Natural Resources Committee Meeting
12/5/07
7:30 a.m.
Usibelli Conference Room

Attendance: Tom Bundtzen, Chair; Bud Fate; Bill Brophy; Cal Skaugstad; Angus Campbell, Garry Hutchison, Rick Schikora, Joan Johnson, Leon Van Wyhe, Paul Metz, John Ringstad, Althea St. Martin, Eric Lidji, John Brown, Christian Leonhardt, Richard Schok, Roger Burggraf, Charlie Swanton, and Michelle Gibson.

1. **Call to Order:** Tom Bundtzen called the meeting to order at 7:30 a.m.
2. **Roll Call.**
3. **Approval of Minutes from 11/28, 2007, Resource Committee meeting**—defer until reviewed by presenter.
4. **Programs:**
    a. **ANS Gas Commercialization Issues**: Brian Wenzel and Wendy King
        i. Brian Wenzel
            1. On 11/30/07, ConocoPhillips submitted a proposal to the State of Alaska to advance the pipeline—it is an external proposal outside of the AGIA process the State is moving ahead with.
            2. In our view, AGIA did not provide sufficient fiscal terms, is too restrictive, and is not flexible. Put in this proposal outside of the process and have asked the Administration to consider it. Surprised to see the other applicants to AGIA didn't advertise and put applications on the table. The State is still trying to do conformance evaluation decisions on the other applications. We feel it is the best proposal they are going to see, and the fastest way to get a gas pipeline.
            3. Dealt with all of the state's primary objectives of going through the process of putting the bill into place. Considered pipeline down to Lower 48. Have not asked for any State matching funds whatsoever--AGIA provides $500 million matching funds. Have already started planning work and contracting to start with route confirmation work and environmental studies this summer. We want to engage firms to support this proposal and put them to work in the field immediately.
            4. Two other elements in the proposal are different—in the cover letter and proposal it is clear that ConocoPhillips is willing to engage a third-party

pipeline company in project. It is important to the State and Administration as they can bring expertise. The second element is the fact that the core foundation of the proposal is an overture to the Administration to establish a gas fiscal framework on the North Slope. This project is going to take 20 – 25 years to pay off transportation commitments and debt. It is expected by developers coming into invest money that only the producers can make the firm transportation commitment that they need. The producers need to know that the rules of the game are not going to change. This is a core principle put forward in proposal. Sit down with the Administration to set framework to go to Open Season and nominate gas into the project.

ii. Wendy King

1. The first document you have is the proposal summary on the www.ansnaturalgaspipeline.com website verbatim. The second document is a two page document to hit key bullet points. The third is the cover letter to Gov. Palin; the fourth is a hardcopy of a powerpoint of the ConocoPhillips ANS Natural Gas Pipeline Proposal to the State of Alaska. Personally been working on the gas development project for over 5 years.
2. The first slide shows ConocoPhillips vision to partner with the State of Alaska, with a belief the project will only be successful in partnership with the State.
    a. Develop gas fiscal framework to provide shipper confidence
    b. Team up with third-party pipeline companies
    c. Balance needs of pipeline owners & State
    d. Conduct route and environmental field studies – Summer 2008
    e. Create a winning team to build and operate the project
    f. Solicit preliminary shipper interest in late 2009
    g. Advance project to a binding open season before year-end 2010
        i. FERC uses the term open season for the process by which interstate pipelines determine what a customer is willing to pay day in and day out to ship on this pipeline whether or not gas is shipped, which is a critical commercial milestone. Want to have a binding open season in

36 months. This is why the framework is so important—it will be key to financing a $30 billion pipeline. When we talk about making 20 to 25-year shipping commitment, it will be a significant financial obligation.

ii. Teaming-up with a third-party pipeline company to work on the project will bring additional expertise to the table. Need to balance pipeline owners with the State, and looking at how to balance risks and rewards. Need a project management team that understands risk management and litigation—need to get team up and running to advance a project towards a successful open season. In 2009, as a precursor would talk to shipper before a binding open season. What are customers willing to sign up for? Use as a road map for its how evolving.

