding open seasons. In
15 other words, the rules must be reinforced.

16 First, since binding agreements are
17 critical to ensuring that an Alaskan pipeline is
18 built on a timely basis, the open-season process
19 should be structured to enable the parties to
20 enter into binding agreements as soon as possible.
21 As such, the rules should permit and encourage
22 binding open seasons and should not mandate the
23 process described in the NOPR.

24 Second, the rules should be
25 sufficiently flexible to accommodate the current

1 uncertainty associated with size and timing of the
2 project. Accordingly, the project sponsor should
3 have the flexibility to close in the open season
4 and arrange an alternate design capacity.

5 I would now like to turn to the
6 five questions posed and, first, explain how the
7 proposed rules meet or don't meet the requirements
8 of the Natural Gas Act.

9 The proposed rule is reasonable
10 since it provides active notice of the open
11 season, the information necessary to allow
12 prospective shippers to make informed decisions
13 relative to the acquisition of capacity, and
14 provides prospective shippers with the time
15 necessary to make informed decisions. At the same
16 time, the rule allows project sponsors to make
17 timely decisions for the project to fit the needs
18 of the market, which will allow the application
19 process to move forward expeditiously.

20 Second question: When did FERC
21 oversight and capacity allocation activities
22 begin?

23 By virtue of the rules adopted by
24 the Commission in this proceeding, it will
25 establish the criteria of the open season. The

1 open season will be transparent to all shippers.
2 In these circumstances the Commission's oversight
3 of the capacity allocation activities can be
4 accomplished at the time the application is filed.
5 Failure to comply with the rules will result in
6 suspension of the application, which in itself is
7 an oversight.

8 We would echo the comments made
9 earlier that the rules should be as clear as
10 possible so that the project sponsors can
11 establish an open season that would be acceptable
12 to the Commission. For example, the NOPR proposes
13 that all relevant information be provided to
14 potential shippers and must be provided in the
15 open season. Instead of using vague concepts that
16 could be subject to interpretation, the NOPR
17 should focus on ensuring that the information that
18 is critical to potential shippers is provided,
19 such as rates to be charged, the size of the
20 pipeline, timing of the pipeline, and the
21 high-level terms of service that are to be
22 provided to all shippers.

23 Third question: What capacity of
24 allocation could happen before open season under
25 the rule is undertaken?

1 Preliminary discussions on a wide
2 range of topics by the project sponsor and
3 potential shippers are a typical element of
4 project development and are critical to designing
5 an economically viable project. These preliminary
6 discussions will assist the project sponsor in
7 developing and proposing a pipeline system and in
8 designing an open-season process which meets the
9 needs of all prospective shippers. However, since
10 the open season will provide an opportunity for
11 shippers to bid on capacity, the process will
12 ensure that all customers have access to the
13 system and capacities available for all
14 creditworthy shippers and are met on that basis.

15 The Alaska pipeline has had an
16 unprecedented level of transparency at this level
17 of early stage of development. Quite frankly,
18 that's a good thing. All prospective shippers
19 should be encouraged to actively engage early in
20 frequent dialog. Indeed, Enbridge has already
21 begun a high-level dialog within Alaska and has
22 also held preliminary meetings with midwestern
23 LECs who have expressed interest in potentially
24 becoming shippers.

25 Are there certain capacity

1 allocation issues or factors that are specific to
2 approaching a sponsor?

3 Enbridge believes that ownership
4 structure should have no impact on allocation
5 rules. Ownership structure may evolve and develop
6 after completion of the open season. The Alliance
7 pipeline, which is now owned 50 percent by
8 Enbridge, is clearly a demonstrated option. What
9 is important is not ownership, but rather the
10 rules that enable all shippers to participate
11 fairly in the open-season process regardless of
12 ownership.

13 Also, remembering this is an
14 international pipeline, it is also imperative that
15 any rules including those dealing with allocation
16 not result in misalignment of any portion of the
17 pipeline.

18 Finally, should potential project
19 sponsors be required to conduct and release an
20 Alaska market study and the need for an
21 infrastructure?

22 The open-season process will
23 determine Alaska's natural market needs and
24 provide the opportunity for creditworthy shippers
25 to access capacity. Therefore, formal public

1 studies of market needs are not necessary prior to
2 the open season to allocate capacity. Likewise,
3 infrastructure development will follow capacity
4 acquisition and will be shaped around the
5 acquisition. Once again, early pro-active dialog
6 amongst potential shippers and developers should
7 be encouraged so that an assessment of Alaska gas
8 can be in full swing during the early stages of
9 the development.

10 That's concludes my comments. I'll
11 be open to any questions later on. Enbridge
12 thanks you for the opportunity to speak today.

13 ROBERT CUPINA: Thank you. Our
14 anchor speaker on this panel will be Commissioner
15 Bill Corbus of the Alaska Department of Revenue
16 who's accompanied by counsel, Bob Loeffler.

17 BILL CORBUS: Good afternoon. My
18 name is Bill Corbus. I'm the Commissioner of
19 Revenue for the State of Alaska. Thank you,
20 Chairman Wood, FERC Commissioners, RCA
21 Commissioners and Mr. Cupina for giving me the
22 opportunity to appear on this panel.

23 As you know, and as the Governor
24 just emphasized, Alaska strongly desires to see an
25 Alaska gas pipeline project come to fruition. Oil

1 and gas discoveries on the North Slope led to the
2 construction of an oil pipeline - the TransAlaska
3 Pipeline. That pipeline has supplied a
4 significant percentage of this nation's oil needs
5 for nearly 30 years. Yet over the same period of
6 time, vast North Slope gas reserves have remained
7 locked up, unable to serve the gas needs of people
8 in the Lower 48 and here in Alaska. The time has
9 now come for changing that gas situation and
10 Alaska intends to help lead that change.

11 The State is a proponent of getting
12 an Alaska gas pipeline built now. To that end, as
13 the Governor just stated, good faith Stranded Gas
14 Act negotiations continue independently with the
15 producers and with TransCanada. The State remains
16 available to continue discussions with Enbridge
17 and any other entities and is available to provide
18 support to ANGDA and the Port Authority.

19 Alaska is negotiating State equity
20 ownership. Alaska's participation as own owner
21 would help reduce the risk of exposure of other
22 potential owners and thereby help get this mammoth
23 and very costly pipeline finally built. Alaska
24 hopes to reach an agreement on pipeline
25 participation in early 2005. For Alaska to own a

1 part of the pipeline would be a new role for the
2 State, or for that matter any other state in the
3 U.S.

4 As a potential owner and investor
5 of the gas pipeline, we need to know the
6 regulatory rules of the road. The open season
7 rulemaking is a critical step forward in meeting
8 this need and we support the Commission's efforts.
9 Together with my colleague, the Commissioner of
10 Natural Resources, we will suggest improvements
11 the Commission can make to draft the open-season
12 regulations that will serve the goal of
13 establishing clear rules of the road.

14 Also, we will suggest that the
15 Commission take a second step and, after the
16 conclusion of this rulemaking, launch an inquiry
17 to an issue critical to all - the issue of
18 expandability. In any expansion inquiry, the
19 Commission could address the important issue of
20 rolled-in versus incremental pricing.

21 Alaska's potential role as a
22 pipeline owner leads me to make three suggestions
23 about the draft open-season regulations. They
24 reflect obligations that a pipeline owner must
25 fulfill.

1 First, let me address the issue of
2 the size and design of the pipe. In my mind,
3 nothing can be more important to successfully
4 delivering North Slope gas reserves than getting
5 the pipeline's original size and future
6 expandability correct. How the pipeline is
7 originally sized, the diameter of the pipe and the
8 number, size and location of the initial
9 compressor stations will be critically important
10 to shippers and owners alike.

11 I applaud the FERC's first draft
12 requirement that the open-season notice provide
13 potential bidders with information on some 17
14 factors, including various sizing factors.
15 However, more is needed. We favor early FERC
16 intervention in the open-season process as a way
17 to get information out early. Commissioner Irwin
18 will describe our specific proposal for early
19 Commission involvement in the open-season process.

20 The ultimate goal is to have a gas
21 pipeline capable of, one, handling all qualified
22 initial gas tenders and, two, being expanded
23 sufficiently to handle reasonably foreseeable gas
24 tenders. By qualified tenders we mean
25 creditworthy parties willing to execute firm,

1 long-term transportation contracts for the
2 requested capacity at max rates.

3 The final open-season regulations
4 should specifically set forth the goal of full
5 accommodation of all qualified bids as an
6 objective that the pipeline should meet. If the
7 State is an owner, it pledges that it will work to
8 advance that goal. If the pipeline's certificate
9 application does not meet that goal, however, we
10 propose that the open season final regulations
11 should require the applicant to explain and
12 justify to FERC why the pipeline could not be
13 sized to accommodate all qualified gas tenders.

14 Failure to provide sufficient
15 economic or technical justification for a pipeline
16 that is sized to accommodate less than the
17 qualified initial tenders should merit rejection
18 or at least close scrutiny of any certificate
19 application. Our proposal is based on the premise
20 that potential pipeline owners are better off if
21 they know early what the expectations of your
22 Commission are with respect to size and
23 expandability.

24 If, notwithstanding the pipeline's
25 best reasonable efforts to accommodate all initial

1 gas tenders, the pipeline is unable to do so, then
2 a fair capacity allocation methodology must be
3 implemented. Commissioner Irwin will address that
4 point.

5 Second, in-state gas consumption.
6 Here the open season proposed regulations are
7 silent, but Congress was not. Section 103(g) of
8 the Alaska Natural Gas Pipeline Act of 2004,
9 hereafter called ANGPA, requires the pipeline
10 certificate holder to show that it has conducted a
11 study of in-state needs, including tie-in points
12 for in-state access. This is a requirement, not
13 an option.

14 For this provision to be
15 meaningful, a study should be performed prior to
16 the completion of the binding open season so that
17 the pipeline's open-season notice can address how
18 local service will be accommodated. The open
19 season final regulations should include this
20 requirement.

21 Section 103(h) of ANGPA also
22 provides that upon a request by Alaska and after a
23 hearing, FERC may provide for, quote, reasonable
24 access, end quote, to the pipeline for in-state
25 use of Alaska's royalty gas. The State is

1 considering asking for its reasonable access
2 hearing before the completion of the binding open
3 season so that the open-season notice can also
4 address transportation of royalty gas.

5 Third, pipeline expansion. There
6 are two types of possible expansion for this
7 pipeline: Mandatory and voluntary. The ANGPA has
8 an unprecedented provision that allows FERC,
9 subject to certain conditions, to order the
10 pipeline to expand. It also provides that the
11 FERC may issue regulations to implement that new
12 authority. The Notice of Technical Conference
13 asks whether the Commission's rule should address
14 expansion requirements now.

15 In the State's opinion, the
16 open-season regulations are not the vehicle to
17 take up that important and complex topic.
18 However, because expansion parameters are one of
19 the important rules of the road that a potential
20 pipeline owner and shipper must know and
21 understand, the State requests that the FERC
22 address expansion in a follow-on proceeding early
23 next year.

24 I emphasize that very little is
25 publicly known about the cost or engineering of

1 expansion. An early and full public vetting of
2 expansion issues could take place in time to
3 inform potential owners and shippers alike.
4 Again, let's learn the rules of the road early.
5 In our comments to be filed following this hearing
6 we will address the issues we believe that the
7 Commission should address in its expansion
8 proceeding.

9 Commissioner Irwin will address
10 additional aspects of the proposed open-season
11 rule. In conclusion, I want to thank you for the
12 opportunity to speak and we will be happy to
13 answer any questions.

14 ROBERT CUPINA: Thank you. We'll
15 have an opportunity now for questions from the
16 Commissioner.

17 CHAIRMAN PAT WOOD: Thank you, Rob.
18 I'd like to thank the panel for you all being here
19 today. I have a number of questions.

20 Really, keying off of what we heard
21 before you all got here, before you walked up and
22 we heard the elected officials' concerns that
23 relates to some of the in-state issues as well as
24 the broader issue of the pipeline. I want to make
25 sure, because our rulemaking proposal here is kind

1 of thin on some of the issues, as I think the
2 Governor noted, I want to kind of walk through
3 some thoughts with you all, at least the first
4 panel, and I hope to do this later as to what we
5 can do to thicken up the rule to address those
6 concerns.

7 I think we just heard here from
8 Commissioner Corbus about 103(h). Bill, let me
9 just ask you on that one. You said that the State
10 may ask during the pendency of an open season to
11 basically trigger this provision; is that what you
12 said?

13 BILL CORBUS: Yes.

14 CHAIRMAN PAT WOOD: What would
15 happen as a result of that? Say that there's an
16 open season in 2005, then tell me what this would
17 do. I'm just trying to conceptualize how that
18 would work.

19 BILL CORBUS: I'm going to ask our
20 counsel to respond, please.

21 ROBERT LOEFFLER: The statute gives
22 the State the right to ask for that hearing at any
23 time. It could be before the open season; after
24 the open season. What's under consideration by
25 the administration is to ask for that hearing

1 before the open season. I want to clarify that.
2 Not during the open season. We're trying to avoid
3 delaying an open season. I would call the
4 Commission's attention to Section 13 of the Alaska
5 Natural Gas Transportation Act of 1976, which at
6 that time gave the State unique rights to access
7 the ANGPA which was contemplated then. This is
8 the second expression of Congressional policy.

