

# ALASKA NATURAL GAS PIPELINE STATUS REPORT

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## HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AIR QUALITY

OF THE

COMMITTEE ON ENERGY AND  
COMMERCE

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

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MAY 5, 2004  
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## ALASKA NATURAL GAS PIPELINE STATUS REPORT

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WEDNESDAY, MAY 5, 2004

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ENERGY AND COMMERCE,  
SUBCOMMITTEE ON ENERGY AND AIR QUALITY,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2322, Rayburn House Office Building, Hon. Ralph M. Hall (chairman) presiding.

Members present: Representatives Hall, Whitfield, Shimkus, Walden, Rogers, Issa, Otter, Barton (ex officio), Boucher, Allen, Wynn, Green, McCarthy, Strickland, and Dingell (ex officio).

Staff present: Mark Menezes, majority counsel; Bill Cooper, majority counsel; Peter Kielty, legislative clerk; Sue Sheridan, minority counsel; and Bruce Harris, minority counsel.

Mr. HALL. All right. I thank everyone for coming to the hearing on the Alaska Natural Gas Pipeline, and I especially want to thank the panelist for her time, her very valuable time, and being punctual and being right here. And I understand if you are in a bind, we will go ahead and hear you now. If not, we will get the opening statements behind us.

I know you hate not to get to hear the opening statements. If you will bear with us.

The subcommittee will come to order. And without objection, the subcommittee will proceed pursuant to Committee Rule 4E. So ordered.

The Chair recognizes himself for an opening statement.

The people of the United States are demanding an ever increasing amount of natural gas. Americans use roughly 62 billion cubic feet of natural gas everyday. Natural gas is the fuel of choice because it is clean burning and environmentally friendly. The problem is we are not producing enough natural gas to be self-sufficient. So the question is how do we solve that problem?

Many oil and gas experts will say that there are no more giant oil and natural gas fields left to be discovered. That may be true in the Lower 48, however Alaska's North Slope has over 30 trillion cubic feet of proven gas reserves. If a pipeline is built, it could deliver as much as 4 to 6 billion cubic feet of natural gas per day. We have to figure out how to get it here.

The development of the infrastructure would do several things. It will require major investments first and the shouldering of a lot of major risk by those that build the pipeline from Alaska to the Lower 48. Of course, for the past two Congresses we have worked

on that and we have tried to pass legislation that would encourage the construction of a pipeline from Alaska's North Slope to the Lower 48 states. However, such legislation is yet to be signed into law. In spite of the outcry we have come to expect that without Federal action the pipeline will never be built. In spite of that, we hear rumblings that companies are coming forward to negotiate with the State of Alaska in order to clear some legal hurdles necessary to build it.

The newspaper accounts have the thing built already. All of this activity has occurred despite the fact that Federal legislation is stalled in the Senate.

Is the Alaskan natural gas pipeline going to be built without Federal legislation? What is happening in Alaska now that would give us some encouragement that it will be built? Finding the answers to these questions is what this hearing is all about, and I look forward to hearing from the testimony from the witness.

Today, actually we have an update. Today's Oil Daily reports that Enbridge has filed an application with the State of Alaska to negotiate a contract for the construction of the Alaska pipeline. We look forward to hearing from Enbridge about all of this and the late breaking news and to explain the article. This news comes on the heels of an earlier article this week discussing the competitive nature of the project between TransCanada and Enbridge. That article even discussed the possibility that these two entities would eventually work together to complete project. This should be a very informative hearing today.

One question the witnesses probably cannot answer: What happened to MidAmerican? I have just received a letter from David L. Sokol of MidAmerican essentially saying that while it pulled out of the negotiation with the State of Alaska, the project needs to go forward and needs to be built for the benefit of American consumers.

Without objection, I would like to submit this letter as a part of the record. Without objection, it is so ordered.

[The prepared statement of Hon. Ralph Hall and the letter follows:

PREPARED STATEMENT OF HON. RALPH HALL, CHAIRMAN, SUBCOMMITTEE ON ENERGY AND AIR QUALITY

Thank you for coming to this hearing on the Alaska Natural Gas Pipeline. I especially want to thank the panelists for attending and for their written testimonies. I look forward to hearing from each of you.

The Subcommittee will come to order. Without objection, the subcommittee will proceed pursuant to Committee Rule 4(e). So ordered. The Chair recognizes himself for an opening statement.

The people of the United States are demanding an ever-increasing amount of natural gas. Americans use roughly 62 billion cubic feet of natural gas every day. Natural gas is the fuel of choice because it is clean burning and environmentally friendly. The problem is we are not producing enough natural gas to be self-sufficient. How do we solve that problem?

Many oil and gas experts will say that there are no more giant oil and natural gas fields left to be discovered. That may be true in the lower 48. However, Alaska's North Slope has over 30 trillion cubic feet of proven gas reserves. If a pipeline is built, it could deliver as much as 4 to 6 billion cubic feet of natural gas per day. We have to figure out how to get it here. Developing the infrastructure to do so will require major investments and the shouldering of major risks by those that build a pipeline from Alaska to the lower 48.

For the past two congresses, we have tried to pass legislation that would encourage the construction of a pipeline from Alaska's North Slope to the lower 48 states. However, such legislation has yet to be signed into law. In spite of the outcry we have come to expect that without federal action, the pipeline will never be built, we are hearing rumblings that companies are coming forward to negotiate with the State of Alaska in order to clear some legal hurdles necessary to build it. The newspaper accounts all but have the thing built already! All of this activity has occurred despite the fact that federal legislation is stalled in the Senate.

Is the Alaska Natural Gas Pipeline going to be built without federal legislation? What is happening in Alaska now that would give us some encouragement that it will be built?

Finding the answers to these questions is what this hearing is all about. I look forward to hearing the testimonies from the witnesses.

Today's Oil Daily reports that Enbridge has filed an application with the state of Alaska to negotiate a contract for the construction of the Alaska pipeline. We look forward to hearing from Enbridge about this late-breaking news. This news comes on the heels of an earlier article this week discussing the competitive nature of this project between TransCanada and Enbridge. That article even discussed the possibility that these two entities would eventually work together to complete a project. This should be a very informative hearing today.

One question the witnesses cannot answer: "What happened to MidAmerican?" I have just received a letter from David L. Sokol of MidAmerican, essentially saying that while it pulled out of negotiations with the State of Alaska, the project needs to go forward and be built for the benefit of American consumers.

Without objection, I would like to submit this letter as a part of the record. Without objection, so ordered.

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MIDAMERICAN ENERGY HOLDINGS COMPANY  
 OMAHA, NEBRASKA  
 May 5, 2004

The Honorable JOE BARTON, *Chairman*  
*Committee on Energy and Commerce*  
*U.S. House of Representatives*  
*Washington, DC 20515*

The Honorable RALPH HALL, *Chairman*  
*Subcommittee on Energy and Air Quality*  
*Committee on Energy and Commerce*  
*U.S. House of Representatives*  
*Washington, DC 20515*

DEAR CHAIRMEN BARTON AND HALL: On behalf of MidAmerican Energy Holdings Company, I would like to reaffirm our strong support for Congress passing enabling legislation to support the construction of the Alaska natural gas pipeline as part of comprehensive energy policy legislation. Alaska possesses the United States' largest untapped natural gas resource, but this supply cannot reach American consumers unless Congress takes the steps necessary to facilitate construction of the pipeline.

As you are aware, MidAmerican has withdrawn its application with the State of Alaska to develop the Alaska portion of the pipeline. Unfortunately, we were not able to reach agreement with the State on the conditions under which MidAmerican could move forward with this investment. However, this in no way diminishes the need for Congress to provide the limited incentives to support the construction of the pipeline included in the Conference Report on H.R. 6.

Rising natural gas prices present one of the most severe challenges to the United States' economic recovery. High gas prices hamper economic growth in every sector of the economy, ranging from manufacturing to agriculture, and are particularly harmful to Americans on fixed incomes. Every study of America's energy future has demonstrated that Alaska natural gas is absolutely essential to addressing the increasingly severe imbalance between supply and demand.

The provisions of the energy bill conference report provide the appropriate impetus for this project. These provisions all serve to reduce the capital costs of building the infrastructure necessary to connect Alaska's stranded natural gas supply to markets in the Lower 48 that desperately need the supply. During consideration of the Conference Report on H.R. 6, Congress wisely chose to include these provisions to support construction of the pipeline while excluding proposals for price support mechanisms that would only serve to distort commodity market prices. As you continue consideration of these proposals, I encourage you to maintain that balance. In this way, and provided that this project is operated as an open access pipeline and

is fully regulated by the Federal Energy Regulatory Commission, all benefits provided to reduce construction costs should flow back to consumers on a dollar-for-dollar basis under these conditions.

Through the experience we gained during our consideration of this investment, I would recommend that Congress consider adding language to the Alaska gas provisions that would ensure that the legislation accomplishes its intended purpose— incentivizing construction of this project at the earliest date possible for the benefit of American consumers. Such language would place a sunset on these incentives to encourage all parties to move forward expeditiously, rather than at some undetermined future date. Whether through legislative language, or through implementation by the Secretary of Energy, I would encourage you to consider placing a target date on completion of the project in the 2011-2012 time frame.

The provisions of the Conference Report on H.R. 6 to promote construction of the Alaska natural gas pipeline are essential to addressing this country's energy supply challenges. These and other measures in the energy bill that promote increased investment in energy infrastructure are critical to our country's economic future. Enacting comprehensive energy legislation represents the most important pro-jobs, pro-growth, pro-consumer action that Congress can take, and it will be a disservice to the American people if legislation is not sent to the President this year.

Sincerely

DAVID L. SOKOL  
*Chairman and Chief Executive Officer*

Mr. HALL. The Chair recognizes Mr. Boucher.