3. Next slide shows a map of the project
    a. Build 48" pipe pipeline to Alberta, though the final size of the pipe depends on what customers are willing to sign up for.
    b. Will build pipeline from Alberta to Chicago if deemed the most cost effective way to move gas to Lower 48 markets.
    c. Designing for 4 bcf/day project.
    d. Intended markets through North America—Alaska, Canada, and Lower 48. Clear advantage of this project is that it can access markets all across the country, and change which markets to target in time as those markets evolve in the lower 48.
    e. Next page closer to home – Gas for Alaska. Off-take points and delivery points.
        i. Six delivery points
        ii. In-state needs study
        iii. Cooperation with potential sponsors of local distribution companies
        iv. In-state rate design
            1. Recognize that there is still uncertainty as to the volumes and where taken off. Off-take could be around Prudhoe bay itself,

Yukon River, Fairbanks, Delta Junction, Tok, and in Canada to serve potential markets in Southeast Alaska—over time. Instate needs study gets conducted Cooperating with sponsors of spur line—willing to work with them to make that happen.

2. Instate rate design
    a. if customers sign up in the initial open season, one would pay for cost to get to Fairbanks.

f. Jobs for Alaskans and Alaska Businesses
    i. Concerned about ability to have qualified and trained labor at the time it is needed
        1. $10 million in training
        2. Alaska hire
        3. Alaska buy and build
        4. Project labor Agreements
        5. Local project HQ designated for Anchorage, and local construction HQ based in Fairbanks.

g. Pipeline Expansions
    i. Expandable pipeline design
        1. Somewhere between 14 and 16 compressor stations – could install infill compression to increase expansion capability.
    ii. Non-binding open seasons every two years.
    iii. Rolled-in rates—up to 105% of the costs at the time of the expansion.
    iv. Less than unanimous voting on expansions
        1. If 4 owners of pipeline, 3 out of 4 will carry the vote on an expansion going forward.
    v. FERC regulation of Alaska Project
    vi. Unbundled Gas Treatment Plant Services

h. Streamlined schedule
    i. If you review the permitting process, and schedule to get to open season, 5 years to get through the regulatory permits and applications.
    ii. Roughly 10 year schedule to get to first gas. See challenge to get through open season and certification process in 5 years, which explains the rationale for calling it a streamlined schedule.

i. Plan forward outlined
    i. Think framework can be accomplished quickly—in a few months to bring package back to legislature. Already have teams getting ready for the field.

j. Summary
    i. ConocoPhillips wants to work with the State to move the Alaska Gas Pipeline forward
    ii. Common goal to achieve 2008 field session and successful open season within 3 years
    iii. ConocoPhillips' proposal provides an alternative path forward.

iii. Have to start working this project in parallel, and setting up for successful open season so when go to the customer base, can say this is a company that has done the work to deliver a quality open season. See our proposal as an alternative path forward with a higher degree of success.

iv. Questions: Bud Fate, Wendy King, Brian Wenzel, Paul Metz, Tom Bundtzen
    1. With open season, have two year non-binding open season—what is the cost of that rolled-in to FERC?
        a. Historically COP has cared a cost estimate of $400 to $600 million to get to a binding open season, and $200 to $300 million to get to non-binding before that initial binding open season. Those costs will be included in the total costs for the project--$30 billion (estimated costs between $25 to $42 billion). Spend 5 to 10 percent before start of pre-construction.
    2. Notice the streamlined timeline does not have gas flow until 2018, changes in natural gas supply and demand can change over that time frame. How will that affect the marketability of Alaskan gas at that point in time?