9 CHAIRMAN PAT WOOD: With regard to
10 the potential proposal from the pipeline
11 constructors, what could we put in here to address
12 the study of in-state needs that would address
13 some of the concerns you heard from the Governor
14 and others today that would be reasonable from the
15 proponents' perspective? Any takers?

16 RICHARD GUERRANT: I'll try to take
17 a shot at this. My colleagues here will, I'm
18 sure, help me. Clearly, it's a
19 cart-before-the-horse issue and I think that's
20 what we're struggling with here. We need to work
21 with the State to understand what the needs are
22 and where it is and the study that's required
23 under the statute is something that we're going to
24 have to work with the State about timing and scope
25 to be able to do that stuff. And then identify

1 where that demand is, identify where those
2 drop-off points are, such that when you get to the
3 open season, the people that are going to be
4 asking for capacity from that point back know what
5 the deal is.

6 So, I'm thinking from the business
7 person -- thinking out loud here with you -- but
8 from the business person's view, we need to get
9 clarity around where the demand is so, therefore,
10 the market study and the potential size of that
11 demand. A market study doesn't really tell you
12 the real demand until someone goes up and puts
13 their bid on the table. That's the true demand
14 and you can see that come through. But you need
15 to have a study and you need to have it such that
16 you know where the points are and so that the
17 people that are going to be bidding on that
18 capacity, you know, they have certainty. So we
19 can put it into our open-season process such that
20 those potential people can bid.

21 CHAIRMAN PAT WOOD: Is it
22 something -- I mean, does it have to be really
23 complicated? You've got your own studies about
24 supply and demand. Really, we're talking about
25 Fairbanks/Anchorage and that's kind of where

1 everybody is. I mean, that's right below where
2 the pipeline turns and goes to Canada. So do we
3 need to run a study about where the points are?

4 RICHARD GUERRANT: Mr. Chairman,
5 from what I understand, there's been a lot of work
6 done on this issue. I think part of it is just
7 getting all the players together and getting the
8 right information in.

9 CHAIRMAN PAT WOOD: But what's the
10 right forum to get that done so we don't waste a
11 lot of time kind of messing around with all that?
12 We can say, here's the need for the in-state,
13 looking out a long time in the future, design the
14 inter-tie big enough, have people, Enstar and
15 others come in and bid for capacity or come in and
16 participate. I mean, is that something we can get
17 done kind of now while we're --

18 KEN KONRAD: It's probably fine to
19 make it clear that the in-state users of gas can
20 participate in the open season and that they can
21 participate with industry and the State in advance
22 of the open season to find the right places to
23 stick a flange. Like you said, Commissioner Wood,
24 there's not that many places you actually want to
25 do that.

1 So we do think that should not be
2 terribly burdensome, given the scale of in-state
3 demand and once the taps are there, then the
4 people know where they are and what service they
5 can request. I think it's all pretty
6 straightforward from there.

7 JOE MARUSHACK: Commissioner, if I
8 may, also? I think Ken stated at least what my
9 concept is. The regulation requires a study to be
10 done. In my mind what that allows you to do is
11 figure out where you think the right places for
12 the taps are.

13 Actually, the study will ultimately
14 be -- we'll have a study and then, say, maybe what
15 the volumes are, but it's going to be up to other
16 folks to come up, like Enstar, and take that
17 demand from that location and they'll make the
18 necessary commitments in order to do so.

19 So the in-state study hasn't struck
20 me as a very difficult thing for us to do. It
21 will lead us to where the taps ought to be to pull
22 that gas off and make the necessary commitments to
23 do that.

24 RICHARD GUERRANT: I think the
25 responsible course provides incentives to get that

1 done. Again, I think one of the questions is: Do
2 we have something that's written in? We know we
3 have to do that because it's in the Act itself. I
4 think that's one of the issues that we need to
5 deal with.

6 CHAIRMAN PAT WOOD: The Governor
7 and others say they want that in here. They'd
8 like to do that. I think we all agree it needs to
9 be done. There's a great market in the state for
10 that resource. Senator Murkowski talked about
11 replacing diesel. I mean, obviously the diesel
12 producers won't be thrilled, but everybody else
13 will. It's kind of a no-brainer. I think that
14 you would like to drop it off here rather than pay
15 the toll to send it all the way down to Chicago if
16 there's a market for it.

17 So I'm just trying to figure out,
18 what do we need to do here to kind of make that a
19 nonissue for the people in the state? And, well,
20 the other open-access issues that we've keyed up
21 here, I'm hearing a little bit of everything.

22 KEN KONRAD: I think it's up to us
23 to get you the details, Commissioner Wood, but I
24 think it can be almost as simple as having -- I'm
25 sure that there's opportunity for folks to suggest

1 realistic tie-in points. We're actually in
2 discussion with the State already to identify
3 where the two or three tie-in points need to be
4 and then let folks that want to buy capacity for
5 that particular service bid on it. The market
6 will decide whether the demand is zero.

7 RICHARD GUERRANT: Just to add to
8 that. Ensuring that the open-season regulations
9 are such that allows for in-state meetings, to be
10 able to bid on the capacity from these points. It
11 may be as simple as that. We already have the
12 requirement to do a study. That's there.

13 BILL CORBUS: Mr. Chairman, again,
14 from the State's point of view, we regard this as
15 a pretty important point as was mentioned by the
16 Governor. So we'd like to leave you with that
17 point.

18 CHAIRMAN PAT WOOD: But where do
19 we -- what do we need to stick in here in the
20 open-season regulations about that that would
21 facilitate keeping that issue -- or resolving that
22 issue? I mean, the statute is pretty clear. But
23 what can we actually put in this regulation to
24 address that issue from the State's perspective?

25 ROBERT LOEFFLER: Here I come

1 again. First of all, the statute reads the timing
2 of the schedule. The wording of the statute is
3 sort of odd because it says the holder of the
4 certificate shall conduct it. It's sort of a
5 retrospective. So, specifically, we think it
6 would be valuable to have the study not be before
7 the open season, so you'd establish the timing of
8 that.

9 No. 2, I think the State would
10 applaud any efforts by the companies to work with
11 the State, as they are doing, to identify delivery
12 points. But there's also a design issue and
13 there's a rate issue. There's several serious
14 issues.

15 The other issue I think is of
16 concern to Alaskans is in an open-season process.
17 Under that analogy, what would be the value of a
18 bid for short-haul service of equal duration to a
19 bid for long-haul service? It would seem that the
20 short-haul bids would automatically have less
21 value in the bidding process and, therefore,
22 in-state service would be a second cousin or
23 something.

24 In terms of the importance of the
25 need to serve in-state use, Alaska has had a long

1 history of resources being shipped out of the
2 state, and the State does not think of it as a
3 province just for extraction. I think you've got
4 to identify delivery points and also identify how
5 in the evaluation process in-state goods will
6 receive fair value.

7 CHAIRMAN PAT WOOD: Commissioner,
8 is it envisioned that the Alaska gas would be
9 dedicated to the in-state consumption use or is
10 that not necessarily so?

11 BILL CORBUS: We are -- I wouldn't
12 say dedicated, but it certainly probably will be
13 used for in-state use, but it could be for other
14 uses too.

15 CHAIRMAN PAT WOOD: Seems like the
16 special provisions that are in there for gas would
17 certainly indicate that we could get around a lot
18 of these problems. Are we talking about
19 something more than one-eighth of the supply being
20 dedicated to State use? I mean, what's a ballpark
21 figure?

22 BILL CORBUS: This is one of the
23 things that we want the study on. We don't have
24 those numbers at this time.

25 CHAIRMAN PAT WOOD: Okay. That

1 would be helpful. You're right. It's a strange
2 tense that I never learned in English. The future
3 winner of the application shall have; past,
4 future, however it goes.

5 Section 105, expansion; I think
6 what I'm hearing is, don't do it here. We
7 obviously have it posted because we've got 120
8 days, but get moving on it next or don't get
9 moving on it at all. Is that what I'm hearing?

10 RICHARD GUERRANT: Clearly assuming
11 -- we can get past this one, but let's assume we
12 file our application. Clearly, before we accept
13 the certificate we would like to know what that
14 looks like. Just kind of logic. So sometime
15 between kind of now and then is -- probably
16 post-application would be an appropriate time --
17 but before obviously the certificate is granted we
18 want to know what that looks like.

19 CHAIRMAN PAT WOOD: Sometime before
20 the certificate on expansion. Is it a lot more
21 than -- I mean, the statute says, here is what the
22 Commission shall do. Would the Commission save a
23 lot of paperwork by just saying, we're open to
24 rolled-in pricing? Is that too in depth? Is that
25 too anathema for some of the initial shippers? Do

1 we need to say, we'll take 87 percent rolled-in
2 pricing and 13 percent incremental or do we need
3 to kind of stretch it out? I mean, what kind of
4 certainty do we need to do here, because we're
5 good at certainty?

6 SUEDEEN KELLY: Mr. Chairman, along
7 the lines of that question, Mr. Palmer suggested a
8 rebuttal of presumption of rolled-in pricing. And
9 I wanted to ask, and maybe this is a good time,
10 how people felt about that for solving the
11 problem.

12 JOE MARUSHACK: One of the things
13 we struggle with on this pipeline, and we've said
14 it over and over again -- different people have
15 said it is, this is really, really unique.
16 Four-and-a-half BCF a day, 3600 miles. A pretty
17 unique situation here. So what is the expansion
18 we're talking about?

19 Clearly, you put in
20 intracompression stations. That's a pretty
21 economic expansion you can do. What happens,
22 though, if the number is half of that, or a
23 quarter of that, or a third of that? What happens
24 if it's twice that? Until you've actually had
25 someone come forward and want to make that happen,

1 then you can look at it and say, what's the cost
2 of compression? What's the incremental fuel use?
3 And figure out the right way to do that to make
4 that happen.

5 Clearly, mandatory or voluntary
6 expansion is included in the regulation, so we've
7 already crossed that bridge that there will be an
8 expansion. The question is: Is it economic and
9 how do you make it economic?

10 CHAIRMAN PAT WOOD: Economic for
11 whom, I think is the question we need to probably
12 answer.

13 RON BRINTNELL: The economics will
14 change over time. What is economic today may not
15 be the same definition ten years from now.

16 CHAIRMAN PAT WOOD: How do we get a
17 pipeline expanded into production in the northern
18 part of the state and into the marketplace?

19 RON BRINTNELL: I would agree with
20 the producers, that there is already through the
21 legislation the ability that if the parties don't
22 in good faith negotiate with each other, you've
23 got the unprecedented ability to force them into
24 expansion, and that will result in the parties
25 getting together because no one's going to want to

1 adapt.

2 CHAIRMAN PAT WOOD: What
3 facilitates voluntary resolution of that? Is it
4 the way to design question? Are we back to the
5 TransCanada thought that you have a rebuttable
6 presumption for this pipeline?

7 TONY PALMER: Perhaps I could just
8 follow up on my comments, Mr. Chairman. That's
9 clearly what we favor. That has been a policy
10 that has resulted in significant expansions of
11 Canadian gas into the marketplace. We think a
12 fair policy that's fair to both customers as well
13 as future customers and it clearly is an incentive
14 for growth, as some parties have described it. If
15 the initial pipe is designed for four-and-a-half
16 BCF a day with the design that we have, which is
17 similar to others, there is cheap expandability up
18 to 6 BCF.

19 So, in effect, the totals would
20 decline up to that level. It's for levels beyond
21 6 BCF a day with the current pipeline design, but
22 a rolled-in mechanism does use that rate over time
23 for all parties. I believe there's public policy
24 here. It's clear that Canada has adopted it as a
25 way to spend exploration and development over time

1 in a new way.

2 And I will tell you we started our
3 pipeline system 50 years ago in Alberta with a
4 pipeline 200 miles long moving 254 million cubic
5 feet a day. Currently, that pipeline is 15,000
6 miles and it moves 12 BCF a day.

7 CHAIRMAN PAT WOOD: I think you
8 could certainly infer we could keep our existing
9 policy in the rest of the country and this is a
10 unique project and not really have to do a lot of
11 gymnastics.

12 RICHARD GUERRANT: With all due
13 respect to TransCanada, this policy was a very
14 contentious policy at the time. So there were
15 some saying, it's good for Canada, it's good for
16 this, but I'm not sure the right way to go here.
17 I think your existing policies that allow you to
18 look at the facts at the time and to determine and
19 get the input of all the effected parties at the
20 time and you be an arbitrator to provide us the
21 kind of predictability that we would like.

22 BILL CORBUS: Let me speak to this
23 from the State point of view. I think you'll hear
24 this afternoon the shipper having a great deal of
25 concern about having a clear signal for developers

1 so they have an understanding, as best you can
2 have an understanding some years in advance, of
3 what the rate treatment would be. There's always
4 a lot of uncertainty connected with that.
5 Rolled-in pricing seems to make sense for exactly
6 the reasons that Mr. Palmer says they have in
7 Canada.