Mr. BOUCHER. Well, thank you very much, Mr. Chairman. I want you to commend you for convening today's hearing on the very important question of receiving a status report on the Alaska Natural Gas Pipeline project.

Our natural gas prices have been a concern for sometime. Earlier this year natural gas prices reached a peak of \$7.04 per million BTUs. As the weather became warmer, prices have declined to around \$5.35, but that price is still well above the average of between \$2 and \$3 which was common only 3 years ago.

Federal Reserve Chairman Alan Greenspan testified before this committee last year stating his concern that high natural gas prices will have a dampening effect on our Nation's economy and that the problem will likely worsen over coming years as more gas fired units are added by electric utilities.

The taking of constructive steps to deliver greater quantities of natural gas supplies to the United States market should be a matter of urgent national priority, as should finding appropriate ways to encourage electric utilities to use fuels other than natural gas in their newly constructed electricity generating units.

This morning we are focusing our attention on one means of increasing natural supply, the construction of a pipeline carrying natural gas from Alaska's North Slope to the United States market.

In the H.R. 6 Conference agreement, which is currently pending in the Senate, a Federal loan guarantee of \$18 billion is provided to sustain and support construction of the pipeline. The Conference agreement also mandates that the route for the pipeline proceed in a southerly direction through Alaska, rather than in an easterly direction under the Beauford Sea toward the Mackenzie Delta gas field located in Canada.

Another provision of H.R. 6 states that the development of the Mackenzie field is also desirable and should be encouraged.

This morning I hope that our witnesses will comment on both the need for and the prospects for construction of the natural gas pipeline from Alaska. Is the loan guarantee essential for that construction? Is it appropriate for Congress to designate a route for this



pipeline? It is financially feasible to construct both the route to Fairbanks, which is mandated in H.R. 6 and to develop the MacKenzie field, which H.R. 6 also encourages. Now these are questions that I think deserve our attention. It is appropriate that we examine them this morning.

And I want to say thank you to our witnesses for taking time to testify. I hope that they will comment on these and other pertinent matters.

Thank you, Mr. Chairman.

Mr. HALL. Thank you, Mr. Boucher.

The Chair recognized Ms. McCarthy for an opening statement.

Ms. MCCARTHY. Mr. Chairman, thank you.

I do not intend to make opening remarks. I would like to associate myself with the remarks of the Ranking Member. And look forward to the testimony of the Senator.

Knowing how crazed the schedule is, I would yield back my time so that we could proceed.

Mr. HALL. All right thank you for yielding back your time.

Well, we have come to Mr. Green approaching. The gentleman from Texas has 3 minutes, or less for opening statement. You want to yield back the balance now or—

Mr. GREEN. I will not give the total opening statement in deference to our Senator from Alaska, but I just want to thank you for having this hearing. The concern I have, I have expressed it many times, on the high cost of natural gas, and not only for heating our homes or cooling our homes if you are in my area of the country, but also for the feed stock for our petrochemical industry. And unless this Congress and this Administration aggressively deals with this issue, including the Alaska pipeline, we are going to see the export of another industry like we have other in the midwest. And that is why I am glad to have this hearing and hopefully we will aggressively address it with lots of solutions, whether this Alaska pipeline is one of them. Obviously, more LNG but also more exploration in the continental United States.

Thank you, Mr. Chairman.

Mr. HALL. Thank you, Congressman.

Mr. Shimkus, you have an opening statement?

Mr. SHIMKUS. No, Mr. Chairman. Just to thank you for holding this hearing. It is very important. Those of us who follow the committee's work know that we have an expedient use of natural gas in this country and if we do not move to meet the demand with increases supply, my farmer is going to pay more for fertilizer, manufacturing is going to continue to be driven out of the country. And it is a real crisis that the public really has to get an understanding for.

And I thank you for the time.

Mr. HALL. Thank the gentleman.

[Additional statement submitted for the record follows:]

PREPARED STATEMENT OF HON. MIKE ROGERS, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF MICHIGAN

Mr. Chairman, thank you for holding this important hearing as we discuss the progress of the Alaska Natural Gas Pipeline.

America's manufacturing industry is facing a real challenge with their competitors around the world. A recent study found that higher structural costs, including

higher natural gas prices, add 22% in costs to American manufactured products compared with their competitors. This discrepancy is only expected to grow as the U.S. demand for natural gas is projected to increase by more than 36% by 2020.

We must take action to help level the playing field for our domestic manufacturers. The House has approved legislation that would allow for the construction of a natural gas pipeline from the Alaskan North Slope to the lower 48 states. The pipeline will improve access to natural gas and promote competition in natural gas exploration, development and production. H.R. 6 would also bring muchneeded supplies of natural gas to the public by providing royalty relief for gas wells in the deep waters of the Gulf of Mexico and by providing incentives for marginal wells that would otherwise be plugged. Finally, the legislation would cut through bureaucratic red tape by streamlining permitting for natural gas projects on federal lands and ensuring timely decisions on lease applications.

Mr. Chairman, thank you again for convening this hearing. I look forward to working with you as we aim to formulate a comprehensive, national energy policy. U.S. manufacturers, who account for more than 14 million of America's jobs, are counting on us.

Mr. HALL. Now, thank you, Senator, for letting us getting our opening statements in. That cuts everybody else off, so we do not have to sit here and listen to them read their statements to us.

We are honored to have you here today. You are the first Alaskan born Senator, I am told, to serve that State, a member of the Senate Energy and Natural Resources Committee, Chair of the Subcommittee on Water and Power, have to put up with Don Young and serve on the Veterans Affairs Committee. And we really are pleased to have you.

I think that she graduated right here from Georgetown, right, University? And with a degree in economics, a law degree from the Willamette College. And she has been a member of the of the Senate and served the Anchorage District Court as a court attorney for several years. So she has been at all levels of government. We are very fortunate to have you in the U.S. Senate. We are especially grateful to have your testimony today.

The Chair recognizes you for as much time as you might take.

**STATEMENT OF HON. LISA MURKOWSKI, A UNITED STATES  
SENATOR FROM THE STATE OF ALASKA**

Senator MURKOWSKI. Thank you, Mr. Chairman. I appreciate the introduction. I appreciate the opportunity to hear the opening statements from the members this morning. It demonstrates very clearly that we all come to this issue with a recognition of the problem that we are facing in this country when it comes to natural gas, the supply and the demand issue, and the fact that we have got a real problem.

And in Alaska, Mr. Chairman, I would like to suggest that we have a solution to the Nation's problem when it comes to our natural gas reserves.

So I really want to thank you for holding this hearing this morning on the Alaska natural gas pipeline.

I do not exaggerate, I do not overstate when I say that there is no more important issue to Alaska. And quite honestly, few issues more important to our country than getting the necessary legislation through Congress to build the Alaska Natural Gas Pipeline. And I appreciate the focus, the spotlight that through this hearing you are shining on the issue.

I always need to stress that this is not just about Alaska, this is not just about my State. This is about our country. And when

we look at the issues that are facing our Nation: Whether it is our national security in a post September 11 world; the health of our national economy; creating more jobs and achieving and maintaining a healthy environment for ourselves and our children these are all issues that affect every single one of us in our districts and in our States.

And the reality is, that natural gas from Alaska's North Slope has an important role to play in resolving each one of these major areas of concern.

An Alaska Natural Gas Pipeline will: Enhance our Nation security and freedom on foreign policy issues by providing a secure, domestic supply of energy. And as we look at the situation that our country is currently in with our oil and our heavy reliance on foreign sources of oil, we cannot stress enough the need to find those reserves of domestic supply.

We also know that the Alaska natural gas pipeline will provide a critical feed stock, at a reasonable price, for the chemical, agricultural and other important sectors of our economy. These industries are currently facing near catastrophic conditions including a dramatic loss of markets, plant closures and layoffs due to the high cost of natural gas. A natural gas pipeline will create over one million new, well paying jobs spread across every State in our Nation as well as providing an abundance of clean burning, environmentally friendly fuel.

Mr. Chairman, let me very briefly comment on how the Alaska natural gas pipeline can profoundly help American resolve these areas, these issues that I have just mentioned.

First, an adequate reasonably priced supply of national gas is crucial to the economy. Chairman Greenspan recently testified before Congress that existing natural gas supplies represent a serious problem for the U.S. economy, and those were his words. "A serious a problem."

Examples abound of the importance of reasonably priced natural gas to our economy, and I am sure that many of you like me have received visits and correspondence from industries in your States about the devastating impact of high natural gas prices. You mentioned the issue as it relates to the farmers. Businesses are laying off employees and shutting down. They simply cannot compete in world markets with the high natural gas prices.

Residential consumers who rely on natural gas to heat and cool their homes are also facing the highest prices in history for this basic, indispensable commodity.

The Alaska Natural Gas Pipeline can play a key role in alleviating this crisis.

The Alaska natural gas pipeline legislation has also been called a massive jobs bill. And while creating jobs is not necessarily the primary goal of the project, it is an important benefit that cannot be overlooked.

The jobs created by the project will not be "make work" jobs. They will be skilled well-paying employment, jobs that families can be built around, jobs that we can count on. And these new jobs will not be limited to one State or region, they will be created in every State of the Nation.

I have included in my testimony, in the written testimony that you have, information from a recent National Defense Council study concerning the number of new jobs that will be created in the State of every member of this subcommittee. And I think as you look through them, you will see that they are substantial.

Next, natural gas is the cleanest burning fossil fuel. Natural gas can displace energy sources with higher emissions. And thus, using natural gas can help us achieve our Clean Air goals. It can also reduce environmental compliance costs for a number of industries, including the electric power sector. In fact, the great majority of planned new electric generating plants will rely on natural gas. It makes plain good environmental sense to make sure these new generating facilities will have an adequate supply of gas. And this is part of the reason, certainly, why the Alaska Natural Gas Pipeline has the support of many environmental groups.