    a. Ten years out see costs going up and continued volatility. Think it is important to start process using the stage-gate decision making process. As long as costs and market strong, move on to next gate. The pipeline entity gets paid if it has firm transportation commitments--it's the shippers that have to pay that people no matter what the price of natural gas. We are prepared to advance the project, and mitigate the risks as we advance the project to the next milestone.
    b. Our assessment at the moment is the project still makes sense.
3. Under the Stranded Gas Act, the State had negotiated an equity position with the pipeline. One belated attempt to reduplicate that effort failed. Any discussion on what would it do if the State did have equity position in your proposal?
    a. Can work with State ownership if that is what the State wants--to date the Legislature and the Administration have said no to State ownership. We have been open to that, but it is not a requirement—it is a natural way for Alaska to ensure its interests are fully aligned with those of the producers. In proposal, have not premised state ownership. Open to considering State ownership if the State is interested.
4. In-state use study—the total market in the state is relatively small, including both commercial demand and residential. How do you address the issue of changing commercial and residential demand. Larger volatility in metal prices has a huge impact on projection of in-state use. Have seen rapid development in Alaska, YT, Yukon, and BC—market study on how to focus on commercial aspects, and in-state processing of AK and marketing on west coast?
    a. Projections for in-state use are quite small compared to the total volumes for this project, even if there is a substantial conversion over to NG. There is not the population base overall to switch the focus of this entire project to an in-state needs project. Other alternatives are also critical to look at to understand what is the most cost effective way to meet in-state energy needs in the pipeline corridor. The proposal

outlines approximately 100,000 bpd of ethane. Right now we use a number of the natural gas liquids by putting them into the existing TAPS line and for injection on the slope to improve oil recover—timing of the gas pipeline project will determine the actual volumes of ethane propane, and butane. Work will need to be done to determine if it is economic to do propane extraction and distribute in state.

v. Yours is an alternative proposal—is it a formatting issue, or something to present independently for AGIA?
    1. Purposely felt we needed to go outside of the AGIA process, which doesn't provide the necessary gas fiscal framework for prospective shippers. If we had gone through AGIA and tweaked that side, the way AGIA works as written, it would be deemed a non-conforming proposal and <u>must</u> be rejected. Marking an alternate proposal was the only way available for our proposal to be considered.

b. **The Scope and Utility of the Interior Stocked Waters Program**—Charlie Swanton, Director of Sports Fish Division, Alaska Department of Fish and Game.
    i. Artificial propagation of warm water species is directly related back historically to China as part of overall agricultural processes, and migrated over to the western world.
    ii. Instituted on the East Coast in the early 1800s for salmon, then came over to the Pacific Northwest.
        1. Salmonid fish hatcheries are easier than those for resident species.
    iii. Pre-statehood, between Territory and Fish and Game, the military was largely responsible for growing and stocking fish, as well as providing angling opportunities for military personnel.
    iv. In the 1960s and 1970s—250,000 hatchery fish per year, and don't know harvest numbers for stocked fish because didn't have a measure in place until the mid 1970s.
    v. Hatchery facilities were located at Clear AFB, Ft. Richardson and Elmendorf AFB—sources of heat for warm water to accelerate growth of cold-water species. Beauty of heated water.
    vi. In the 1980s, stocking increased to 5 million fish, and harvest 85,000 fish. Diversity of species that we stocked expanded beyond Rainbow trout to others. During this period of time tried to provide species for different times of

the year because they behave a little differently. Coho salmon are aggressive around November and December, where as others more dormant during that time—mix and match for open water and ice fishing opportunities. Also research program formalized to look at wider array of opportunities for stocking—140 stocked waters in Interior from Fairbanks to Glenallen.

vii. Production demand in the 1990s is 3.5 million, and harvest of 70,000. In the late 1990s, Clear closed, but there was increased demand for quantity. Regulatory structure changed largely because of shortfall in number of fish available.

viii. In 2004 put in Stocked Waters Management Plan adopted by Board of Fisheries. Before then, bag limits were liberal—like 30 fish, 10 per species. Both power plants at Ft. Richardson and Elmendorf were decommissioned. Size of fish deteriorating, and are still struggling with problems. Reductions in stock waters were marked at 850,000 fish, and 47,000 harvested.