8 And then you have this odd
9 situation where you might have rolled-in pricing
10 in the Canadian part of the pipeline and
11 incremental pricing on the U.S. side. It's an
12 additional argument why you wouldn't want
13 rolled-in pricing. What we suggest is that it's
14 worth looking at now. You have enough to do with
15 the open-season regulations.

16 You might have to look at something
17 called the sole risk expansion in which one party
18 would undertake to support an expansion and full
19 cost of that expansion would fall to that party.
20 Then you have the unusual mandatory expansion, but
21 there's something to get your hands on in the
22 procedure, and the whole point would be to give as
23 clear a signal as you could to the exploration
24 community, which feels very strongly about this.

25 The other point is, you've heard

1 some numbers thrown out about what the
2 expandability could be. But in terms of what the
3 public record is on expansion, it's very thin.
4 Yes, the State knows more than it really can say
5 today because it's received the information
6 confidentially. So there would be a point of
7 having a public proceeding where shippers and
8 everyone else could learn more and you could take
9 your stand on policy and it would give the right
10 signal. Thank you.

11 NORA MEAD BROWNELL: I have a
12 couple of questions. One of the areas that I see
13 kind of some major disagreement on is the issue of
14 presubscription. I think we heard from State
15 policy leaders this morning their view and you, I
16 think, adopted a rather different view. I wonder
17 if there's a middle ground. I understand perhaps
18 using presubscription in such a way as to attract
19 capital. But is there some kind of a threshold
20 that you could accept that would deal with the
21 financial issues but would still address the
22 State's concern that it will be in fact a barrier
23 to entry for new players in the marketplace?

24 KEN KONRAD: I think all of us need
25 to understand the underlying commercial

1 motivations. For the parties and any sponsor, any
2 shipper, volume is good. The whole challenge of
3 getting gas to market in Alaska is the distance
4 and the unit cost for transportation. The more
5 units we're transporting, the lower the unit
6 costs.

7 Any project sponsor is going to
8 want to attract as much business as it can to
9 lower the unit cost and that's a win. The
10 likelihood of not having enough -- you can build
11 this pipeline as big as you want as long as people
12 are willing to pay for it. So presubscription
13 will not close anybody out.

14 I think sometimes there's a
15 perception that when we say 4.5, it's 4.5000.
16 Well, it's 4ish, it's four-and-a-half-ish. We can
17 design any pipe that's necessary. The more the
18 merrier. But the key issue is whoever comes on
19 board agrees to pay. The sooner we can get people
20 on board that agree to pay, the sooner we will get
21 this project going. The later that happens, the
22 more impediments we put around that, the slower it
23 will go and the less likelihood the project will
24 happen.

25 JOE MARUSHACK: Commissioner, I've

1 looked at the potential anchor shipper concept as
2 actually a win-win situation where in Alaska
3 you've got these huge underpinning volumes, if you
4 will, and then you've got exploration potential.
5 Exploration is difficult; it's expensive. What
6 the anchor shipper calls to my mind is you would
7 know through the initial prescription or
8 agreements or whatever it is about what size the
9 pipe ought to be and about what the compressors
10 ought to be. At 48 or 52, it ought to have
11 compressors every hundred miles, whatever it is.

12 Then you go into the actual season
13 and find other people -- first of all, anyone can
14 sign up with the pipeline to be a shipper. Then
15 you go into it and you design this thing. You do
16 your designs based on what people actually want
17 afterwards, so conceivably explorers could have
18 additional time between the time when the pipeline
19 company is designing the initial pipeline and as
20 you follow it up with the open season, people
21 could come in then with a binding open-season
22 agreement at that point in time.

23 That to my mind gives exploration
24 folks additional time to find gas and put it into
25 the initial slot of gas. Then in addition to

1 that, once you've got your pipeline done, you've
2 got the opportunity to expand it.

3 RICHARD GUERRANT: Back to the
4 Governor's comments this morning about ensuring
5 that it's sized right. Clearly, we want to go
6 through a process early on to identify people who
7 want to keep that process going and go through
8 whatever open season until we get a size that
9 meets the need and that is, as you know, a very
10 critical phase to get it right. And as you can
11 hear, we're very committed to doing that, and we
12 think that brings the costs down and so forth.
13 That hopefully makes the whole area, all the
14 resources they talked about earlier, much more
15 competitive.

16 NORA MEAD BROWNELL: Well, I'll be
17 interested to hear what the panel this afternoon
18 has to say. I'm sure the legislative leadership
19 can comment itself.

20 But what I heard was -- I hear you
21 from an economics perspective, but I heard people
22 don't want to take certain things on faith. So I
23 think it's an area in which, you know, whether
24 it's the anchor concept or whatever, we need to
25 expand and make it a little clearer so we can

1 satisfy the concerns, I think, that were raised by
2 the Alaska leadership. I think that's the thing
3 I'm kind of grappling with. I have one more
4 question --

5 BILL CORBUS: Before that, just
6 speaking on behalf of the State. The State is not
7 supportive of the anchor shipper concept. I guess
8 if you start thinking about it, all of the
9 existing owners of State gas on the North Slope
10 are anchor shippers. We're saying to ourself,
11 well, there isn't that much capacity left to
12 supply others, and it doesn't give the explorers
13 the kind of confidence needed looking to the
14 future. Thank you.

15 NORA MEAD BROWNELL: And I
16 appreciate that, which is why I bring up the point
17 that somehow we've got to reconcile these two
18 issues, kind of the financial certainty that you
19 need up front, but also the ability to encourage
20 the exploration that is required.

21 One more quick question. Actually,
22 just a comment, because I think others have
23 questions. That is, I heard all of you say the
24 section on relevant information is too broad and
25 unclear and leaves you exposed, et cetera, et

1 cetera. I think that's probably true and I'd be
2 willing to look at that.

3 On the other hand, I think everyone
4 needs to be clear about what information they
5 require. I think we can define this; I think we
6 should define this. I think for a successful
7 venture everyone benefits by that. So I hope that
8 in the comments we'll get a lot of very specific
9 ideas about what information people do consider
10 relevant or needed to make business decisions.

11 JOE KELLIHER: I just have one or
12 two questions about expansion. One of the
13 rationales for favoring incremental pricing versus
14 rolled-in rates in the Lower 48 is preventing
15 overbilling. Is that really a concern here in
16 Alaska? We know there's already one pipeline
17 built. Is there a worry of overbuilding the
18 pipeline capacity or is the focus really on the
19 other end?

20 RICHARD GUERRANT: I wouldn't say
21 there's a concern here right now. It's just in
22 our industry we know this, that is, when you
23 look -- you know that you've got proven reserves
24 and you know what you can build a piece of pipe
25 around. When you start stepping out and looking

1 at other reserves that are not as proven, there
2 are risks associated with that.

3 I think the key here is making sure
4 that the shippers that underpin this have the kind
5 of reserves and financial capability to be able
6 to -- so that we don't end up with too much
7 capacity and then increased costs and then --
8 that's the issue that we struggle with.

9 Now, clearly there's a lot of
10 upside here and that's one of the dynamics we're
11 dealing with. But as he said, we have a very
12 unique situation where we have a set of reserves
13 that are proven. We can underpin the pipeline
14 based on that. Now the question is: How do you
15 allow for the explorers to come in and take a
16 piece on top of that? If that helps.

17 ROBERT LOEFFLER: Let me state that
18 we agree that the Lower 48 policy based on concern
19 about overbuilding, particularly against competing
20 pipelines, there is no competing pipeline that
21 anyone sees in the near future. It would be
22 wonderful if all the gas that people can foresee
23 turns out and there could be multiple projects.
24 Everyone expects there to be one pipeline. We
25 don't think that the concern over overbuilding is

1 very strong here.

2 There's a related rate issue, which
3 is, if there is some excess capacity how that
4 should be addressed. We'll address that in our
5 comments, about how that should be addressed. But
6 we don't see a concern about overbuilding anywhere
7 near as great as the concern about underbuilding.

8 KEN KONRAD: One of our concerns as
9 a shipper, as a prospective whatever the term
10 shipper that gets this project going is that --
11 and taking the associated risk, we promise to pay
12 for this piece of pipe for however many years,
13 taking that risk and then having the additional
14 risk of our rates escalating due to the actions of
15 others in the future due to a misinformed early
16 policy. And that would be a powerful disincentive
17 for shippers, base shippers to come in and take
18 that risk knowing that any number of inefficient
19 expansions could take place in the future and know
20 that we, the people that actually got the project
21 going, get to pay for them.

22 That doesn't seem equitable and
23 that's why FERC's existing policies, based on the
24 facts at the time, based on the policy at the time
25 is far more pragmatic to decide those sorts of

1 things early on before we even have a project,
2 before we even have a design, before we even have
3 an application is a detriment to shippers being
4 ready to take up that risk.

5 JOE KELLIHER: Thank you.

6 SUEDEEN KELLY: Mr. Konrad, your
7 last comment. Would the fact that expansions
8 would be approved by FERC take care of your
9 concern that an expansion that's uneconomic might
10 hurt? If FERC could look at it and if the shipper
11 had a concern that it was uneconomic, could the
12 shipper make the case then?

13 KEN KONRAD: Well, if you decided
14 tomorrow, or very early on to do rolled-in
15 expansions and someone comes up with a highly
16 inefficient expansion, but the FERC decides for
17 whatever reason to go ahead with it, then it would
18 be my understanding that not the project sponsor,
19 but the shipper would pay for that.

20 SUEDEEN KELLY: So you would have
21 the opportunity to argue that it was uneconomic,
22 but the concern would be that FERC would approve
23 it anyway?

24 KEN KONRAD: Right.

25 SUEDEEN KELLY: The State said in

1 its comments that it would like to see the rule
2 adopt the goal that the pipeline would be sized to
3 handle all qualified initial gas tenders and be
4 able to handle all reasonably foreseeable gas
5 tenders. Does anyone have a problem with that
6 goal, or a concern with it?

7 KEN KONRAD: I think it's just
8 having enough clarity and certainty around it.
9 Reasonable is an awfully good word and it's in the
10 eyes of the beholder.

11 SUEDEEN KELLY: The concept is
12 okay?

13 KEN KONRAD: The concept may be
14 okay. I think the concept of bringing in
15 additional regulations where there are not
16 well-established precedents onto a project where
17 people are taking big risks, we don't want
18 uncertainty of regulatory risks where there is not
19 this well-established case record that industry
20 understands. Okay, here's a new idea, a new
21 wrinkle. How is that actually going to play out
22 in the future?

23 JOE MARUSHACK: On your first
24 statement, the one about size the pipe so it
25 reasonably allows for all shippers. To my mind,

1 that sounds conceivable. That's probably
2 something you can get around, especially with the
3 anchor shipper concept where you start out with a
4 certain size pipe that allows you to move on with
5 the project and then you use your compressors to
6 accommodate all that amount of gas. You put them
7 closer together. The issue on expansion, though,
8 to reasonably accommodate all expansion -- one BCF
9 of gas is maybe 5 trillion cubic feet over a 10-
10 or 20-year period. That's a huge, huge amount of
11 gas, so what's reasonable for this pipeline?

12 Do we need to size this thing so
13 you can expand it to 12 BCF a day or 6 BCF a day?
14 That's where I think we start to get a little
15 uncomfortable with the concept. This is going to
16 be very expensive tariff to begin with. We've got
17 to figure out a way to size this so it's just
18 about right and then have reasonable expansion.
19 And I'm using the reasonable word.

20 ROBERT LOEFFLER: Let me say that
21 the State proposal was a nuance. I think in terms
22 of what would be in the ultimate regulation is we
23 talked about a certain set of bids for the initial
24 open season. And while the goal is to have the
25 pipeline accommodate expansion too, the exact

1 proposal, as I understand it, was to deal with the
2 initial set of bids and there were qualifications
3 for bids. There were also escape clauses, too.
4 So in our prepared comments we'll try and clarify
5 that.

6 SUEDEEN KELLY: And along those
7 lines, the suggestion that the study for in-state
8 needs be done and be in the final regulations, are
9 you contemplating giving the Commission more
10 detail on the idea of who would do it, when it
11 would be done, who would oversee it?

12 ROBERT LOEFFLER: The short answer
13 is yes.

14 SUEDEEN KELLY: How about responses
15 of the other panelists to that suggestion?

16 KEN KONRAD: The State hasn't
17 shared their ideas with us yet, so it's difficult
18 to comment.

19 SUEDEEN KELLY: Does it raise any
20 concerns in your mind, or what kind of concerns
21 might it raise in your mind?

22 KEN KONRAD: Doing a study doesn't
23 raise great concerns as long as it serves a
24 purpose and it's targeted. I think there's going
25 to be many, many studies as we spend our billion

1 dollars getting ready to file an application.
2 That in and of itself is not a concern. It's just
3 making sure it fits the purpose and has a purpose
4 and is targeted and clear.

5 SUEDEEN KELLY: Thank you.

6 ROBERT CUPINA: I just have a
7 follow-up question. Some of what we discussed in
8 terms of the in-state study and the determination
9 now whether there should be rolled-in pricing or
10 not seemed to be matters of timing and whether
11 it's necessary or not and whether they're required
12 by the statute. If we were to have a rolled-in
13 pricing policy for Alaska, bearing in mind also
14 that the policy now for the Lower 48 is also
15 concerned about subsidization by existing
16 customers. So you have incremental rates in those
17 situations where existing customers would
18 otherwise be subsidized by expansion.