Alaskan gas will provide a secure, stable domestic source of supply that will enhance U.S. energy security. And the importance of this secure, domestic source of energy on our foreign policy options and national security cannot be overestimated.

The Department of Energy is forecasting that imported LNG will be supplying an increasing amount of our natural gas needs over the coming decade. Much of this LNG will come from unstable regions of the world. Serious questions have been raised about whether some of the revenues we send to these regimes to pay for the energy finds its way into the hands of terrorist organizations. Further, as I mentioned before, we already import well over half of our petroleum. Do we really want to be dependent on overseas sources for the majority of our natural gas as well? I think not. Building the Alaska Natural Gas Pipeline will diminish our need to import LNG while keeping precious U.S. dollars here in America.

Now I would like to just speak very briefly about the interest that has been shown in the Alaska natural gas pipeline project by the private sector.

A consortium of major producing companies, Conoco Phillips, BP Exploration and Exxon Mobile have filed applications with the State of Alaska to build the pipeline. TransCanada, a pipeline company with vast experience in the North American natural gas market and the holder of the existing U.S. and Canadian Alaskan Gas Pipeline construction certificates has indicated its intent to file for the necessary authorizations to build the pipeline in Alaska. And further, Mr. Chairman, as you just noted Enbridge, a Canadian company with extensive pipeline holdings in Canada has announced that it has filed an application with the State of Alaska to negotiate commercial agreements to construct and operate the portion of the pipeline that will run through the State. So there is no shortage of interest in the private sector in building this project. But, all these potential project sponsors have stressed the necessity of Congress enacting the regulatory and judicial streamlining and fiscal incentives in the energy bill in order for the construction of the pipeline to go forward. So it is critical that we figure out the way to get these pieces through the Congress so that we can help facilitate this project.

It is also important to note that there have been proposals to build an Alaska LNG project in the State. The proposals contemplate building a pipeline from the Alaskan North Slope into south central Alaska. A gas liquefaction facility would be constructed there and the North Slope gas would be transported as LNG to the West Coast markets in the Lower 48. So, again, there is certainly no lack of creative approaches to bringing Alaska natural gas to market.

The Alaska Natural Gas Pipeline is one of those all too rare examples of a project that is a winner from every perspective. It will help us achieve our environmental goals; it will help our economy by creating a large number of new, well paying jobs and it will enhance our national security.

Mr. Chairman, again I want to thank you, thank the subcommittee for inviting me to testify this morning on this critically important national project. I look forward to working with you in the House and my Senate colleagues to enact legislation bringing all the benefits of this pipeline to my constituents and to our entire Nation.

Thank you for your interest in this very important subject.  
[The prepared statement of Hon. Lisa Murkowski follows:]

PREPARED STATEMENT OF HON. LISA MURKOWSKI, A U.S. SENATOR FROM THE STATE OF ALASKA

I'd like to thank Chairman Hall for holding this hearing today on the Alaska Natural Gas Pipeline. I do not exaggerate when I say that there is no more important issue to Alaska—and few issues of more importance to our country—than getting the necessary legislation through Congress to build the Alaska Natural Gas Pipeline. I hope that this hearing will be an important step in moving this critical legislation forward.

But, Mr. Chairman, I want to stress that this project is not just about Alaska—far from it. When we look at the issues facing our nation:

- 1) our national security in the post September 11 world;
  - 2) the health of our national economy;
  - 3) creating more jobs and;
  - 4) achieving and maintaining a healthy environment for ourselves and our children
- these are all issues that affect every single one of our districts and states.

And the reality is, natural gas from Alaska's North Slope has an important role to play in resolving each one of these major areas of concern. The Alaska Natural Gas Pipeline will:

- enhance our nation security and freedom on foreign policy issues by providing a secure, domestic supply of energy;
- provide a critical feedstock—at a reasonable price—for the chemical, agricultural and other important sectors of our economy. These industries are currently facing near catastrophic conditions including a dramatic loss of markets, plant closures and layoffs due to the high cost of natural gas;
- create over one million new, well paying jobs spread across every state in our nation and;
- provide an abundance of clean burning, environmentally friendly fuel.

Mr. Chairman, I mentioned several important contributions the Alaska Natural Gas Pipeline can make to our nation's security, economic health and environment. Let me provide some more details about how the Alaska Natural Gas Pipeline will benefit America in each of these areas. First, some brief background.

During the 1990's United States natural gas production grew, on the average, less than 1% a year. At the same time, U.S. consumption grew at about 1.4% a year. By 2025 it is expected that total U.S. natural gas consumption will be about 35 Tcf or about 26% of all U.S. delivered energy consumption. Such a demand level represents over a 50% increase from the 2003 level. Domestic gas production is expected to increase much more slowly than consumption, rising from 19.5 Tcf in 2001 to 26.4 Tcf in 2025. Indeed, depletion rates for new gas wells have been increasing in recent years. It doesn't take an advanced degree to see that we will have a supply

gap of almost 10 Tcf per year by 2025. Where will the supply to meet demand in 2025 come from? A portion from imports. Imports now contribute about 16% of our natural gas supply; by 2025 they are expected to contribute about 23%. Canada will be the main source of the imports with an important part of the increased Canadian imports coming from the MacKenzie Delta Pipeline and the Scotian Shelf in the off-shore Atlantic. Just over half the increase in imports is expected to come from LNG. The remainder of our gas supplies must then come from increased U.S. production. The increased U.S. production is expected to largely come from two sources; unconventional sources like tight sands gas in the Rocky Mountain region and the large natural gas deposits known to exist in my State of Alaska. Interestingly, both *conventional onshore* non-associated production and *conventional offshore* non-associated production will increase between now and 2025, but their share of total U.S. production will ultimately decrease. Thus, gas from unconventional sources and our large natural gas reserves in Alaska are crucial if our nation is to meet the anticipated supply gap.

With that background, let me explain how building the Alaska Natural Gas Pipeline will help our economy, benefit our environment, create new jobs and enhance our nation's security.

Let's start from a "macroeconomic perspective." We need reasonably priced energy to regain and sustain our economic growth. Chairman Greenspan clearly recognized this when he testified before Congress on several recent occasions concerning the very significant negative impact tight and expensive supplies of natural gas have on our economy. Further, studies have suggested that reasonably priced energy supplies are a crucial part of an effective policy of full employment. Indeed, periods of sustained economic growth in America have been characterized by stable or declining prices for energy. Examples abound of the importance of reasonably priced natural gas to our economy. Natural gas is a critical feedstock for much of our chemical industry; we've all seen the devastating impact recent high natural gas prices have had on this and related industries. It is also an important input in many manufacturing industries. Thus, assuring an adequate, reasonably priced supply of natural gas is crucial to preserving the well paying jobs in our manufacturing sector.

Further, an adequate, reasonably priced supply of gas will help the many other industries which rely on electric power to remain competitive in a global marketplace. The so-called "demand destruction" and movement of jobs overseas that is occurring because of tight and expensive gas supplies is all too apparent in many parts of our country. Finally, Alaska's natural gas will also help keep the rates consumers pay for power and to heat their homes low. Over 60 million Americans rely on natural gas to heat their homes. We need to assure these homeowners a reliable, reasonably priced supply of natural gas. A reasonably priced supply of gas will allow homeowners to devote a greater portion of their disposable income to other pursuits which will benefit the economy.

Alaskan natural gas is an also important part of our national environmental policy goals. Natural gas is the cleanest burning fossil fuel. As a so-called "premium fuel" natural gas can displace energy sources with higher emissions. Thus, using natural gas can help us achieve our clean air goals. It can also reduce environmental compliance costs for a number of industries, including the electric power sector. In fact, the great majority of planned new electric generating plants will rely on natural gas. It just makes plain good environmental sense to make sure these new generating facilities will have an adequate supply of gas. Indeed, this is part of the reason why the Alaska Gas Pipeline has the support of many environmental groups.

The job creation potential of building and operating the Alaska Natural Gas Pipeline is substantial and widespread. A recent study completed by the National Defense Council shows that the total number of new jobs created directly and indirectly from construction of the Alaska Natural Gas Pipeline could reach 1.1 million—a very substantial number of new jobs in an economy that has recently lost several million jobs. Let me focus on the new jobs that, according to the National Defense Council study, will be directly created by the pipeline construction in the home states of members of this Subcommittee; Texas will gain around 180,000 new jobs; Virginia about 4,500. In the west, California will gain over 100,000 new jobs, Arizona almost 3,000, Oregon around 7,500, Idaho about 3,000, Oklahoma over 14,000 and New Mexico about 2,000. In the Midwest, Missouri will add around 5,000 new jobs, Ohio around 8,700, Michigan about 8,000 and Illinois around 13,000. In the east, North Carolina will gain close to 6,000 new jobs, New York about 30,000, Maryland around 4,000, Maine nearly 700 and Pennsylvania gains over 45,000 new jobs. Finally, in the south, Georgia should add around 12,000 new jobs, Florida about 9,000 and Louisiana gains more than 12,000 new jobs.

It is also important to remember that these new jobs will generally be high-paying professional and trades employment. Jobs that families can count on; jobs they can build their futures around. The fact that the pipeline will generate higher income jobs for Americans has another beneficial impact. State governments should see additional revenues of about \$1.7 billion a year while federal revenues should increase by about \$1.1 billion a year.