ix. $34 million in direct economic value to communities where hatcheries are built, and benefits besides economic ones are economic—ice fishing, and other programs for kids.

x. Built on user fee system—those who buy fishing license. Have a substantial fiscal note--$68 million bond issue with surcharge on licenses drawn out for 20 years, and pay back schedule about 12 years.

xi. Where you could offer assistance is with regards to operational costs, which are substantial. Sewage treatment necessary because of Fairbanks site location, don't have the opportunity to build normal method of pits. If anything could be done to cut slack with regards to that. Have to come up with $1.6 million in operational costs for new facility internally in next 26 months. Haven't seen any large General Fund out there for these sorts of things. Recognize that a substantial amount of money is not covered in the existing budget that have to find in existing budget.

xii. Negotiations with Golden Heart Utilities for volume—enough of reduction in wastewater discharge in system, so have to spend a lot of money to keep the lines open to keep from freezing. In most areas conservation of water is a good thing. Need additional water being used. Getting solid settling in summer and freezing in winter.

xiii. Looking at whole package, these things surfaced several months ago, and asked regional staff to look into it. Contract that deals with biowaste disposal at less cost. Some of these things may or may not be fixed costs. By and large, think it's going to be a boon for Interior for a long time.

xiv. Questions: John Brown, Charlie Swanton, Paul Metz, Cal Skaugstad, Jennifer Yuhas, Althea St. Martin, Bill Brophy

1. Any revenues to this like doing tours?
    a. Not in a money generation business. Not sure what plans are for that.
2. Loss of waste heat resources with the closure of the military power plants. Any consideration of using other industrial sources such as mining operations for site locations for hatcheries?
    a. Biggest thing is water as primary reason for where to locate a hatchery, then heat to accelerate growth. Not sure.
3. Mines of 30 years located in areas with significant fisheries.
    a. Need on road system closer to populated areas.
4. You may have to ask the legislature for more funding.
    a. Eventual road may have to cross. In spirit of what trying to do in division for core service that benefits that angler—how division structured what we do, and connection back to angler.
5. Do you have to find money for the hatcheries in Southcentral too?
    a. About $2.4 million currently existing operationally for them—adequate for one planned facility .
6. Have been assured before that Fairbanks is going to get the hatchery built first and not Anchorage but get calls from people worried about that.
    a. Already have $2.3 million in dirt work that has already been done in Fairbanks. The Administration is on board to build two facilities—clarified by the Administration when took this position, and have been told several times. We are building two facilities one in Fairbanks and one in Anchorage. Will clarify another thing. Pointedly asked if I had it to do over again, where build? Wouldn't build a hatchery in a perfect world—would spread to coastal communities. Why not use existing infrastructure? It doesn't work well because of where located and where fish are needed. It wouldn't be economical to truck or barge fish

from Prince William Sound to Whittier, Valdez, Anchorage, or Fairbanks. Haven't turned dirt in Anchorage.

7. Hear not having eggs here—not hatching, just growing?
    a. Not sure of level of detail. Get first steps taken care of.
8. Mortality rate of fish not a problem?
    a. No
9. What about whirling disease. Has there been a study on it for this?
    a. Grad student found DNA for whirling disease in fish at Elmendorf, but haven't found organism, so level is very low, and think low because water temps are cool year round. Talked to people who designed the test for the whirling disease. Very low level, and may not have much impact there, but looking here. Just found the worms in one of the lakes up here that carry the disease.
10. What expecting as far as timeline here?
    a. First fish out in 2010, and first catchables in 2011.
11. As a Chamber committee, we do see a need for economic and business development, and growth and vitality for community. See the fish hatchery as a great opportunity for youth education, for bringing more people into the community core, and end product of more fish for Alaskans.

5. Next meeting is on 12/19/07 at the Chamber office at 7:30 a.m. to review legislative priorities and program of work.

6. Meeting adjourned.

Respectfully submitted,

Michelle B. Gibson