19 Bearing that in mind, if we had a
20 rolled-in policy just for Alaska, would anybody
21 see that as an obstacle to getting the initial
22 proposal under way? Because talking about
23 expansion is a little bit academic until we have
24 an initial pipeline. Would rolled-in create an
25 obstacle for you going in with the initial

1 pipeline?

2 KEN KONRAD: It's really an
3 additional risk which I tried to explain earlier,
4 but if you don't know and people can add to the
5 rates you think you agreed to, then that's going
6 to be a risk that you factor into do I go forward
7 or not? Does it break the back? Who knows? But
8 when we're dealing with pricing that's trying so
9 hard to run up the hill as it is and while we're
10 all hopeful, we're still not heading downhill on
11 this by any means. It's just another risk and
12 another drag on the project.

13 As we have said all along, the best
14 way to promote competition and exploration is to
15 actually get a project built, and once you get to
16 that point, then you can move it.

17 RICHARD GUERRANT: I would concur
18 with Ken's comments. You keep piling on and you
19 don't know where you pile on enough where it then
20 ends up being a project that has too many risks.
21 Predictability is one of the existing policies and
22 FERC is the arbitrator of that policy.

23 JOE MARUSHACK: I'd like to come
24 back to the reason for the enabling legislation.
25 We looked at this project, huge amounts of

1 uncertainties on the whole regulatory process.
2 What we tried to do with the enabling legislation
3 is limit the amount of uncertainty. To me, by
4 having rolled-in rates, you're adding to that
5 uncertainty.

6 We're kind of getting around some
7 of the issues that we tried to put into base
8 legislation and a lot of people worked on this
9 issue at the time. But the whole idea was making
10 sure we have enough certainty around the base
11 pipeline to get that thing done.

12 ROBERT LOEFFLER: Let me add one
13 technical point. Section 105 and Section B2
14 requires the Commission to ensure that rates for
15 an expansion do not require existing shippers in
16 an Alaska natural gas transportation project to
17 subsidize expansion shippers. So I think Congress
18 is trying to reign in some of the risk that was
19 just described.

20 CHAIRMAN PAT WOOD: How would you
21 define subsidize?

22 ROBERT LOEFFLER: You do it all the
23 time. It's in the eye of the beholder. You have
24 many years of experience on the Commission. But
25 it would be when you are very near the fair cost

1 of the service.

2 CHAIRMAN PAT WOOD: And fair means
3 what?

4 ROBERT LOEFFLER: Fair means it's
5 an economic responsibility. You pay for what you
6 use.

7 KEN KONRAD: Just to be clear,
8 we're highly supportive of rolled-in rates
9 provided they don't increase the rates, which is
10 currently what's in the law that was written and
11 passed in October.

12 RON BRINTNELL: Mr. Chairman,
13 you've been talking to the three main producers.
14 Enbridge is trying to solicit support for the
15 pipeline project beyond the three producers. We
16 have gone to a few of the market participants that
17 might actually come all the way back to Alaska and
18 take capacity and buy gas in Alaska, and I would
19 echo the same point on their behalf.

20 Certainty is important such that if
21 we didn't know in the future that someone stepping
22 up might increase our rates, we would be a little
23 more aggressive and step up today. So it's not
24 just a function of the three companies. Anyone
25 who might step up, including the State of Alaska,

1 would want to see what some totals might look
2 like.

3 CHAIRMAN PAT WOOD: Can the use of
4 negotiated rates be one way of getting some
5 certainty there, but yet not close the door to the
6 generally applicable rates?

7 RON BRINTNELL: Absolutely. It
8 would encourage the fact that there is the ability
9 to have negotiated rates. I think our view is
10 that this project will most likely have negotiated
11 rates which will result in initial tariffs that
12 probably aren't valid.

13 CHAIRMAN PAT WOOD: That does put
14 some risk back on the pipeline. One of the points
15 of all this legislation was to reduce the risk of
16 the project all together.

17 I have a TransCanada-specific
18 question. I know you all have inherited the
19 Foothills projects and I wonder -- again, I have a
20 vague recollection of there being some historical
21 debt obligation that could factor into your rates.
22 If you were the successful applicant and you came
23 to our Commission for rate recovery, what is the
24 status of that debt? What was the size of it and
25 would it actually be something included in the

1 regulated rate base for such a project?

2 TONY PALMER: Mr. Chairman, perhaps
3 I can ask you: Are you referring to costs of the
4 Alaska side?

5 CHAIRMAN PAT WOOD: Yes, U.S.
6 costs.

7 TONY PALMER: There are issues with
8 regards to rights that those parties had a very
9 contingent liability, which I won't go into today,
10 but fundamentally the parties that withdrew from
11 the partnership many years ago went away with some
12 rights in the event the project went forward, and
13 they can be reimbursed without undue burden on the
14 project. So I would describe it as a very
15 contingent liability. We have not proposed to add
16 that cost to any pipeline that we would build in
17 Alaska. I would add that there are no such costs
18 on the Canadian side of the border.

19 CHAIRMAN PAT WOOD: Would those
20 withdrawn partners have some legal right to come
21 claim that even though you don't file for it?

22 TONY PALMER: Mr. Chairman, I'm not
23 qualified to respond to you on that issue.

24 CHAIRMAN PAT WOOD: I'm trying to
25 reduce uncertainties here.

1 I'd like to ask our colleagues from
2 Alaska, any questions for our panel here before we
3 take a lunch break?

4 DAVE HARBOUR: Good afternoon, Mr.
5 Chairman. It's good to see you. This is a great
6 opportunity for viewing portions of the Gordian
7 knot, as the producers have said, through the
8 various way they have described before. Within
9 that complexity, the Canadian representatives from
10 Enbridge and TransCanada, they have referred to
11 developing a symmetry vis-a-vis FERC and any big
12 decisions.

13 And I'm wondering if on the subject
14 of open season in capacity how they would view the
15 NEB interfacing with FERC on capacity in such a
16 way that the certainty that the builders of the
17 pipeline would not be abridged by downstream
18 decisions, downstream of the Alaskan border on
19 capacity.

20 TONY PALMER: Yes, sir. If I could
21 perhaps deal with that. We move some -- in the
22 order of 7 BCF a day across the border today from
23 Canada to the U.S. where there are two open-season
24 processes. There is the Canadian side, the
25 Natural Energy Board, and there is an open-season

1 process under the FERC. Those are coordinated.
2 That has been taking place for many years. We
3 don't believe that that will be an issue for
4 Alaskan gas. It hasn't been for the policies
5 going forward over the past 20 or 30 years.

6 Clearly, coordination is required
7 and that is the normal course of business in the
8 gas business today and has been for many years.

9 DAVE HARBOUR: Thank you for that.
10 I had one question for the Alaska producers. On
11 the study that's mandated by the statute, that's
12 vested within the responsibility of the applicant.
13 Could you talk to us a little bit about this
14 certainty that you would wish to achieve in a
15 study with respect to Alaska gas, since designing
16 and developing capacity on the pipeline would be
17 based in part on what the confirmed in-state need
18 would be? Isn't that an area of clarity that you
19 see? Could you talk about that a little bit?

20 KEN KONRAD: I tried to touch on
21 that a little earlier. The certainty comes when
22 the open season is held and people say, I want
23 this much capacity. That's the only time you get
24 the certainty. The studies may provide some
25 context around that, but studies are studies and

1 the market is the market and the market determines
2 what it really needs, so we would see the open
3 season as just kind of defining the State's needs.

4 DAVE HARBOUR: Thank you, Mr.
5 Chairman.

6 RICHARD GUERRANT: I think the
7 study is important for us to have a dialog with
8 the market and the State and the pipeline
9 developers to find out where those taps should be
10 and how to shape what the open season should look
11 like, so that when we say, oh, here's the bid, and
12 they bid on capacity, you have a robust process,
13 you have it clarified and hopefully pretty close
14 to the mark.

15 SUEDEEN KELLY: I had one follow-up
16 question on Rob's discussion regarding certainty
17 for the builders of the pipeline and rate
18 treatment. Does it help with certainty if FERC
19 says nothing about rate treatment? Doesn't that
20 leave it open with uncertainty about whether or
21 not FERC would change its incremental pricing
22 policy to a rolled-in pricing policy for Alaska;
23 in other words, for the sake of certainty does
24 FERC need to say something about what it thinks
25 the future of pricing policy would be?

1 KEN KONRAD: I would say it would
2 be -- a decision should be taken when the specific
3 expansion information is available and based on
4 the FERC policies at that point in time. That's
5 what we hope and expect FERC does for a living,
6 and we think they do it reasonably well at most
7 points in time. You're paid to use your good
8 judgment and that's the request of industry.

9 SUEDEEN KELLY: But it would be a
10 risk as to what the policy would be at the time?

11 RICHARD GUERRANT: It's a tradeoff,
12 right? And we believe that that is a better risk
13 of having an arbitrator that historically has been
14 a very predictable arbitrator on these matters and
15 listening to the case of various parties is better
16 than something that's mandated that potentially
17 could end up really creating some strange economic
18 unintended consequences and risks.

19 SUEDEEN KELLY: Thank you.

20 KEN KONRAD: I should say, we think
21 there is certainty in the statute because it says
22 in the case of a mandated expansion, that
23 rolled-in rates cannot be higher. So we think
24 that certainty already exists. What we're hearing
25 is people trying to maybe erode that certainty.

1 ROBERT CUPINA: With that, I would
2 like to thank this panel and encourage you to stay
3 around until the open forum at the end when
4 members of the audience can ask you questions as
5 well. Right now we are going to take a lunch
6 break. I think I'm going to give up on 2:00.
7 Let's try for 2:10 to resume. Thank you.

8 (Brief recess taken.)

9 ROBERT CUPINA: We have on the
10 panel Dave Anderson with Anadarko Petroleum; then
11 Mark Hanley, H-a-n-l-e-y, with Anadarko; Tony
12 Izzo, I-z-z-o, with Enstar Natural Gas; then Rick
13 Mott, M-o-t-t, with ConocoPhillips; and
14 Commissioner Tom Irwin, I-r-w-i-n.

15 We are going to resume with the
16 potential shipper panel. Let me say one
17 additional thing about the speakers. We granted
18 all the requests that were made to speak today, so
19 we didn't have to shorten our panels or agenda or
20 anything like that. At the same time there are
21 people in the audience, especially Native Alaska
22 groups or corporations, who would like to speak in
23 the open forum session. With that, we'll start
24 with the potential shipper panel and Mark Hanley.
25 We're reversing the order of the first two

1 speakers. Mark Hanley will lead off and he'll
2 share Anadarko time.

3 MARK HANLEY: Thank you, Robert.
4 Mr. Chairman, members of the Commission, staff,
5 legislators and the RCA, thank you for this
6 opportunity. My name is Mark Hanley. I'm the
7 public affairs manager for Anadarko in Alaska and
8 as an Alaskan, I too want to jump on the bandwagon
9 and sincerely thank you for coming to Alaska. It
10 is unique. We often feel that decisions are made
11 in Washington, D.C. about issues that affect us
12 here in Alaska. To come here and actually hear
13 us, I appreciate that.

14 I want to give you a brief
15 background on how we view the pipeline and our
16 excitement about pipeline exploration in Alaska
17 and some specific concerns that I know you would
18 like to hear about the proposed NOPR. I'm going
19 to shorten things because a number of the comments
20 have already been made, and I would say that we
21 agree with an awful lot of what's been said by the
22 State, both the Governor, Senator Murkowski, the
23 legislators and the Commissioner before.

24 Alaska has a large amount of
25 discovered gas, but the undiscovered potential is

1 even larger. We have a large acreage position in
2 Alaska with a lot that's about ready to drill. We
3 have prospects we want to explore and we think
4 that's good news for consumers and for businesses
5 in the United States. As you've heard, this
6 pipeline is unlike any other in the United States.
7 It's expensive; it's long; it's likely the only
8 one ever built.

9 One thing we'd add is that means
10 there's no competition. It is a monopoly, and a
11 unique monopoly, and we think that justifies a
12 difference in how it's regulated. We think that's
13 why Congress mandated the regulations to promote
14 competition, and competition getting the pipeline
15 belt. Obviously we support that. If Congress
16 just wanted it built, I think they would have just
17 said, build it, and that will create the
18 competition.

19 And, frankly, just to be blunt,
20 we're concerned about the monopoly being
21 controlled by our competition on the explorer
22 side. The thought of having our competition being
23 able to determine the rules under which we get to
24 bid concerns us. Even as you've heard on the last
25 panel, it was a project sponsor panel and yet they

1 were talking both sides, shippers and project
2 sponsors, and that's one of the concerns we have.
3 Because on one hand Mr. Konrad said, well, if you
4 do rolled-in rates, it won't affect the project
5 sponsor, it's the sponsor that takes the risk, but
6 that was the project sponsor panel.

7 There are unique incentives when
8 you have both a shipper as the project sponsor
9 that don't occur otherwise. What we see, and as
10 you've heard trying to get into some of the
11 details, what we've heard is a four-and-a-half
12 BCF pipeline easily expandable to 6 BCF. Then if
13 you use an incremental policy, it may actually cap
14 at 6 BCF. That may be the practical limit of this
15 pipeline forever. I don't know if there will be a
16 lot more than 6 BCF, but we're concerned about
17 making sure that there is an opportunity if there
18 needs to be that amount of gas coming out of
19 Alaska.