Alaskan gas will provide a secure, stable, domestic source of supply that will enhance U.S. energy security. The value of this secure, domestic source of energy on our foreign policy options and national security cannot be overestimated. As I mentioned, imported LNG will be supplying an increasing amount of our natural gas needs over the coming decade. Much of this LNG will come from unstable regions of the world. Serious questions have been raised about whether some of the revenues we send to these regimes to pay for the energy finds its way into the hands of terrorist organizations. Further, we already import well over half our petroleum. Do we really want to be dependent on overseas sources for the majority of our natural gas as well? Building the Alaska Gas Pipeline will significantly diminish our need to import LNG and keep American dollars in the U.S.

Alaskans will also benefit from construction of the pipeline. The energy bill includes provisions allowing individual Alaskans, Alaskan Native Corporations and Alaskan owned corporations to have ownership opportunities in the pipeline. Alaskans will also have the opportunity to get jobs building the pipeline. Further, Alaskan industry and residential natural gas users, like other Americans, will benefit from the availability of this new natural gas supply.

Let me also remind everyone of the interest shown in this project by the private sector. A consortium of major producing companies, Conoco Phillips, BP Exploration and Exxon Mobile have filed applications with the State of Alaska to build the pipeline. TransCanada, a pipeline company with vast experience in the North American natural gas market and the holder of the existing U.S. and Canadian Alaskan Gas Pipeline construction certificates has indicated its intent to file for the necessary authorizations to build the pipeline in Alaska. Further, Enbridge, a Canadian company with extensive pipeline holdings in Canada has also announced it will file for the necessary governmental authorizations. Thus, there is no shortage of interest in the private sector on building this project. However, all these potential project sponsors have stressed the necessity of Congress enacting the regulatory and judicial streamlining and fiscal incentives in the energy bill in order for the construction of the pipeline to go forward. I urge you and the other Members of the House to continue to work with us to get final passage of an energy bill which includes this package of judicial, regulatory and financial incentives so that we can get this project going now.

Finally, proposals to build an Alaskan LNG project have been offered. The proposals contemplate building a pipeline from the Alaskan North Slope to Southcentral Alaska. A gas liquefaction facility would be constructed there and the North Slope gas would be transported as LNG to the West Coast markets in the Lower 48 states. Thus, there is no lack creative approaches to bring Alaska natural gas to market.

In conclusion, the Alaska Natural Gas Pipeline is one of those all too rare examples of a project that is a winner from every perspective. It will help us achieve our environmental goals; it will help our economy by creating a large number of new, well paying jobs and it will enhance our national security.

Mr. Chairman, I again thank you and this Subcommittee for inviting me to testify this morning on this critically important national project. I look forward to working with the House and my Senate colleagues to enact legislation bringing all the benefits of the pipeline to my constituents in Alaska and to our entire nation.

Mr. HALL. Well, we sure thank you. And before we recognize Chairman Barton, let me just say that what you have said is well said, and you touched all the bases I think; national security, the energy's importance, the lack of confidence in the present supply and almost suggested a Monroe Doctrine in adverse or inverse hands on this hemisphere. Because we have the energy right here if we just can find the methods and the ways and somebody to fade the odds that it is going to take up there to make this thing happen. And you have presented it very well, and we appreciate it.

And your entire speech and words will be put in the record for everybody to read.

And at this time I am honored to have the chairman of the Committee on Energy and Commerce, Mr. Joe Barton, to recognize him for as much time as he wants. I could say 3 minutes or 7 minutes, but he is going to take all the time he wants anyway, so we will just recognize him.

Mr. Chairman, glad to have you here.

Chairman BARTON. Thank you, Mr. Chairman.

I am just going to put my opening in the record.

I want to welcome Senator Murkowski to the committee. We have had your father here before when he was a Senator. He is doing an excellent job as Governor. We are glad to have you here in Washington representing Alaska.

I support the Alaska natural gas pipeline. We need to find a way to get the energy bill out of your body so we can get it on the President's desk. If we can do that, that will help make this project a reality.

So I am going to yield back, Mr. Chairman. But I put my opening statement in the record.

And I have got a hearing downstairs on Medicare Physician Reimbursement, so I am going to have shuttle back down there. But we appreciate you doing this hearing.

And, again, welcome Senator to the House Energy and Commerce Committee.

[The prepared statement of Hon. Joe Barton follows:]

PREPARED STATEMENT OF HON. JOE BARTON, CHAIRMAN, COMMITTEE ON ENERGY AND COMMERCE

Thank you, Mr. Chairman, for holding this hearing to determine the current status of the Alaska Natural Gas Pipeline. During the energy conference negotiations in the 107th Congress and last year in the 108th Congress, there have been many heated discussions about whether the Alaska pipeline will ever be built without significant governmental assistance. Even before the ink was dry on the H.R. 6 conference report, critics of the provisions for the Alaska natural gas pipeline project were howling that those provisions were insufficient to prompt the construction of such an enormous project.

Now, after dust has been collecting on a yet-to-be-enacted H.R. 6 conference report for the past several months, headlines from major newspapers report that a deal on building the pipeline is imminent. The first such news report was that MidAmerican was ready to sign the deal after having worked with the State of Alaska pursuant to that State's Stranded Gas Act. Now, we hear that TransCanada and Enbridge are vying for the right to proceed with the State of Alaska. I have also heard that the producers were negotiating on a separate track with the State of Alaska. However, despite this flurry of activity, there have been no filings with the Federal Energy Regulatory Commission.

We need to know if this project can and will proceed even in the absence of federal legislation. Over 60 million homes in the United States are heated with natural gas. An ever increasing number of electric power generators use natural gas to produce electricity. Thousands of jobs hang in the balance in the chemistry and fertilizer industries because of high natural gas prices. Something has to be done to bring more supply on the market or our American way of life will suffer.

It is estimated that a pipeline from Alaska's North Slope will bring 4 to 6 billion cubic feet of natural gas per day into the lower 48, which represents approximately 10% of our daily consumption of natural gas. It is not a question of whether we need the gas. It is a question of when we will get it.

I look forward to hearing from the witnesses and thank you again for holding this hearing.

Mr. HALL. Although we do not have any set questions for the Senator, I recognize Mr. Boucher for any statement he may want to make or any question he may have.

Mr. BOUCHER. Well, thank you very much, Mr. Chairman.



I join with you in welcoming the Senator this morning. And thank you for your expressing the views.

Do you have any comments you would like to make on the prospects for dislodging H.R. 6 and moving forward with this in a legislative vein?

Senator MURKOWSKI. Comments about the prospects? I guess I look at this and say we have got to figure out a way to dislodge. We have got to figure out a way to successfully move forward an energy bill or provisions of an energy policy for this country.

Now, I think everyone on this subcommittee understands and appreciates the need for affordable, reliable energy across this country. And we are getting to a point where if we do not act as a Congress, if we do not act to ensure those reliable affordable sources, our constituents, the American consumer is going to say wait a minute. What is going on? What is happening when we have these shortages or the outages here in the northwest? What is happening in California? What is going on when I look at my utility bills and see the high, increasingly high prices of natural gas. And I think that there is a pressure building on all of us to move this legislation through.

It is getting to the point where it is just too important for us not to do it. We have got to be a little bit creative on our side, and I take up that challenge.

Mr. BOUCHER. Thank you very much.

Senator MURKOWSKI. Thank you.

Mr. BOUCHER. Thank you, Mr. Chairman.

Mr. HALL. Thank you.

Mr. Shimkus, do you have questions?

Mr. SHIMKUS. Just a statement, Mr. Chairman.

I want to let the Senator know that my father-in-law worked on the first Alaska pipeline, and he was one of thousands of citizens from the Lower 48 that moved up to help construct and build, was then a monumental undertaking, which has proved to be a very successful undertaking.

So I guess you could say my children are grandchildren of the pipeline. And so we know it can be done successfully and with hard work and diligence. And I am very proud of the fact that I can say that my father-in-law was very involved in that process.

The one question, just following up on my colleague Mr. Boucher's question, if H.R. 6 was allowed to be voted on the floor of the Senate, are there enough Senators to pass it? In other words, if the filibuster was broken, is there a majority of Senators that would support the basic bill?

Senator MURKOWSKI. We support the basic bill. We recognize that what you have sent over to us, we have seen some different iterations of it. There is still some issues, as you know, on the Senate side with H.R. 6. And we are attempting to work through those issues.

I think I can say without reservation that when it comes to the provisions that provide for the authorization of a natural gas pipeline, it is probably the least controversial area of the bill, if you will. People recognize that we need to do what we can to provide for increased domestic supply, particularly of natural gas. So I am

more optimistic about that component of the energy bill than some of the others.

Mr. BOUCHER. And I think the public agrees with your statement that the last thing we want to be is more reliant on imported fuels. And if we do not move in this direction, we will be importing natural gas from countries, as you identified, could be very unstable. And as we look at the oil fuel program now that occurred with U.N. and Iraq, who is to say where that money would end up. And so I think we should really move to control our own destiny then to be reliant on other folks.

Thank you, Mr. Chairman. I yield back.

Mr. HALL. Thank you.

Ms. McCarthy, do you have any questions?

Ms. MCCARTHY. Thank you very much. And thank you, Senator, for advancing the cause.

I wanted to explore with you the price support mechanism controversy, because I understand Canada opposes it but in a press report Conoco Phillips has publicly confirmed that it will not participate in a pipeline project without a price floor mechanism. "We are not going to advance the project without risk mitigation," is the quote from one of the executives of the company.

How do you see us resolving that dilemma should legislation pass and the possibility exists, we can then encourage such progress?

And second, I was heartened by the remarks in your testimony about the jobs creation. And in Missouri you anticipate 5,000 of those. I wonder if you would elaborate on that for me. My steel mill closed and those workers have gone to other places or careers or retirement. So, I am curious about what those 5,000 new jobs would be.

Thank you.

Senator MURKOWSKI. Well, first as to the price support. You have identified the sticking point, the controversial item when it comes to the tax incentives.