20 Because of the long lead time for
21 exploration, three to five years for winter
22 exploration, we need basic information before we
23 even drill. We've got to have some comfort level
24 going forward and definitely before making
25 commitment capacities on a pipeline. That's why

1 we're happy with the federal language requiring
2 regulations to include the criteria for and timing
3 of any open seasons, but I would suggest that
4 timing is not only duration of a season, but when
5 it happens. I think that is important to us.

6 As the Chairman said, if there's an
7 open season this year in 2005, I can almost
8 guarantee there won't be any local people, any
9 local subscribers. They can't make that
10 commitment. They don't have the details
11 necessary. And there won't be any explorers
12 either for things that haven't been drilled. So
13 you're going to be focused on the expansion side.

14 If you've seen our comments,
15 obviously we're interested in having as late an
16 open season as possible to give explorers and
17 consumers enough time to get their information
18 developed including spur lines from the North
19 Slope to the Cook Inlet area. We have made a
20 suggestion as well that for expansion open seasons
21 that it essentially allow expansion open seasons
22 only for gas outside of Prudhoe Bay before startup
23 of the pipeline.

24 We think that meets the intent of
25 Congress to encourage the production of gas from

1 outside of Prudhoe Bay and Point Thompson and
2 gives us this additional time to go explore before
3 we get into the expansion open season. On the
4 criteria that is in the NOPR, where it says the
5 contents of the notice, we agree with a lot of the
6 specifics that are in there. We have a concern
7 with the language to the extent that such
8 information is determined at the time the notice
9 is issued.

10 I think a lot of pipelines would
11 say, well, we don't know the size and design
12 capacity because we haven't got the open season
13 yet. We don't know what the maximum pressure is
14 going to be until we get in there. We don't know
15 the kind of volumes. We don't know the delivery
16 pressure.

17 I guess we would like to just take
18 that out. Obviously, what's known at the time, or
19 what the intent is, we know it's not absolute.
20 We're a little concerned if you want to abuse the
21 system, you'd come back with very little
22 information that's not known or determined at the
23 time the notice is issued. So that's one of our
24 specific concerns about those rules.

25 The other gets to some of the

1 issues you've heard. The language in the federal
2 law says the regulation shall include procedures
3 for the allocation of capacity. You guys who are
4 the project sponsors get to do that. We read that
5 as FERC is supposed to include the procedures and
6 we would encourage that.

7 Let me give you one example. If
8 you're bidding for capacity on the pipeline and
9 somebody bids the maximum rate, one person bids 20
10 years and the other bids 50 years, the 50 years is
11 going to win. We think there should be a limit on
12 the length you have to bid matched to the
13 financing term of the initial pipeline or the
14 expansion so there are some time limits. You
15 can't bid 75 years and beat somebody else out that
16 somebody else might not take that risk.

17 The issue of presubscriptions have
18 come up and we are concerned about
19 presubscriptions. I am not familiar with why they
20 need to have presubscriptions to go finance the
21 pipeline. The concern we have is if somebody sets
22 rules, negative contracts or gets their
23 presubscriptions, we want to have the same rules.
24 We want to make sure somebody else doesn't get a
25 better deal than we do. We want a fair playing

1 field.

2 So presubscriptions are a concern
3 in that if people get special deals in those
4 presubscriptions in the initial expansion open
5 season, then we're concerned that presubscriptions
6 could presubscribe all of the economically
7 expandable expansions. And particularly if you
8 use current policy where over a certain level it
9 becomes incremental, the presubscriptions could
10 freeze out people to have ability to get capacity.

11 Again, we thank you for coming up.
12 I'm not going into a lot of detail. Dave is going
13 to go through a little bit about rate setting.

14 DAVE ANDERSON: I'd also like to
15 express my appreciation for the Commission for
16 holding this hearing today as well. I'm going to
17 address some tariff concerns. We believe that a
18 presumption of rolled-in methodology production
19 promotes competition in the development of Alaska
20 natural gas. Promoting North Slope natural gas is
21 a principle mandate of the Alaska Natural Gas Act
22 legislation.

23 We also believe this methodology is
24 essential in order to ensure that this
25 monopolistic gas pipeline is expanded to

1 accommodate the huge natural gas reserves. We
2 believe that without rolled-in rates there is a
3 very real threat that the pipeline will never be
4 expanded beyond capacities created through
5 compression and added compression horsepower.
6 Such compression-only expansion capacity would cap
7 at 6 BCF per day.

8 In reality, from an operational
9 perspective, pipeline expansion beyond 6 BCF is
10 practical through looping and subsequent
11 compression facilities. There's a reluctance to
12 adopt rolled-in rates making due the expansion
13 capacity. The pipeline sponsors have received
14 loan guarantees from the federal government to
15 provide \$18 billion.

16 It is worth taking a moment to put
17 the capacity in other U.S. and Canadian natural
18 gas 29 BCF with a future undiscovered of 329 BCF.
19 Those reserves and resource figures compare
20 favorably with those of the North Slope. However,
21 there is more than 12 BCF a day of capacity out of
22 the Gulf of Mexico. In a similar vein, the gas
23 pipeline take-away capacity exceeds 14 BCF per day
24 with proven reserves of 224 BCF.

25 It would be unfortunate to

1 structure the Alaska gas pipeline with the tariff
2 structure and, therefore, the North Slope gas
3 exploration development and production. By 2015
4 it is widely believed that it will exceed 10 BCF
5 per day. It would be tragic to bottleneck gas
6 supplies as a result of tariff policy.

7 The Alberta to eastern Canada
8 pipeline has the potential to assist future
9 development of the Alaska pipeline; eastern Canada
10 in the U.S. and then to western Canada.
11 Expansions on the TransCanada pipeline have
12 resulted over time in the system having looped its
13 entire length several times raising capacity to 12
14 BCF per day, as Mr. Palmer mentioned this morning.
15 It started as a single 30-inch pipeline capacity
16 with less than 500 million cubic feet per day.

17 Lastly, only recently has FERC
18 adopted a policy favoring incremental rates. It
19 was to promote competition between new pipelines
20 and incumbent pipelines. Given the expectation
21 that there would only be one gas pipeline, the
22 existing expansion policy favoring incremental
23 rates should not apply to this proposed pipeline.

24 MARK HANLEY: We feel we need
25 information in a fair amount for setting some of

1 these goals before we drill. It's very difficult
2 for us to go out and drill and come to a pipeline
3 who may or may not tell you whether it's going to
4 be rolled in or expanded or whether there's cheap
5 capacity or not. So having this detail early, not
6 just at the open season, is critical for us to
7 actually explore.

8 ROBERT CUPINA: Mr. Izzo for
9 Enstar.

10 TONY IZZO: Good afternoon. I want
11 to add my thanks to the FERC Commissioners for
12 coming to Alaska. Thank you RCA for being here,
13 as well as our State legislators. I want to start
14 by first telling you that my name is Tony Izzo.
15 I'm president and CEO of Enstar Natural Gas and
16 Alaska Natural Gasline Company.

17 We currently serve half the people
18 in this great state, including Anchorage, the
19 MatSu Valley and the Kenai Peninsula. Our sole
20 source of natural gas in this region is located in
21 and around the Cook Inlet. To bring this gas to
22 market, Enstar owns and operates a 400-mile high
23 pressure intrastate transmission pipeline.

24 I believe it to provide energy in
25 the most resource-rich state in the country and I

1 find it very ironic that the Cook Inlet natural
2 gas supply is rapidly declining when we are
3 800 miles south of the resource rich North Slope.

4 I have a handout. First, turn past
5 the title page and I want to give you a snapshot
6 of the gas supply in the Cook Inlet. On the
7 vertical axis you'll BCF per year and then there's
8 a vertical line around 2006. I would say you're
9 here. What I think really stands out in this
10 chart is we call it the cliff, but as you can see,
11 the forecast production drops off very rapidly in
12 the next few years.

13 On the following page is a chart
14 from the Department of Energy, a recent study done
15 last summer funded by the Department of Energy.
16 And, again, what you're looking at is volumes on
17 the vertical axis; there are years across the
18 bottom. Each of those colored bars represents
19 local demands. In red, power generation --
20 sorry -- power generation is green. Red is
21 natural gas, and you have some industrial use in
22 the blue and hatched at the very top. You'll see
23 a similar line. It's the line that comes across
24 the top and then goes down. That's that same
25 cliff. It was superimposed. That forecast

1 production on the previous page, if you were to
2 take that rightmost portion and draw that for a
3 natural gas utility, because natural gas is used
4 here to generate all the power in this region,
5 what you're seeing of primary concern is where the
6 two intersect.

7 If you look at about 2012, you will
8 see for the first time that that line dips down
9 below the green bar. This assumes no additional
10 exploration in the Cook Inlet; it assumes that
11 everything stays the same. In 2009 we will not
12 have enough gas in this region for power
13 generation or home heating.

14 There's a blue line. There's an
15 intersection there about 2009 where the blue line
16 dips down below the green power generation. If
17 you take out the Kenai, McArthur River, North Cook
18 Inlet Field, these being dedicated to industrial
19 use -- when you take those out, now we have an
20 issue in 2009. I probably got this mixed up. The
21 blue line is 2009. So from the utility
22 perspective, we're extremely concerned and I find
23 it very ironic.

24 Speaking specifically regarding
25 shipping issues and capacity, speaking on behalf

1 of consumers, we absolutely expect to have access
2 to North Slope gas. Now, on a daily basis in
3 terms of our planning horizons, we don't count on
4 it and we've had to take some measures to spur
5 exploration in this region. It's driven up prices
6 substantially.

7 If there's bad news, it is that
8 prices have gone up almost 100 percent in the last
9 five years, and we see upward pressure on prices
10 continuing at the rate that we're experiencing
11 now. Two problematic issues from the local
12 utility; the consumer perspective, and it really
13 does apply to natural gas, to power generation, to
14 the homeowners that want to keep the lights on.
15 Those issues are for potential shippers.

16 There's a significant difference
17 between the Alaska and Lower 48 markets. There
18 are no significant offsetting loads in the summer
19 months. The house I live in now I bought five
20 years ago. I think I turned the ceiling fans on a
21 couple times, but there is no air conditioning.
22 There is no summer offsetting load that would
23 flatten out that demand curve. What this
24 specifically means to Enstar is our customer uses
25 in the winter 2.7 times more per month than what

1 they use in the summer months. We call this the
2 swing ratio. This has not always been an issue.

3 In recent years, as supply has
4 declined, it has become a real issue. Storage is
5 a new concept here and it's something necessary.
6 I know there are a couple local producers that are
7 looking into it. Winter capacity is 2.7 times in
8 the winter. Again, you've got to have it right to
9 the wall, everything running 100 percent in the
10 winter months, and then it ramps right down and
11 you have all this open space. What do you do with
12 it?

13 If North Slope gas were available
14 tomorrow, it would be 2011 or '12 most likely
15 before I would even have an opening. We have to
16 operate with what we know today. So we have
17 contracted supply through 2008 right now,
18 committed through 2008 and then in the next year,
19 based on activity in the Inlet, 2009, maybe '10,
20 '11, it's going to become a real challenge.
21 Something really different and serious will need
22 to take place.

23 In the short-term planning horizon,
24 we're generally okay. When the supply starts to
25 decline, it steps down at 3 BCF. To go out and to

1 bid on capacity or try to reserve capacity, it
2 would be extremely difficult for us to do that at
3 this point. It's just not something we could
4 bring ourself to. And when we do, it would be for
5 small amounts that will step up over time.
6 Eventually it could take up our whole portfolio.
7 I recommend that FERC take these Alaska
8 fundamentals into consideration in developing
9 rules for shippers.

10 Half the state's population relies
11 on natural gas for its energy use. I thank you
12 for the opportunity to speak and I'll be happy to
13 answer questions.

14 ROBERT CUPINA: Rick Mott
15 representing ConocoPhillips as a potential
16 shipper.

17 RICK MOTT: Good afternoon,
18 Chairman Wood, Representative Samuels and Senator
19 Therriault. My name is Rick Mott and I'm the
20 Alaska exploration and land vice president for
21 ConocoPhillips. I'm pleased to be here to testify
22 on behalf of ConocoPhillips and also on the Alaska
23 natural gas pipeline.

24 ConocoPhillips has explored on the
25 North Slope, and we believe that the Alaska

1 natural gas pipeline will be a driving force for
2 decades to come. ConocoPhillips is not only one
3 of the largest owners of existing oil and gas
4 resources, but also the holder of undeveloped
5 leases on the North Slope having approximately 2.9
6 million acres on the lease. We have drilled 35
7 exploration wells with about 75 percent of all the
8 exploration wells drilled on the North Slope, in
9 addition, spending a significant amount of our own
10 capital each year exploring.

11 As an explorer, I cannot emphasize
12 enough how important it is to capture the gas
13 value outside Point Thompson. The USGS estimates
14 that there are 60 BCF of undiscoverable
15 recoverable gas resources in the National
16 Petroleum Reserve. The North Slope is a very
17 gassy hydrocarbon province. The exploration in
18 the North Slope is extremely challenging. The
19 lack of infrastructure make logistics difficult
20 and expensive. The drilling season is short and
21 weather dependent.

22 There is a high cost of exploration
23 and a long cycle time for new development.
24 Without a gas pipeline, the economics are further
25 degraded. Having a gas pipeline will create a

1 second line to all the Slope and significantly
2 reduce the risk of exploration economic failure.
3 The most important stimulus is the construction of
4 the gas pipeline. To that objective, any open
5 season rule is to get that pipeline constructed.
6 It will be economically attractive to shippers.
7 The gas pipeline will require a significant amount
8 of gas resource for the amount of construction. A
9 4.3 pipeline will require about 50 BCF of gas to
10 remain full over a 30-year period. Today we have
11 identified about 30 BCF of gas or known
12 recoverable resource. It will take about \$2.5
13 billion of exploration expenditure.

14 Right now with the investment in
15 Alaska, that's about 15 years of exploration with
16 every penny spent on hydrocarbons in Alaska
17 dedicated to gas. For resources of this magnitude
18 or to enter into long-term gas delivery and
19 shipping contracts, there can be no risk of being
20 displaced by later field development.

21 ConocoPhillips suggests that the
22 anchor shippers are willing to enter into a
23 long-term precedented agreement. Anchor shippers
24 provide the pipeline with the financial assurances
25 needed to proceed with the projects. These

1 assurances send the signal to the pipelines under
2 development. Potential shippers who are not
3 anchor shippers should still have the opportunity
4 to access in an open season or in future
5 expansions.

6 Similar to anchor shippers, early
7 gas explorers could benefit from discovered but
8 unappraised gas volumes. Explorers could utilize
9 an additional winter season or would allow
10 explorers to invest with the strong certainty that
11 the gas pipeline was moving forward and could
12 encourage appraisal drilling and provide
13 additional gas volumes. At future dates volumes
14 will be discovered that require pipeline expansion
15 associated with existing policies. These policy
16 rates would be rolled-in unless doing so results
17 in a negative impact to existing shippers.

18 ConocoPhillips believes that the
19 existing reasonable policies will serve to
20 encourage economic expansion that are in the best
21 interests of the explorers. Future explorers will
22 benefit from a depressed cycle time resulting in a
23 pipeline. All explorers are best served by having
24 the gas pipeline built as soon as possible.
25 ConocoPhillips is supportive of its viability to

1 all similarly-situated companies. This helps
2 remove the risk. Late development of the pipeline
3 is a certainty to proceed with exploration
4 drilling.

5 ConocoPhillips supports open season
6 rules that allows shippers to enter contracts
7 prior to the pipeline construction.

8 ConocoPhillips also believes that open-season
9 rules should not provide different benefits to
10 certain shippers as that could hamper new
11 developments. ConocoPhillips works with Anadarko
12 and pioneers all its exploration process. In
13 order to develop a gas field all explorers also
14 need to be assured that there is sufficient
15 pipeline capacity to allow the project to proceed.

16 ConocoPhillips has worked with
17 towards operating to maintain alignment. It's
18 important that no class of shipper is treated in
19 any type of discriminatory fashion.
20 ConocoPhillips generally supports the open-season
21 rulemaking as proposed by FERC. As an explorer
22 and potential shipper, we share a concern that
23 confidential shipper information, such as
24 reserves, production, forecasts or areas of
25 exploration interest could be inadvertently

1 required to be made public. I believe that
2 proposed regulations will encourage pipeline
3 construction while allowing the pipeline to
4 continue commercial arrangements now and in the
5 future.

6 ConocoPhillips does not support the
7 prescription or rates or tariff terms and
8 conditions at this point because it could
9 unintentionally place more risk or financial
10 burden on one class of shipper over another.
11 Again, ConocoPhillips believes the FERC proposal
12 and rules which reflect policies developed over
13 decades generally strike the right balance.

14 In closing, the Alaska gas pipeline
15 is important not only for the developed gas
16 resources, but are a catalyst for the undiscovered
17 gas on the North Slope. ConocoPhillips supports
18 the policies reflected in the open season so that
19 rules incurred will create natural gas for the
20 North Slope, the state and the country.

21 ROBERT CUPINA: And now
22 Commissioner Tom Irwin of the Alaska Department of
23 Natural Resources accompanied by counsel, Bob
24 Loeffler.

25 COMMISSIONER TOM IRWIN: I want to

1 thank you for the opportunity of being here today
2 and being able to present our position. As you
3 mentioned, Mr. Loeffler is with me. I've been
4 asked a couple times why the Commissioners want
5 counsel and it's a very simple answer. We want to
6 clearly present to the Commission our stand as
7 policy, and yet I think you know better than
8 anyone how technical this is, and we want to make
9 sure you have access to the best technical answers
10 we can provide.

11 For the four Commissioners coming
12 to Alaska in the wintertime, this gives an
13 unqualified statement to everyone in the room that
14 you want to make the very best decision. So I
15 thank you.

16 Congress requires that the pipeline
17 be constructed in such a way, including providing
18 for the huge upside potential from new gas
19 discoveries in the State, and we need to expand
20 the project over time. From the start we firmly
21 agree that we ought to plan for a pipeline with at
22 least 50 years of exploration. The explorers
23 believe the gas is here. The timely access to
24 markets is the key concern. I cannot stress
25 enough that while Prudhoe Bay and Point Thompson

1 will anchor the project, they are only the tip of
2 the iceberg. I firmly believe we will see gas
3 production from the Brooks Range, the foothills,
4 NPRA, the central North Slope and ANWR. Kuparuk
5 River exceeds 100 BCF. You will hear more about
6 these resources from the experts later today on
7 this panel.

8 Further, our interior basins are
9 for the most part unexplored, but the data we have
10 obtained indicates they have significant gas
11 potential. We need a pipeline design, tariff
12 rules that promote exploration, and development of
13 natural gas. Explorers will not explore today if
14 they have to wait for a key client in gas products
15 in order to monetize their gas. Add throughput
16 benefits and the best incentives for both the
17 pipeline and the explorers may resolve. However,
18 this is a significant decision FERC has to make
19 and the State will conduct further analyses and
20 provide this information to FERC for your review
21 of well-prepared documents.

22 For this reason the State requests
23 a separate proceeding on expansion issues. I
24 heard earlier, take care of the business at hand
25 and then let's take care of this issue. Let me

1 stress again on this whole subject how important
2 the pipeline expansion issue is to unlocking our
3 state's vast potential. Correct sizing, initial
4 capacity allocation issues made, or at least
5 reduced, nonetheless the methodology should be
6 well understood for allocating capacity in the
7 event the pipeline is oversubscribed. Bids that
8 mix interstate or intrastate rates are treated
9 equally and prorated. On the other hand, if all
10 intrastate and interstate bids can be
11 accommodated, but all bids less are less than 20
12 years, then those latter bids should be awarded on
13 a net present value.

14 The best solution is to build the
15 pipeline to carry all the volumes. Let me turn
16 next to royalty issues. Section 103(h) gives the
17 State access to ship gas or used in state. Access
18 to the pipeline is essential to the State's
19 participation in the project's development. I
20 will add these royalty gas issues and some of the
21 in-state issues may be resolved in the
22 negotiations between the State and various
23 parties. It is paramount that gas be available to
24 some consumers.

25 On the subject of in-state demands

1 for gas, I recommend that in the open season
2 project required consideration of all requests for
3 delivery points on a nondiscriminatory basis,
4 whether on the main line or a possible spur line.
5 Likewise, the regulations that provide that are
6 open on a nondiscriminatory basis, including
7 request for capacity of receipt and to deliver
8 wholly within the state and should further provide
9 the capacity nominations for in-state delivery.
10 Contract rates shall be afforded the same weight
11 as capacity nominations at maximum rates for
12 contract terms of at least 20 years.

13 Again, let's design the pipeline
14 correctly. A question was raised in the
15 supplemental notice of the process. We think the
16 answer is early. Specifically we think the
17 pipeline's proposed open season notice package
18 should be submitted prior to the day of the open
19 season. FERC should call for comments on the
20 package and should then decide on the open season.
21 We recognize this is a recertification of the
22 ordinary process. The complaints are made during
23 or after the open season, but we believe the
24 special circumstances of the Alaska gas pipeline
25 are different. The open season package parties

1 will see the information earlier than its official
2 release about the adequacy of the disclosure
3 before open season begins. This will invite post
4 open-season disputes. It would also avoid
5 extending the open season.

6 We also believe that the
7 open-season notice should have transparent terms
8 on tariff methodology. After that the names of
9 the potential shippers should be made public.

10 In conclusion, we've heard numerous
11 times that Alaska has vast natural gas resource
12 potential. To realize this potential requires
13 reasonable actions of explorers of gas and
14 adequate expansion capability and fair rules for
15 initial and open seasons and, finally, tariff
16 methodology. Again, I thank you for this
17 opportunity to speak.

18 ROBERT CUPINA: Thank you,
19 Commissioner. Now we'll have questions from the
20 Commissioners. Mr. Chairman.

21 CHAIRMAN PAT WOOD: From listening
22 to the two panels, it seems like there's a track A
23 and a track B. Track A is if the pipeline has
24 people that are shippers and track B is the
25 transportation only model. We've kind of done

1 this across the country. I'm wondering if a lot
2 of the issues we've heard this morning go away if
3 the incentives were a lot clearer, i.e. if the
4 shipper really is a customer of a nonaffiliated
5 company. I thought I got the sense that they were
6 more pipeline only companies and if the producers
7 built a pipeline, it would be different. I just
8 wondered, should this rule be tracking the two
9 tracks of that if the incentives aren't so obvious
10 and it's a lot easier to come to these without the
11 incentive problems.

12 MARK HANLEY: I guess we raised the
13 issue a little bit. I would just say that I think
14 one of the things that's lacking -- we have said
15 typically the motivations of individual pipeline
16 uses would fit us better. In this case there is
17 not competition in the production, at least
18 initially, the huge reserves that are up there. I
19 think, frankly, TransCanada would hold an open
20 season and some people might participate. And as
21 I said, we'll have to look at each field.

22 They hold the cards, so if an
23 independent pipeline has an open season, they have
24 enough sway with their gas that they might not
25 show up. We still have concerns that even if an

1 independent pipeline company may not have the
2 competition, they would in the Lower 48.

3 DAVE ANDERSON: I'd also add that
4 given the fact that it's an 1800-mile pipeline,
5 but nevertheless we believe there's only going to
6 be one pipeline built on the Alaska North Slope.
7 It's different than the Lower 48 where it clearly
8 requires more regulatory oversight regardless of
9 affiliate or traditional pipeline companies that
10 have affiliate issues. We would have more
11 concerns if there was one.

12 ROBERT LOEFFLER: There are other
13 considerations that the State has looked at. One
14 goes back to the likely initial backbone shippers,
15 the three large North Slope producers. If the
16 project is project financed, we have to take them
17 to the bank, but how long will those contracts
18 last? The rational answer is they should last as
19 necessary to support the finances.

20 You have the potential of the
21 shippers which also has effects the competition.
22 For that reason we intended to say we caught it
23 perfectly in our comments. The bid evaluation
24 method of one in 20 years, so you wouldn't get any
25 extra points in the bid evaluation process for a

1 bid evaluation.

2 CHAIRMAN PAT WOOD: The court has
3 been very kind to the Commissioner.

4 ROBERT LOEFFLER: You gave up, I
5 know, but it's a little different. This is
6 Alaska, as you've heard many times this morning.

7 CHAIRMAN PAT WOOD: Is the Ninth
8 Circuit going to treat us better?

9 ROBERT LOEFFLER: I'm in a
10 California law firm, so I'm not going to answer
11 that. Track A and track B doesn't solve the
12 problem exactly.

13 CHAIRMAN PAT WOOD: Is there
14 something we should do to coordinate the seasons
15 between the Alaska part and the Canadian part? I
16 heard that on some passing reference. Is that
17 advisable? What are the down sides of it?

18 DAVE ANDERSON: Mr. Chairman, I
19 think from a practical standpoint you're going to
20 have open seasons in both countries. It's
21 probably going to be a segment that's --

22 CHAIRMAN PAT WOOD: On very good
23 terms and let's do them together.

24 DAVE ANDERSON: I guess that's one
25 of the things we would be advocating, is if you

1 could simplify things, they would be better.
2 There's a risk that the NAB -- you could end up in
3 a conflict old in methodology and the other part
4 really is still open-ended.

5 CHAIRMAN PAT WOOD: There's a
6 pretty long part in Canada.

7 DAVE ANDERSON: More than half of
8 the pipeline would be in Canada, if you assume
9 it's going to end up in Alberta.

10 CHAIRMAN PAT WOOD: Is there
11 anything?

12 DAVE ANDERSON: You heard
13 3500 miles several times and you heard
14 \$20 million. I think that's what they're talking
15 about.

16 CHAIRMAN PAT WOOD: That doesn't
17 have to go through Alberta to get there.

18 DAVE ANDERSON: My point is, I
19 don't think the pipeline will end up in Chicago.
20 I think it will probably end up in western Canada.