As you may know, we have on the floor of the Senate right now a FSC/ETI bill and contained in that were the financial incentives, the tax incentives that the Senate Finance Committee had moved forward. They have now been placed on FSC/ETI. We are hopeful that we will have an opportunity to take that up and resolve that this week.

But the one issue of the price support is something that has been a bone of contention for some and has generated the most amount of controversy.

We do have all three tax incentives currently in FSC/ETI. The price support, accelerated depreciation as well as the assistance for the conditioning plants. And so I am hopeful that we will be able to keep all of these tax incentives that are currently in the FSC/ETI, keep them in the bill.

The comment that you have made and I think that there might be people here this afternoon who can speak more directly to the need that they perceive for the floor, for that price floor. It is something that we need to do all that we can at the Federal level to help facilitate the construction of this incredibly massive project. We are talking about a \$20 billion project. We have got the loan

guarantee in there, 80 percent loan guarantee; that certainly helps. But when you acknowledge that a project of this size this nation has not seen, you are talking about 3500 mile pipeline. And so, again, anything that we can do at the Federal level to help facilitate that, I think will be necessary.

Now, your question about the jobs and how they are identified in the specific States. It was the——

Ms. MCCARTHY. My State is Missouri, by the way.

Senator MURKOWSKI. Right. I am just looking to the name of the report here. It was the National Defense Council that prepared the analysis for us based on the individual States, the industries within those States and what we could anticipate in terms of the job creation.

Now, the fact that you have had your plants shut down, I do not know how the Defense Council calculates their number based on what was there in the past or what needs to be there. We can get for you the specifics on the details, but the numbers are pretty big regardless of the State that you are coming from.

Ms. MCCARTHY. No. It was very heartening in your report to see that. So we will pursue with your staff——

Senator MURKOWSKI. Good.

Ms. MCCARTHY. [continuing] how they arrived at that and maybe it was before the plant closed.

Senator MURKOWSKI. I do not know, but we can find that out for you.

Ms. MCCARTHY. Mr. Chairman, I know I have taken some time, but I just did want to follow up on the diplomacy with Canada. I quite agree these support efforts for the companies engaging in this project are certainly warranted. How do we address the diplomacy issue with Canada who is saying—do we just reroute the pipeline or——

Senator MURKOWSKI. Well, Canada's objection is to the price floor. We have had, I think, very good relationships, very good discussions with Canada about the project. As the chairman mentioned, in the energy bill we inserted, I was the one that inserted the Sense of the Senate as it related to the MacKenzie River Delta project acknowledging that the Alaska line should not supplant the Canadian line; that in fact we will need the gas from Canada from the MacKenzie Delta. We will need Alaska's natural gas as well. These are not competing projects. These are projects that will compliment one another.

And I think if you ask this question of some of the Canadian folks this morning, I am hoping that they will say the same thing. But we have had very good discussions about the project.

We recognize that we are calling this the Alaska Natural Gas Pipeline. But when you appreciate that a major portion of this pipeline runs through a foreign country, we have to make sure that the terms of agreement work for those of us in Alaska and in the United States, as well as our Canadian partners. And we are working, I think, very well with Canada on this project. They understand the importance to North America.

Ms. MCCARTHY. Thank you, Senator.

Thank you, Mr. Chairman.

Senator MURKOWSKI. Thank you.

Mr. HALL. Thank you.

We have assured the Senator we would have her out of here of quarter 'til, and it is 20 'til, so we have 5 minutes to divide between Mr. Otter and Mr. Issa, and Mr. Whitfield. I thought he left. Now he is back.

Mr. WHITFIELD. I have no questions.

Mr. HALL. You each have a minute and 45 seconds apiece. And part of that is gone.

Mr. OTTER. Senator, I think that we did not talk also about outsourcing on jobs lost. I think Ms. McCarthy's comment just about the potential and what that can do for creating jobs, certainly jobs in constructing the pipeline itself. But having that source of energy available and seeing what has happened to some of our domestic operations, you know, I am fond of saying because I know pretty well that in Idaho it takes 27,000 BTUs to make one pound of French fries. Our French fries are moving north to Canada where the gas is and where they can still grow potatoes, unfortunately. Fortunately for Idaho, unfortunately for Alaska you cannot grow potatoes in Alaska.

Senator MURKOWSKI. We do a little.

Mr. OTTER. Well, you need 120 frost free days.

But anyway, so I think it will be a real error on our part not to include those arguments of your fellow Senators and with our fellow House Members. Because outsourcing is a big problem, but today what we are seeing in outsourcing and the loss of jobs, shutdown the potato plants in Idaho, is not because of the cheaper labor that they may find someplace else, not even because of the regulations, government regulations that they may find someplace else. But it is because of the availability of energy. We do not a plywood factory left in Idaho. There is 33 operations that shut down since 1989 in Idaho. Between 1989 and 1990 there were 33 operations shut down because it takes 235,000 BTUs to make a sheet of 4 by 8 by three-quarter inch exterior plywood.

So I think it is a big mistake if we do not talk about the outsourcing and with this available natural gas will bring about a reversal of part of that.

Finally, let me just mention the vulnerability that we now have with our fertilizer, with our gas-based fertilizers. Almost every ammonia plant has shut down in the United States today. We are now with our agricultural industry, we are now dependent on Russia and/or Trinidad. Because Russia has got .90 cent gas and Trinidad has got .50 cent gas, and it takes 33,000 cubic feet of gas to make one ton of ammonia fertilizer, a fertilizer which is terribly important to our agriculture industry.

So, I appreciate your comments and I appreciate your support for it, but I think we need to broaden that to say this is an opportunity for us to beckon back some of the outsourcing that has already happened.

Senator MURKOWSKI. Well, and I appreciate that comment, Mr. Otter. And it is something that we need to say all the time because as we see more and more plants and facilities shutting down and moving elsewhere, we are not quite sure where; maybe it is Canada, maybe it is elsewhere because of the cost of energy. And I started out my statement saying that there is nothing more impor-

tant that we can be doing, when you think about the health of our national economy. The economy just is not going to work, nothing is going to tick, unless we have got the businesses here, unless we can operate this country, unless we can move and power this country, unless we can keep our lights turned on. Everything else is secondary. And yet we cannot get folks focused on an energy policy for this country.

We are not connecting the dots when it comes to energy. And I do not want to think that we got to get to a crises, but we are approaching a crises when our jobs are leaving this country, when we cannot set up the businesses that we need to set up, we need to do more.

And the Alaska Natural Gas Pipeline is not going to solve all the problems of the world; we are not so naive to suggest that. But it will help. And we need to as a country, certainly as a Congress we need to say this is important in order for the health of this country, the health of this economy across the States. And we must be focusing more on this.

I appreciate the efforts that the House has made on this issue. You continually do the good work and are successful in moving forward energy policy. And I greatly appreciate the efforts of so many of you.

So, thank you for bringing up that very important issue.

Mr. ISSA. And Senator, I will be very brief in the remaining 30 seconds.

Thanks. They will give us a little more if you will, Senator.

First of all, as a Californian I want to thank you for the 100,000 jobs in advance. You know, California is in fact the consumer of that energy. As you know, California has some resources, but no willingness to tap it is own natural gas in any meaningful additional way. So we are going to be absolutely dependent upon outside oil.

We have exceeded what can come in from Texas into California without a new pipeline.

So one way or the other we are going to be importing either LNG or with a new pipeline, natural gas into California or the lights will go out again. And as a member of delegation from a State in which the lights did go out, we are very aware of the impact it has to the economy. Jobs have fled California, and they only now coming back based on the promise that the lights are going to stay on.

I do have sort of a question and a comment related to the Canadian concerns and this whole question of a base pricing guarantee. And that is, if we know we are going to consume it all, is there any reason that we cannot grant Canada, if you will, an equal guarantee. Obviously, not tax relief but an equal guarantee of a base price and the other half of it as a California, where is the top? Ten years from now what am I going to be paying for natural gas through that pipeline, and is there any assurance that essentially I am not funding against the negative while getting no benefit if in fact what I project is going to happen, which is we consume allow of Canada's and all of Alaska's and still need more, are we going to find ourselves where California has found itself recently, which is sometimes paying eight times more for natural gas than, if you will, the average annual rate that as historic?

Senator MURKOWSKI. Well, of course, there is no certainly. We do not know. I do not have my crystal ball out to be able to predict that.

Mr. ISSA. This committee requires that you bring it when you come, Senator?

Senator MURKOWSKI. Gosh, I forgot.

But, you know, will we consume it all? Yes. Yes, we will and then some. And that, as I just said, Alaska's natural gas are not going to completely eliminate or completely meet the demand here in this country. We will have to bring in LNG from outside, from foreign sources. We recognize that.

And as much as I want to say we can be energy independent, I think there is a reality that we have worked ourselves into a situation with oil, clearly and we are headed that direction with natural gas if we do not do something now. And that is why I have said I believe we have a narrow window of opportunity for getting Alaska natural gas on line. If we do not move relatively quickly in the next several years, what you will have is an effort to meet the demand, you will have LNG infrastructure built up on your coast should they accept it, on the East Coast, in the Gulf, all around in order to accept—it will have the terminals and spend the money on the infrastructure. We will enter into more long term contracts with countries like Quatar, Indonesia to accept the natural gas. And the natural gas up on Alaska's North Slope will again be stranded.

What is it that we have to do? I think at this point we have to do all that we can in order to facilitate, encourage and just make happen natural gas coming down from the Slope.

Mr. ISSA. Well, Senator, I thank you for those comments.

I will mention that my wife and son and I had the privilege of driving literally up to Prudhoe—

Senator MURKOWSKI. Well, good.

Mr. ISSA. Not a congressional tour, but on our own dime, and meeting with the people of your State who overwhelming support these kinds of projects done in environmental sensitive ways. And it was a real eye opener to find out that the only place people object to this project are in places where they have no idea what Alaska looks like and how your State has dealt with making sure that we can get the energy and protect the environment. And I thank you for being a champion for that.

Senator MURKOWSKI. Well, thank you for coming and visiting in that manner in that way, and spreading the good word. We appreciate it.

Mr. ISSA. Thank you.

Thank you, Mr. Chairman.

Mr. HALL. Senator, your time is up. If you do need to go I will ask Mr. Whitfield and Mr. Walden to submit to you questions for you to answer.

Senator MURKOWSKI. That would be appreciated.

Mr. HALL. Is it your position that you do need to stay within the time limits?

Senator MURKOWSKI. I do have to get back over to the Senate.

Mr. HALL. We thank you very much. Good testimony. Well presented.

Senator MURKOWSKI. Thank you.

Mr. HALL. And we are grateful to you.

Senator MURKOWSKI. Thank you for all that you are doing, Mr. Chairman. Greatly appreciate it.

Mr. HALL. Get that Senate moving over there. Find those two votes, if you have to send a posse.

Senator MURKOWSKI. I am going to go to work right now.

Mr. HALL. All right.

Mr. ISSA. Get over and get the Senate moving, there you go.

Senator MURKOWSKI. Thank you.

Mr. HALL. All right. We now have my very favorite witness here. Named after a fellow I served with long ago, Patrick Henry. Well, Patrick Henry Wood the Third. He is Chairman of FERC and is the longest serving appointment of Governor Bush, of President Bush's. He is a native of Texas. Received a B.S. in civil engineering from Texas A&M University, the university, and J.D. from Harvard Law School.

He has always been one that believed that competition could do better than regulations. And throughout his career he has worked to advance pro-customer and market oriented vision of utility regulation. He is my kind of bureaucrat, and I am glad to have you.

Pat Wood, we recognize you for your presentation.

**STATEMENT OF HON. PATRICK WOOD III, CHAIRMAN,  
FEDERAL ENERGY REGULATORY COMMISSION**

Mr. WOOD. Thank you Chairman Hall. That has a nice ring to it. Congratulations on your new posting as well.

It is a tough act to follow Lisa Murkowski, but I will give it a shot. What she was talking about, and I think from the questions here from you all, it is clear that you all understand the significant role that natural gas plays in our Nation's energy future, just like it does in the Nation's present. It is used in so many processes, agriculture, chemicals, metals, manufacturing, other heavy industry. A lot used in electric generation, certainly, as well as the traditional uses for home and residential and commercial heating purposes. I think we are all getting the last bills from the winter and recognizing that in fact the price of this commodity, which yesterday at the Houston ship channel, which is kind of a major liquid pricing point, was \$6.13 a 1,000 cubic feet. That is about three times what it was back when I first came to town here in 2001. And that is a significant impact on jobs, on energy usage, on the entire economy because it is a fuel that is used for about one-quarter of our total energy consumption in the country.

Well functioning energy markets need not just the commodity, but they need the commodity to get to where it needs to be got. And infrastructure is a real key issue, not only for us at the FERC but across the industry. A lot of people are investing billions and billions of dollars in energy infrastructure and the pipeline needs of the country, not just from Alaska but across the country are today being met and being met very well by the model that we have got that directs resources and investment dollars where they need to be.

This project is unique. It is probably the biggest engineering project. I think I read one of our fellow witness' testimony; it is the

biggest private sector investment in infrastructure that we have ever had. It is the great pyramid of North America and requires I think a significant amount of, even for one who lives to see the market do a lot of things, this one might need that extra help. And I think what you all have considered, both on the House side as well as the Senate side, in legislation to really facilitate this project not just financially but legally to facilitate this project are very important.

The proposed Alaska Natural Gas Pipeline Act which is rolled in parts of the last several national energy bills is an effort to apply many of the streamlining projects that were used in the mid-1970's to support the Alaska Natural Gas Transportation Act, ANGTA, and therein lines some of the issues.

There was a certificate granted to one our witnesses on the next panel to the predecessor company, the partnership, back in the late 1970's, early 1980's. A certificate was granted under ANGTA to actually do just this project. Prevailing price conditions through that time period, 1980 and 1990's particularly did not economically justify this project, and so it's kind of set on the shelf. The prices that we have seen in the last years certainly bring it back to being an economic reality.

The proposed legislation would, among other things, require our Commission to complete an environmental review and issue a certificate to any proposal backed by an agreement with a shipper of Alaska gas within 18 months of filing that application.

A project of this size is significant. Eighteen months is the press, but we are certainly up to the task.

It would also establish a Federal pipeline director with sweeping authority to coordinate and control all Federal activities relating to this project, establish our Commission as the lead agency for environmental review purposes and, like the ANGTA project did, would specify a strict compliance with but also strict time lines on environmental review processes.

Another way that a pipeline could be built would be to file, as all pipelines are today under the National Gas Act for Section 7 authority, which our Commission is pretty adept at doing.

We are relatively clear, but not totally clear, that the ANGTA the Act from 1977 would not necessarily bar the Commission from considering a separate application if it came forward under the National Gas Act, but we are not real clear. And that could certainly something that would tie up this project in courts. That is really what our general legislative approach that I have testified on last year would be directed toward, is not giving the Commission something that absolutely needs to get going. But to really limit and to mitigate the down sides of moving into the courts with a project of this nature. Court review can kill a project. We have seen that happen several happens.

Just the time lines to get to market on this one are significant, probably if not a full decade, the better part of it. And if that's limited up front or along the way, or called into jeopardy, that just raises the cost of the project and makes it uneconomic.

So as clear as Congress can be on what it wants our Commission and the other Federal agencies to do with regard to the permitting of this pipeline, and we think that the current comprehensive en-



ergy act that has been considered by both chambers of the Congress would address fully all of those issues and allow an investor and sponsor of this project to move forward and do so with confidence that provided the environmental issues are satisfied and the other citing issues are satisfied, that this project can go forward in an economically and legally viable manner.

I mentioned in some my testimony some details about what has happened along the way since the 1970's. Just to kind of cut to the current timeframe, we have had a number of applicants or potential applicants visit informally with the Commission, the three people you are talking to on the next panel being the primary three, but there have been others that were contemplating different approaches to the pipeline project in Alaska. And we stand eagerly waiting for one of them to file an application with us so that we can get started here.

I think just to close my opening comments, Mr. Chairman, there is probably not a single thing that the Congress can do, and I would add to that even the important act of the Electrical Liability statute and things like that that are certainly important; there is not a single thing we can do that 10 years from now we will look back and say we needed to be done more than project.

It has got to get going. The use of natural gas, which has tremendous advantages in combination with liquified natural gas imports, which are a necessity. I think the "if" is kind of on the side now. Liquified natural gas is a when issue, a W-H-E-N and a W-I-N issue for all of us. And we are permitting facilities as we speak going through the very lengthy and necessary environmental safety and landowner issues on the liquidified natural gas permitting processes as well. We need them both. We need Arctic gas, there is other Canadian gas available. The Canadians have a lot of need for their own gas, so we are glad to get what they do not need as an export from Canada. But we need our own gas from Alaska. It requires going through Canada to get here.

I have made a big effort to make sure that we have a very close working relationship with our Federal and provincial regulators in Canada in anticipation of this project. In fact, I am going this weekend to Nova Scotia to meet with those groups as well, and the Alaska and Canadian gas pipelines are a big issue every time we meet.

And I think this year we were under the firm expectation that there well may be an application in the near future.

So our Commission, my fellow colleagues who send their regards, and our staff stand ready to process this pipeline in the time lines envisions in the revised act, the 18 month time line. It is a lot of work, that is a real environmentally sensitive part of the world and we are committed to doing the right job, as Congress asked us to do in the 1970's. We did it then and we can do it again.

I am here to answer your questions. And that is it.

[The prepared statement of Hon. Patrick Wood, III follows:]

PREPARED STATEMENT OF HON. PAT WOOD, III, CHAIRMAN, FEDERAL ENERGY REGULATORY COMMISSION

### **I. Introduction and Summary**

Mr. Chairman and Members of the Subcommittee: Thank you for the opportunity to speak today on the status of proposals for the transportation of natural gas from

Alaska to markets in the Lower 48 States and legislation to expedite the construction of a natural gas pipeline from Alaska. As an initial matter, I want to assure you that the FERC Commissioners and staff stand with President Bush and Congress in our commitment to ensure that America's energy markets function reliably and well at this crucial time and for many years to come.

Natural gas is an essential part of our Nation's energy future. The Department of Energy has estimated that natural gas currently represents 24 percent of the energy consumed in the United States, and that demand may approach almost 30 trillion cubic feet (Tcf) by 2020, an annual level requiring a significant increase in production and delivery.

Against this backdrop, the importance of Alaska natural gas supplies, including those in the North Slope area, is clear. It is impossible to envision a 30 Tcf annual domestic market without Alaska natural gas. There has recently been renewed interest in the development of the transportation infrastructure necessary to move that gas to markets in the Lower 48 States. However, there are currently no applications before the Commission regarding an Alaska natural gas transportation project.

In this testimony, I will first describe the statutory schemes under which the Commission may consider applications filed with it for authorization for Alaska pipeline projects. I will then discuss issues that may be expected to arise under these laws and provide my thoughts on how these matters could be addressed through Congressional action. While I recognize that energy markets, like all markets, are subject to change, so that the economic viability of building an Alaska gas pipeline may vary from time to time, the need for Alaska natural gas in the Lower 48 market is only going to increase as the years go by.