21 CHAIRMAN PAT WOOD: Would we want
22 the open season to be --

23 DAVE ANDERSON: From a practical
24 standpoint, you're trying to talk about seamless
25 transportation from the North Slope to the

1 terminus of the pipeline.

2 CHAIRMAN PAT WOOD: It's good to
3 hear that, though. None of the shippers care one
4 way or the other. We ought to focus on other
5 issues.

6 TONY IZZO: Enstar would certainly
7 be concerned that at some point the pipeline would
8 be available to simplify the process. It seems
9 logical to me. I, again, just want to be sure
10 that at some point the process could address their
11 own needs.

12 I can speak only thirdhand about
13 the Department of Energy analysis. The
14 assumptions that they operated under were the
15 survival past 2005, which that drops off and you
16 didn't see anything, for example, in '06. You
17 know more than I regarding the subject, but the
18 Department of Energy ran that one through the
19 first quarter of 2009, which I believe the lines
20 for certain expires. Those are just assumptions.

21 SUEDEEN KELLY: I wanted to pursue
22 the notion that the Commission get involved in
23 preseason review or maybe the preapproval of the
24 open season versus our usual policy of post open
25 season. I know the State asked for a Commissioner

1 involved in advance. I was wondering what the
2 other shippers thought about that.

3 MARK HANLEY: We thought maybe a
4 preapproved process; in other words, the notice
5 comes out and if nobody complains, you don't have
6 to do any work. If somebody complains, maybe you
7 should adopt procedures now to expedite the
8 process. I think it's important. You'll probably
9 have to have -- it seems logical to have developed
10 an expedited complaint process. I think you're
11 almost going to get some complaints.

12 SUEDEEN KELLY: Mark, do you have
13 any thoughts on that? Rick, do you have thoughts
14 on that?

15 RICK MOTT: We think that the
16 current open season precedents are adequate.
17 We're not supportive of any kind of pre open
18 season intervention by FERC, and we don't see it
19 as a situation where we'll end up with the
20 potential of two bites at the apple.

21 CHAIRMAN PAT WOOD: Who has an
22 interest in delaying this project?

23 RICK MOTT: In my opinion, I would
24 say anyone that wants to use the project for
25 better commercial arrangements.

1 CHAIRMAN PAT WOOD: So delaying a
2 project and your ability to litigate then provides
3 an opportunity for them to get bought off. Okay.
4 It is a rough old world, isn't it?

5 SUEDEEN KELLY: I had questions
6 about the presubscriptions. I think it was Mark,
7 you talked about that they raised a concern. But
8 if I heard you to say that they could be allayed
9 if the presubscription didn't use up all the
10 economically available capacity?

11 MARK HANLEY: I think so, yes.
12 Part of the problem with this whole process is
13 trying to anticipate what might happen on both
14 sides. It really is. It's tough for you guys.
15 Just trying to understand the rules and it's a
16 risky project. We're taking the same risk taking
17 capacity on the pipeline. So if we can get --
18 everybody says open access, equal access, but
19 we've seen procedures that create preferences. So
20 I guess that's our concerns. If we can get the
21 complaints and concerns truly and not use up all
22 the capacity, then that would satisfy us.

23 ROBERT CUPINA: You mentioned your
24 supply is at this point up in '08?

25 TONY IZZO: That's correct.

1 ROBERT CUPINA: Yet you seemed
2 concerned that in '08 you wouldn't be able to get
3 the capacity on an Alaskan pipeline. You're not
4 suggesting that project sponsor reserve capacity
5 from the outset for possible use by a shipper in
6 '08, or '10 or '12, are you?

7 TONY IZZO: No, I'm not suggesting
8 that. I want to be sure that at some point when
9 there is an opening -- I see that more like 2011,
10 2012 -- there will be many challenges in terms of
11 advisability, peak winter times. But at that point
12 when there starts to be an opening in our supply
13 portfolio, we think it will be an important there be
14 a processing place where we can have access.

15 ROBERT CUPINA: The LMG demand, I
16 take it that's the export terminal?

17 TONY IZZO: That is correct. Just a
18 point of clarification there. The user demand and
19 LMG demand, they are not technically -- have not
20 historically been customers of Enstar in a
21 traditional industrial sense. We do transport some
22 gas, some swapping goes on, but in the traditional
23 definition they would not be defined as a customer
24 of Enstar.

25 Between power generation and home

1 heating, our consumption out of the Inlet is only
2 about a third.

3 ROBERT CUPINA: Any other questions
4 for this panel? Thank you very much, gentlemen.

5 We're going to start with the next
6 panel. We're going to start with Jeff Walker.
7 Mr. Walker is from the Department of the Interior
8 Minerals Management Service.

9 JEFF WALKER: I would like to thank
10 you for your time. Welcome to the members of the
11 Commission and the Commissioners of the RCA.
12 Congratulations on coming to Alaska during the worst
13 snowstorm this year.

14 My name is Jeff Walker. I represent
15 the Minerals Management Service for the Department
16 of the Interior. I'm responsible for managing oil
17 and gas leases and exploration and development on
18 the Outer Continental Shelf, which is located
19 83 miles beyond the state onshore boundary, which
20 leads to greater revenue for the federal government.
21 This is possible if the regulation is adopted. It's
22 only if the regulation is adopted by FERC and
23 pipeline capacity is available to accommodate new
24 discoveries and rolled-in pricing.

25 Since 1979 the Department has

1 conducted off-shore lease sales and both were in the
2 Chukchi Sea planning areas. We have issued
3 approximately 1100 leases and refurbished over 400
4 buildings in bids and rentals. Six discoveries have
5 been announced, one of which is currently in
6 development. The second is under consideration for
7 development. The other four discoveries are
8 uneconomic to do. The next Beaufort Sea lease sale
9 is scheduled for March 2005.

10 We're in the process of developing
11 our next five years leasing programs covering the
12 period from 2007 to 2012. Speaking specifically
13 about natural gas resources, MMS completed a
14 conventional reservable gas in the Chukchi Sea at a
15 95 probability to 198 trillion cubic feet. A mean
16 estimate is it's comparable to the undiscovered
17 resources on the shore of Northern Alaska.

18 At present all natural gas resources
19 in Northern Alaska and adjacent offshore areas are
20 stranded until initial capacity of a gas
21 transportation system for an extended period or
22 large-scale expansions. It's vital for companies to
23 explore resources in the on-shore and off-shore
24 areas. There needs to be opportunities for gas
25 production to attract new exploration companies.

1 There will be fresh ideas. Leases would increase
2 and this would transfer into higher bonus bids and
3 rental payments. The economics of new projects are
4 marketable commodities. This will increase royalty
5 payments and provide a stable supply of energy to
6 consumers.

7 Without reasonable assurance to
8 access, exploration programs in Northern Alaska will
9 be in jeopardy. This will frustrate investment and
10 new leases for the following reasons. Leases for
11 the OCS leases have historically been ten years.
12 The MMS restricts leases to ten years. The capital
13 investment and staffing, planning and implementation
14 is long. Even a single exploration can take one to
15 two years. There is infrastructure, including a
16 transportation system. Otherwise, companies will
17 not acquire leases and make the investment.

18 Thank you for the opportunity to
19 comment.

20 ROBERT CUPINA: Next is Colleen
21 McCarthy of the BLM.

22 COLLEEN MCCARTHY: Good afternoon.
23 My name is Colleen McCarthy. I would like to
24 welcome you to Alaska and commend you for your
25 stamina. The BLM is very appreciative of the

1 opportunity to participate in the proceedings. We
2 feel we have a large stake. The BLM manages oil and
3 gas on all federal lands in the state. The
4 petroleum is 23 million acres and the federal
5 statewide subsurface mineral estate is 25 million
6 acres.

7 Since 1992 BLM has conducted lease
8 sales. We have collected \$306 million in bonus bids
9 plus \$66 million in leases. We anticipate having
10 annual lease sales in the petroleum resources in the
11 near future. However, there are considerable and
12 significant gas resources in the petrochemical
13 reserve. I won't steal my colleague's estimate, but
14 the petroleum gas resources is 73 trillion cubic
15 feet of gas, and that does not include gas hydrates
16 and coalbed methane that occur in vast quantities on
17 the North Slope of Alaska. Currently all resources
18 are stranded due to a lack of a road system. The
19 timeline is nine years and the primary term of our
20 lease is ten.

21 If an Alaska gas transportation
22 project does not provide access to companies who are
23 exploring, the ultimate success of this project is
24 really dependent on the new gas resources to fill
25 this pipeline for decades into the future. Access

1 to the market for gas production provides benefits
2 not only to Alaska but to all of the citizens in the
3 U.S. It will result in increased money to the U.S.
4 Treasury.

5 The State of Alaska shares one-half
6 of the revenues that the federal government receives
7 in the petroleum reserve, and they share that money
8 with the effected North Slope communities. Without
9 firm commitments of an access to a future gas
10 transportation system, there is really little
11 incentive for companies to invest in exploration.

12 We've heard a lot today about the
13 risks associated with sponsorship of this project.
14 The federal government has assumed a part of that
15 risk. The pipeline crosses a lot of federal land.
16 I think the federal government wants some assurances
17 that it will benefit national interests as well as
18 State interests. It's quite likely that this would
19 be filled with proven resources on federal lands.

20 BLM respectfully requests that the
21 FERC consider this. We encourage the FERC to
22 deviate from SOP in the Lower 48. For all future
23 natural gas shippers, optimum design in the start-up
24 capacity may not be optimum designs for expansion to
25 the shippers of yet to be discovered natural gas.

1 The Department of the Interior supports rolled-in
2 rates for expansion because we believe that this
3 provides the greatest incentives to new explorers
4 and that is key to the development of federal
5 resources.

6 The open season should allocate
7 capacity, including pipeline capacity, and allocate
8 capacity to include the maximum of shippers. In the
9 interest of educating the locals, we would request
10 that the FERC consider holding some of their
11 workshops here in the state.

12 In closing, I would like to reiterate
13 that this is important to the development of United
14 States' gas resources. Without reasonable assurance
15 of access prior to lease acquisition, we believe
16 that the future leasing in the natural petroleum
17 reserve will be in jeopardy.

18 Thank you for very much for the
19 opportunity to speak and written comments as to the
20 regulations will be forwarded in mid December.

21 ROBERT CUPINA: David Houseknecht
22 from the USGS is next.

23 DAVID HOUSEKNECHT: Mr. Chairman and
24 ladies and gentlemen, it's truly a rare opportunity
25 to be in a proceeding where estimates of the oil and

1 gas resources are discussed. My name is David
2 Houseknecht. I represent the USGS, a bureau of the
3 Department of the Interior.

4 The USGS does research and provides
5 unbiased information used by federal agencies in
6 decision making. The USGS, as part of its mission,
7 domestic assessments focus on federal lands. Our
8 assessments are complicated by MMS that you heard
9 about a minute ago. I appear before you today to
10 request the State of Alaska to discuss some of the
11 other recent oil and gas assessments of Northern
12 Alaska. I will talk about conventional, and my
13 colleague to the left, Tim Collett, will talk about
14 nonconventional gas resources.

15 So the remainder of my comments will
16 focus on Northern Alaska. The petroleum reserves of
17 Northern Alaska is huge. It extends more than
18 750 miles from the Canadian border and 400 miles
19 from the northern edge of the Brooks Range to the
20 Continental Shelf in the Arctic Ocean. It is a
21 frontier province in most senses of the word.

22 All of that oil exploration or all
23 that exploration drilling has focused on oil
24 objectives, and during the North Slope exploration,
25 areas that are thought to be gas. So resource

1 estimates are naturally somewhat uncertain in those
2 areas. One of the things that is uncertain, despite
3 the fact that virtually all the drilling, 35
4 trillion feet of natural gas or more, has been
5 discovered by this exploration activity and
6 virtually all of that is on the central Arctic coast
7 on-shore and the shallow off-shore.

8 Because explorations were not looking
9 for natural gas, most of the nonassociated gas
10 discoveries have never been delineated. You all
11 have the map that came with the handout with my
12 statement. On that map I've indicated two broad
13 areas of the North Slope. The area indicated by a
14 blue dashed outline is the coastal plan. That area
15 on this map is characterized by abundant
16 dark-colored likes, dotted tundra surface.

17 This is an area where most of the
18 natural gas will occur in associated accumulations
19 with oil. This is known from exploration, drilling
20 and discoveries. The orange area to the south
21 outlined in yellow is the Brooks Range foothills,
22 and this is the area where most natural gas
23 accumulations are nonassociated.

24 During the past few years, the
25 USGS has completed new maps of the natural petroleum

1 area of Alaska and ANWR. I would like to summarize
2 those for you briefly. What I'll say is that the
3 estimates and scientific data on which they're based
4 is on line at energy@USGS.gov. These suggest there
5 are in NPRA, we estimate, 95 percent probability and
6 85 at a 78 percent probability discovered. In
7 addition to that, we estimate 12 trillion cubic feet
8 of gas in undiscovered oilfields. That estimate is
9 probably somewhat conservative because the new data
10 released from new discoveries indicate that the
11 gas/oil ratio amounts increase in NPRA.

12 When we made our estimate on the
13 alpine field, we were not aware of those high gas
14 contents and high API gravities.