Well-functioning energy markets require three basic things: an adequate energy infrastructure; clear and balanced rules that permit efficient commerce between market participants; and effective regulatory oversight. These key elements have led to robust competition in energy markets, with resultant benefits to customers. Toward that end, we will make every effort to process and act upon any applications for Alaska gas transportation projects as efficiently as possible, working with the applicants, other federal and state agencies, Native Americans, shippers, end users, and other interested parties, to ensure timely, reasonable decisions.

## **II. Statutory Background**

Applications for authorization to construct and operate an Alaska natural gas transportation project may currently be filed under either the Natural Gas Act (NGA) or the Alaska Natural Gas Transportation Act (ANGTA). I will address these statutes in turn. I will also review proposed legislation which I understand has been submitted to Congress for its consideration (the proposed Alaska Natural Gas Pipeline Act).

### **A. The Natural Gas Act**

Under Section 7(c) of the Natural Gas Act, the Commission issues certificates of public convenience and necessity authorizing the construction and operation of natural gas pipelines. The Commission also establishes initial rates for new facilities.

Most natural gas pipeline facility construction is authorized under the case-by-case certificate review process embodied in Subpart A of Part 157 of the Commission's regulations. 18 C.F.R. Part 157 (2001). The Commission reviews numerous aspects of a proposed project, including the route, environmental impacts, engineering and design, gas supply, market, cost, financing, construction, operation, and maintenance, revenues, expenses, and income, and tariff and rate matters.

During the last 20 years, the Commission has moved increasingly to promote competition in the natural gas industry. The Commission has encouraged pipelines subject to its jurisdiction to unbundle their production, sales, and transportation functions, and to provide transportation on an open-access basis. Almost all have done so. Under the open-access policy, shippers are able to buy gas directly in production areas and separately obtain transportation on interstate pipelines on an equal footing with other shippers. Moreover, in response to competition, the interstate pipeline transportation grid has expanded significantly, offering shippers more flexibility in their choice of supply areas, and creating new paths from supply areas to additional markets.

When the Commission receives an application under Section 7(c), it issues public notice of the application in the Federal Register, and notifies potentially-impacted landowners of the proposed project. Interested persons may file motions to intervene or protest. Generally, Commission staff requests from the applicant any additional information it needs to fully understand the application, considers issues raised by other persons, and conducts a thorough environmental review. A certificate order is

then drafted, containing whatever terms and conditions are deemed necessary for the public convenience and necessity. The Commission can set an application for evidentiary hearing before an administrative law judge, if there are material issues of fact that cannot be resolved on the basis of the written record, although such hearings regarding construction applications are rare.

I am proud of the prompt manner in which the Commission in recent years has acted on natural gas pipeline applications. For major projects, we have been making every effort to act within 18 months of the time that the application is complete, which, given the complexity of these cases, is quick indeed. This requires a significant commitment of time and resources, but we know that swift regulatory action is necessary for properly functioning markets.

#### B. The Alaska Natural Gas Transportation Act

In response to the energy shortages of the 1970's, Congress passed ANGTA, in an effort to establish streamlined procedures for the consideration, approval, and construction of a natural gas pipeline to bring Alaskan natural gas to the Lower 48 States (the Alaska Natural Transportation System, or ANGTS).

ANGTA established a unique process for selecting an ANGTS and expediting its construction and initial operation. Under this process, the Commission was directed to recommend to the President a specific transportation proposal. The President then would submit a decision to Congress, and Congress would approve or disapprove that decision. Thereafter, the Commission was to issue an NGA certificate for any approved project. ANGTA also established other procedural mechanisms to assist in the completion of an ANGTS, including requiring all federal agencies to expeditiously grant necessary authorizations for the ANGTS, establishing the Office of the Federal Inspector to oversee the timely, efficient, and environmentally sound construction of the ANGTS and to coordinate federal efforts related to the project, and strictly limiting judicial review.

In 1977, in the *President's Decision and Report to Congress on the Alaskan Natural Gas Transportation System (President's Decision)*, President Carter designated the route and selected the project sponsors for construction of the ANGTS, running 4,787 miles from Prudhoe Bay, south to near Fairbanks, and then southeast along the route of the Alaska-Canadian highway to near Calgary, Alberta, where it would split into two legs, one continuing to California in the West, and the other to Illinois in the Midwest.

The President's designation of the ANGTS route and choice of sponsors to construct and operate it were closely coordinated with the government of Canada and followed adoption of an *Agreement Between The United States And Canada On Principles Applicable To A Northern Natural Gas Pipeline (Agreement on Principles)*. Pursuant to the Agreement, Canada enacted the Northern Pipeline Act, which is similar to ANGTA.

On December 16, 1977, the Commission issued a conditional certificate under ANGTA and the NGA to designate project sponsors. (The project sponsors have changed over the years and the certificate is currently held by the Alaska Northwest Natural Gas Transportation Company, a partnership between Foothills Pipelines, Inc. and Transcanada Pipelines Limited). This conditional certificate, which authorized the project sponsors to construct and operate the pipeline system to transport gas from Alaska's North Slope to the Lower 48 States, was actually the initial step in the process of issuing a more detailed final certificate. The conditional certificate was followed by extensive procedures to establish further conditions for the project, including the design specifications and initial system capacity of the Alaskan segment of the ANGTS and an interim rate of return mechanism applicable to the segments of the ANGTS located in the United States.

The ANGTS sponsors, in order to facilitate financing for what would be the largest privately financed construction project in U.S. history, proposed to build the project in two phases. Phase I, or the "Prebuild," completed in 1982, is an approximately 1,500-mile segment, which presently delivers large volumes of Canadian gas from Alberta to Stanfield, Oregon in the Western Leg, and to Ventura, Iowa in the Eastern Leg.

At the time work on Phase I was being completed, the energy outlook of the United States and Canada changed substantially. Natural gas discoveries in Canada and in the Lower 48 States ballooned, and world oil prices moderated. With this changed natural gas market, the ANGTS sponsors announced in April 1982 that the Alaska portion of the project (Phase II) would be substantially delayed. No final certificate for Phase II was requested or issued before proceedings came to a halt in 1983.

On January 18, 2001, a report on ANGTA prepared by Commission staff was submitted to Congress. That report reviewed the background of ANGTA and discussed

issues that might arise in the event of a renewed ANGTS application or of an Alaska gas pipeline application under the NGA.

#### C. The proposed Alaska Natural Gas Pipeline Act

As I understand the proposed Alaska Natural Gas Pipeline Act, which has been included in the last several versions of the National Energy Bill, it is an effort to apply many of the streamlining aspects of ANGTA to a project filed solely under the NGA. To that end, the proposed legislation would, among other things: require the Commission to complete environmental review and issue a certificate to any proposal backed by an agreement with a shipper of Alaska gas, within 18 months of the filing of an application; establish a Federal Pipeline Director with sweeping authority to coordinate and control federal activities relating to a proposed project; establish the Commission as the lead agency for purposes of environment review; and, like ANGTA, strictly limit environmental review. The bill contains provisions relating to facilities constructed within Alaska and to those located in the Lower 48 States.

### III. Potential Issues

In this section, I will discuss issues that may arise with regard to applications filed under each of the three potential statutory schemes.

#### A. Issues with Respect to an NGA Application

The NGA itself raises few issues. The Commission has been reviewing applications under Section 7 for more than 60 years, and that process is well-known and understood by all participants. I am confident that Commission staff would work quickly to complete its review of any NGA application for an Alaska natural gas pipeline, and that, if the Commission is presented with a complete application, including all necessary environmental documentation, the Commission would be prepared to act on the application in a timely manner.

Two key matters could nonetheless arise. First is the question of the effect of ANGTA on the Commission's authority to consider an NGA proposal. Arguably, ANGTA precludes the Commission from approving any other proposal for an Alaska gas pipeline until the ANGTS is complete. The staff report concluded that, while ANGTA provided that the Commission was required to give precedence to consideration of the ANGTS, nothing in ANGTA bars the Commission from considering competing NGA proposals. I agree with that conclusion. Nonetheless, it would eliminate delays occasioned by litigation if Congress were to clarify that, since the Commission satisfied the requirements of ANGTA by issuing an ANGTS certificate in 1977, nothing in ANGTA precludes, or requires delay in, Commission consideration of another Alaska pipeline proposal, filed under the NGA. Alternatively, Congress could establish that the Commission in fact is precluded from approving any other proposal for an Alaska natural gas pipeline until the ANGTS is either procedurally or physically complete.

Second is the question of the coordination of federal efforts. There is no doubt that coordinated federal action is necessary to avoid increased expense, redundant reviews, and delay. It would greatly assist the consideration and implementation of an Alaska gas pipeline proposal if Congress clarifies that the Commission has the authority to coordinate federal activities with respect to a proposal filed under the NGA, and that the environmental record prepared by the Commission will be the one Federal record. At a minimum, it would be helpful if Congress provided that the Commission has the authority to establish deadlines for action by other federal agencies with respect to an Alaska natural gas pipeline proposal, so that the Commission can ensure that it is able to act on any application in a timely manner, and that the role of the proposed federal coordinator is to supervise activities other than the Commission's environmental review and issuance of a certificate.

#### B. Issues with Respect to an ANGTA Application

As I explained earlier, the Commission granted to the ANGTS sponsors a conditional certificate in 1977. Before the ANGTS could be constructed, the Commission would have to issue a final certificate. A renewed or revised ANGTS application could raise several issues. These issues are discussed in detail in the staff report, but I will summarize some of the key questions here.