15 Our number of 12 trillion cubic feet
16 is conservative at this time. The area of ANWR is a
17 smaller natural gas province. We believe that it
18 contains zero to 11 trillion cubic feet. That's a
19 90 to 95 probability range. In addition, we
20 estimate the two areas of ANWR. We're currently
21 effecting the assessment between the NPRA and ANWR.

22 Although I can't share that
23 information with you at this time, it's fair to say
24 that because the geology in that area is an
25 indication of the geology in the natural peat

1 reserve just to the west, we expect the natural gas
2 estimates on the same order of magnitude.

3 In conclusion, if we do a little
4 arithmetic by adding the estimates together, we can
5 get a mean estimate of 116. When estimates of
6 nonfederal gas are added in '05, that number
7 certainly will be well above 100 trillion cubic
8 feet. If you then add to that 96 BCF, which the MMS
9 reports for the Beaufort and Chukchi Seas and the
10 North Alaska Petroleum Province as well, there are
11 over 200 trillion feet.

12 ROBERT CUPINA: Now we'll hear from
13 the USGS on the nontraditional preserves. Mr.
14 Collett.

15 TIMOTHY COLLETT: I am Timothy
16 Collett. I want to thank the Federal Regulatory
17 Energy Commission and I also need to thank the
18 Alaska legislature for the request to participate in
19 today's conference.

20 In my very short comments I will
21 speak about the gas available for transport through
22 the gas pipeline. Gas hydrates are widespread in
23 permafrost regions. In 1995 we had the first
24 systematic estimate of the gas resources in the
25 United States. The hydrate gas of the United States

1 greatly exceeds the 1995 USGS assessment which
2 predicted 590 trillion cubic feet of in-place gas
3 discovered here at the Prudhoe Bay oilfield. The
4 volume of gas estimated within the known area
5 exceeded 100 trillion cubic feet of in-place gas.
6 None of the others this predicted how much gas can
7 be produced from a gas hydrate. The USGS is
8 assessing the resource potential gas hydrates which
9 have not been adequately tested.

10 In December of '03 the Canadian gas
11 research project reported to the USGS and publicly
12 released the results of the first modern test
13 hydrates in testing and modeling efforts for the
14 first time gas hydrate accumulation. Production
15 simulators have shown that under certainly favorable
16 geological conditions there's several million feet
17 of gas. The growing body of evidence suggests a lot
18 of gas is stored in the form of gas hydrates and at
19 production may be technically feasible. However,
20 numerous technical challenges need to be resolved.

21 Thank you again for this opportunity
22 to answer any questions you have.

23 ROBERT CUPINA: Mr. Harold Heinze,
24 the chief executive officer of the Alaska Natural
25 Gas Development Authority.

1 HAROLD HEINZE: I'm the guy from
2 ANGDA here to talk to you about ANGPA. I have been
3 in the public sector and private sector. I work for
4 the State as a State employee heading up a public
5 corporation, so it's a business entity. I notice
6 that mine is the last name tag here and I also
7 notice it's approaching 4:00, so I feel like a big
8 hitter in the bottom of the ninth inning. I know
9 Alaska has already won and I feel good about that.

10 I'm also pleased to acknowledge the
11 RCA commissioners. I know in the middle of February
12 we're going to get a bunch of rules that tell us how
13 the game is played. About that I feel very good.
14 I'd like to take a couple moments and offer you
15 suggestions on the rules. I'm going to try to speak
16 to some things that have been brought up. It does
17 have some specific suggestions of language that you
18 might be able to amend the rules as you posed them.
19 Some of those suggestions are to do things you have
20 heard from others; some of them may have a slightly
21 different spin and emphasis from other people.

22 ANGDA is a public corporation of the
23 State of Alaska. We have the attributes of a State
24 agency and do it in a way that benefits Alaska and
25 Alaskans. Right now we have basically two projects

1 of emphasis that are probably the best expression of
2 what we're about. We have an LNG project and I just
3 flagged that to you today, for instance, because
4 that could supply, for instance, California. It
5 could provide energy to California and do it in a
6 way that probably no other delivery system can. It
7 has a number of attributes to it, but it has a long
8 way to go. I mention it to you because you may or
9 may not be aware that following the issuance of your
10 proposed regulations, Congress enacted the Omnibus
11 Act.

12 There was an amendment to the act
13 that's the subject of this hearing and that
14 amendment provides basically that the Alaska LNG
15 part of the system that's eligible for loan
16 distribution and what your jurisdiction would be
17 over that project.

18 The second project we're working on
19 is the delivery of gas into the Cook Inlet via a
20 large trunk line. Tony Izzo of Enstar presented to
21 you the results of the Department of Energy study.
22 Many of us participated in that study, and if you
23 note that curve with the elimination of some of
24 those bars is a disaster. That's the destruction of
25 an entire tax base in one of our areas.

1 The effect of delivery of gas into
2 that area and hooking up a huge part of the North
3 Slope in this area is very important. It is the
4 Governor's prior report that you got. You asked
5 about in-state gas as well as a couple other items
6 needed. It's very clear the applicants who are
7 responsible to do it and they might as well get on
8 with it. The study is easy. The question is, what
9 do you want to know about the study? What's the
10 potential use of the gas in this area? In driving
11 around the states of Washington and Colorado, try to
12 figure out where the interstate gas lines are.

13 The power plants are built on top of
14 the interstate power pipeline. What if the plants
15 had to secure capacity? That's what Alaska is
16 concerned about. There are many needs for gas in
17 this state. We cannot anticipate them three years
18 from now, but ten years from now there may be a mine
19 there, and then it will be important that we get gas
20 off the system at a certain spot on the area.

21 My job is to be in a constructive and
22 positive mode. I have looked at a project that
23 delivers gas to this area at reasonable rates. It's
24 very important to the people here. I just wanted to
25 mention a couple of the specific suggestions we made

1 on the open season rules. We had to describe
2 focused-on information. The reason for this is an
3 incredible imbalance in the information, as in zero
4 in the public record. One of the reasons the
5 producers had trouble answering some of your
6 questions is there's no dialog, no consideration of
7 a lot of your issues. At this point the information
8 balance is used. That's important because some of
9 the producers are regulated public entities. They
10 have to proceed under due diligence.

11 Let's take time to evaluate those.
12 There's a public process they have to go through.
13 These are huge decisions for these public entities.
14 I know the commitment they would be making in the
15 long term for gas is tremendous and they need time.

16 So in this case I proposed to you,
17 frankly, an information period, the first of which
18 you would be to get to know the problems and get the
19 information on the table so we can study it.

20 I think we need more than 90 days to
21 get the regulatory approvals. These may not be
22 problems for other uses. It's in the record from
23 all the public entities. I think I'm reflecting on
24 the kinds of concerns they would have in the very
25 tight time frames here. I guess, finally, I'd just

1 like to say that it's very important that we not
2 only know where the take-off points are, but we also
3 know what the tariff structure is going to be.

4 One of the concerns is people have
5 only described a single-system tariff from taking
6 off any gas in Alaska. We also need to define that
7 is a major, major issue. Section 103(e) frankly
8 created an expectation here. Your coming here was
9 that you came this long way. I will tell you what
10 the proposals don't seem to suggest to Alaska. I
11 think I've tried the fall-back ideas, but I
12 understand that sometimes people's suggestions
13 aren't necessarily the ones that you're going to
14 find.

15 Your relationship between FERC and
16 the RCA is very important to Alaska. If you could
17 coordinate your response, that would go a long way.
18 So thank you very much for your time.

19 ROBERT CUPINA: Thank you, sir, and I
20 appreciate the specificity. Now, we'll return to
21 the open forum portion of our program. This is for
22 responses to comments that have already been made or
23 questions of any of those panelists that are still
24 here and a chance for you to offer additional points
25 of view. We have been told we have cameras until

1 4:30. If you want to be on television, come to the
2 front of the room and identify yourself and your
3 organization.

4 CHAIRMAN PAT WOOD: There are 50
5 states and in 49 of them people would be stampeding
6 to the front. Regional differences, huh. I want to
7 ask Harold a question about the need -- I'm hearing
8 a lot of need to get this project up and developed;
9 180 days, so your system is a predevelopment,
10 preapplication process. Is there some other way we
11 could handle that so some of those timelines we're
12 looking at could be shorter? May not be just going
13 to add another year into the marketplace.

14 HAROLD HEINZE: I don't necessarily
15 understand what you said there. How about the first
16 of this year, let's say the design basis, why not
17 post that on the Internet and let's take a look at
18 it. That's not proprietary. That could start to be
19 available right now. Again, I don't have any
20 intention in these timelines to slow the project.
21 On the other hand, there's the problem that some
22 shippers would be disadvantaged by two timelines.

23 Frankly, if it were real right now, I
24 would do it. TransCanada, there's a great deal of
25 other information that frankly we don't know. I've

1 spent a long time, the last year searching public
2 record and it's just not there.

3 CHAIRMAN PAT WOOD: That's fine.

4 NORA MEAD BROWNELL: What if you
5 would submit it so we can move on with the
6 information?

7 HAROLD HEINZE: Yes, absolutely.

8 CHAIRMAN PAT WOOD: Yes, sir.

9 Welcome.

10 JERRY ISAAC: My name is Jerry Isaac.
11 My village is situated right along the proposed
12 Alaska Highway Road. My village is about 12 miles
13 northwest of Tok towards Fairbanks and I have a few
14 comments to make in regards to the Alaska natural
15 gas pipeline construction.

16 One is we organized an upper Tanana
17 Intertribal Coalition. It's composed of the village
18 corporations and the village tribal governments. We
19 would like to present our position. We all want the
20 development of the pipeline. I'm here to share with
21 you that the villages support the construction of
22 the Alaska pipeline. However, there are a few
23 concerns that we would like to share with you.

24 One is we would like to know how to
25 participate in all phases of the development of the

1 Alaska gas pipeline construction. It would include
2 the planning, the phases for construction. We'd
3 also like to see cultural site assessments and
4 inventory, et cetera, so we can provide Alaska with
5 its gas need, but we also have to be understanding
6 on this point.

7 If we are going to end up subsidizing
8 the efforts in the long term and feel equally
9 important, we only should consider and do the
10 planning and the design on the natural gas pipeline.
11 We need to be ever more focused on other
12 infrastructure development. One of the things that
13 I wanted to make clear in a forum like this is that
14 we support the six villages in upper Tanana and
15 support the possibility of building or extending the
16 Alaska railroad system into Canada so that we can
17 provide the state of Alaska with an alternative
18 transportation system that would result in lower
19 costs of goods for Alaskans.

20 I have spoken with the Federal Energy
21 Regulatory Commission Alaska office, to a lady by
22 the name of Rita. I have explained to her that we
23 are extremely interested as the intercooperating
24 agency in regard to the construction of the
25 pipeline. We share concerns with you. Our country

1 is at war, and it's ever important for us not only
2 as Alaskans, to be self-sustaining due to the fact
3 that I have a son that served recently in the
4 military force, two tours in Iraq. He came home
5 telling me that there are people out there that hate
6 us because we're Americans.

7 We need to take these things to heart
8 and we need to be self-sustaining. I am very
9 concerned about the global politics, if you will,
10 but the fact that as Americans if we don't quit
11 depending on ourselves for sustenance, they get
12 control from outside of our boundaries and we lose
13 at the end. As Alaskans and Americans, we need to
14 keep these things in mind and draw up a long-term
15 strategy plan to include all people.

16 In closing, I would like to say thank
17 you to FERC chairman, Pat Wood, and the rest of the
18 commissioners for allowing me to make a few
19 statements. I have with me Bob Sadler who will
20 share additional comments.

21 BOB SADLER: My name is Bob Sadler.
22 I'm with the Tanana Chiefs Conference in Fairbanks.
23 Some of you may not be aware that Tanana is a
24 regional nonprofit for the Native people of the
25 Interior. I came to make a few comments. Jerry and

1 I were encouraged by some of the FERC staff to make
2 a few comments.

3 Earlier today a couple of the people
4 had mentioned the need for FERC to continue doing
5 meetings in Alaska. Tanana Chiefs are having some
6 of FERC's staff coming in and get prescoping issues
7 about the environmental impact statement. We've had
8 some meetings with some of the producers trying to
9 get a grip on the consultation issues. Some of the
10 tribal governments or entities would be the most
11 impacted of the Alaska Native community as a
12 consequence of the construction of the pipeline.

13 I'll keep it fairly short. Thank
14 you.

15 CHAIRMAN PAT WOOD: Thank you, Mr.
16 Sadler. I want to say that this is the very first
17 of a series of meetings to try to get focus on the
18 pipeline project. We'll look forward to having some
19 comments December 17th. We encourage you all to
20 make written comments.

21 (Concluded at 4:30 p.m.)

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CERTIFICATE

I, LESLIE J. KNISLEY, Notary Public for the State of Alaska, and Shorthand Reporter, do hereby certify that the foregoing proceedings were then taken before me at the time and place herein set forth; that the proceedings were reported stenographically by me and later transcribed by computer transcription; that the foregoing is a true record of the proceedings taken at that time; and that I am not a party to, nor do I have any interest in, the outcome of the action herein contained.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal this 9th day of December, 2004.

LESLIE J. KNISLEY
Shorthand Reporter