**1. Ability to Deal with a Revised ANGTS Proposal**—The *President's Decision*, which was issued pursuant to ANGTA and approved by Congress, contains a number of conditions that on their face seem to affect directly the Commission's consideration of a renewed application to complete the ANGTS. Among other things, the *President's Decision*, in addition to designating the sponsors and route for the pipeline, specifies many aspects of the design, provides for a variable rate of return as an incentive to limit costs, and determines that the required environmental impact

statements relative to an Alaska natural gas transportation system have been prepared and are in compliance with NEPA. Completion of the certificate process more than twenty years after issuance of the conditional certificate could raise some questions about aspects of the President's Decision that could appear to restrict the applicants( and/or the Commission's ability to revise the project in light of changes in the market, technology and environmental circumstances.

ANGTA permits the Commission or another federal agency to amend the ANGTS (15 U.S.C. 719g(d)), but restricts agency discretionary revisions only to those that would not alter "the basic nature and general route" of the ANGTS. The staff report noted that these provisions leave it unclear as to what extent the project sponsors or the Commission or other federal agencies could propose or authorize changes to the ANGTS as outlined in the President's Decision. I observe, however, that the term (basic nature and general route( is sufficiently broad to encompass a number of update-related revisions that the sponsors, the Commission or another federal agency could take upon reactivation of the project. This becomes more difficult, however, if revisions were to reasonably vary from the (basic nature and general route( of the original project. In such event, Congressional guidance would assist prompt processing of a reactivated project.

**2. Environmental Considerations**—The original environmental impact statement (EIS) for the ANGTS project was prepared more than 20 years ago by the Department of Interior and supplemented by the Commission's predecessor, the Federal Power Commission. In 1980, the Commission prepared a second EIS to consider the environmental impacts of a gas conditioning plant that was proposed to be built, as part of the ANGTS, at Prudhoe Bay.

ANGTA provided that a decision by Congress approving the President's Decision designating an ANGTS was deemed conclusive as to the sufficiency of the underlying EIS and that the EIS was insulated from judicial review. Given that the ANGTS environmental documentation is now more than 20 years old, a supplemental EIS may need to be prepared before the Commission can issue a final certificate for Phase II. It would expedite Commission review of a reactivated project if Congress would clarify whether the original EIS is legally sufficient or if a supplemental EIS should be prepared and, if so, whether the supplemental EIS is also protected from judicial review.

**3. Role of Other Federal Agencies**—As noted above, coordinating the roles of the various Federal agencies that have responsibility over various aspects of such a proposal is critical to efficient, timely review of any Alaska natural gas pipeline proposal. During the original ANGTS proceedings, this coordination role was performed by the Office of the Federal Inspector. The Office of the Federal Inspector was abolished by Congress in 1992, and those functions and authorities were transferred to the Secretary of Energy. I defer to the Secretary with respect to any budgetary or other authority he might need to fulfill the coordinating and compliance functions if the original ANGTS proposal is renewed by the project sponsors.

### C. Alaska Gas Pipeline Update

As I mentioned previously, there are currently no certificate applications for an Alaska natural gas pipeline on file with the Commission. Our staff and I are closely following the public pronouncements of potential applicants, and stand ready to immediately begin processing any application that is filed. We are also making every effort to prepare to work together with other agencies that may have regulatory responsibilities concerning a natural gas pipeline moving gas from Alaska and Canada to the lower 48 states. Last year, I signed a memorandum of understanding with the Chair of the Regulatory Commission of Alaska with respect to coordinating our two agencies regulatory activities. My staff has worked with the Interagency Task Force, headed by the Department of State and the Department of Energy, pursuant to the President's National Energy Strategy, to prepare to coordinate Federal activities with respect to an Alaska Natural Gas Pipeline. Our environmental staff toured the pipeline route last year and met with Federal and State agencies, Native Alaskan groups, and other stakeholders. My staff has also had discussions with Canadian agencies, particularly the National Energy Board, in order to lay the groundwork for coordination between U.S. and Canadian regulators. We are also monitoring technical developments, such as the testing of new, more economical types of steel pipe that could be used in an Alaska project.

The first steps in developing an Alaska natural gas pipeline obviously lie with the project proponents. However, I assure you that as soon as any application is filed with the Commission, we will eagerly take up the challenge of processing it efficiently and effectively.

#### IV. Conclusion

I cannot predict which, if any, applications for Alaska natural gas projects will be filed with the Commission. That is for the investors in those projects to decide. But, in my view, at least one pipeline carrying Alaska natural gas will need to be built in the near future. It would be most helpful for interested parties to collaborate on a single project of sufficient scope to enable our focus to be on getting the gas to the market rather than on spending time in litigation. In the event that settlement of issues is not forthcoming, it would be wise, in advance of such events, to clarify the statutory structure(s) governing the issue, so we don't spend more time in Court than in the field building the needed transportation. A quarter-century wait is long enough.

I can assure you that whatever application(s) is/are ultimately filed with the Commission, we will review it/them thoroughly, promptly, and fairly, with the public interest firmly in mind, and with a clear understanding of how important Alaska natural gas is to our Nation's long-term energy security.

The Commissioners and staff of the FERC are always available to assist the Committee in any manner.

Mr. HALL. Pat, thank you very much.

And note the presence of Mr. Dingell, the ranking member, who has heard your testimony and had it for observation overnight.

I recognize Mr. Dingell for his time, opening statement, or to begin the questioning of Mr. Wood, if you would like, Mr. Dingell.

Mr. DINGELL. I have no opening statement, Mr. Chairman, other than the one which I would like to have inserted by unanimous consent.

I do have a couple of questions for the Chairman, if you please, Mr. Chairman.

And thank you for recognition.

First of all, Mr. Chairman, welcome to the committee.

Mr. WOOD. Thank you, sir.

Mr. DINGELL. In your statement you state that FERC Commissioners and staff stand with President Bush and the Congress in our commitment to ensure America's energy markets function reliability at this crucial time and for many years to come.

Have you had the opportunity to appear before the committee since the Department of Energy released its final report on August 14 entitled "Blackout in the United States and Canada," published May 31?

Mr. WOOD. This is my first appearance since that time.

Mr. DINGELL. Thank you, Mr. Chairman.

I understand you and the staff were intimately involved in both the investigation and the final report to which I referred, is that correct?

Mr. WOOD. Yes, sir.

Mr. DINGELL. Mr. Chairman, I note that on page 140 the report contains 46 recommendations intended to preclude or to prevent or minimize the event of future blackouts or at least to diminish their scope, the very first of which reads as follows:

"One. Make reliability standards mandatory and enforceable with penalties for noncompliance." The recommendation then states the U.S. Congress should enact reliability no less stringent than the provisions now included in the pending comprehensive energy bills H.R. 6 and H.R. 3004. Do you agree with that recommendation.

Mr. WOOD. I do agree with it. Yes, sir.

Mr. DINGELL. Mr. Chairman, I note that recent actions in the Senate indicates that a comprehensive energy bill continues to

struggle in that institution. In the light of relatively few legislative days remaining to us, I think its prospects are rather grim.

I would refer you now to a press article of January 7, 2004 which quoted you as saying you would support detaching the reliability provisions from the comprehensive bill and passing them separately. Do you still hold that view?

Mr. WOOD. Yes, sir. I think we should. I would hope that the other provisions could pass as well, including this important on Alaska gas that are a part of the whole bill. But the answer to that question was if the whole bill cannot pass, then we definitely do need the electricity liability and the other provisions that I mentioned in the answer to that question.

Mr. DINGELL. I thank you for that.

I would note that there is a question that concerns us all at this time, and that is have the actions which have been taken by this country since the last blackout which occurred significantly moved to either prevent or minimize the level of disruption that could occur, or to eliminate or minimize the possibility of such a shut down of electric power service to the United States occurring?

Mr. WOOD. Yes, sir. I do think that we have made significant progress. I would like to just take a second to kind of lay out the areas.

The principal one is one that we are participating as a support for is the NERC, the North American Electric Reliability Council, is doing readiness reviews of the major top 20 basically electric control areas of the country. That accounts for about 80 percent of the population and in Canada as well, North America.

Those readiness reviews are like oral examines for master's candidate. They are 3 day reviews in each of the major area and have done a significant job pointing out both deficiencies as well as pointing out where certain areas are doing a good job. Those are becoming, I think as of this week, public; those report cards on each of the main areas. And certainly everybody that operates an electric system is very interested to have a good report card.

So I think the peer pressure certainly in the short term is doing a good job to make sure that the issues that were pointed out in the report are being addressed on a short term basis. I think what certainly the mandatory rules will do is to ensure that that really becomes a standard part of day-to-day business, not just a one time visit to confirm.

Trimming the trees is another big issue. We just put out a data request to every utility in the country that maintains significant transmission voltage that—

Mr. DINGELL. I hate to be rude.

Mr. WOOD. That is fine.

Mr. DINGELL. But I have limited time and I want to respect our Chairman here and his kindness to me.

Can you tell us if everyone of the reliability councils has the power to make its orders mandatory with regard to reliability?

Mr. WOOD. The power on their own, no. That is only if the members contractually agree.

Mr. DINGELL. That is one things which they desperately need, is it not?

Mr. WOOD. I think so, yes.

Mr. DINGELL. And as a matter of fact, I do not think there is any that has the authority with perhaps the exception of PJM to assert that kind of power, is there?

Mr. WOOD. We have for the RTOs, which would be PJM, New York, New England and California and now Southwest Power Pool made as part of a condition of being in the RTO, the regional transmission organization, a requirement to comply with the NERC standards. So through that region of the country where we do have organized markets, we have been able to use the FERC terrifying process to make those mandatory.

Mr. DINGELL. Can you assure us that they are in fact mandatory and that they will be complied with by all the utilities within those areas?

Mr. WOOD. The core issue is what is the "it"? Comply with the standards, the standards up to now because they have been voluntary have been more guidelines and gray zone and terrifying issues; they are not black and white.

Mr. DINGELL. And that is my worry. One of the reasons that we had the big failure in the Northeast quadrant of the country last year was the fact that there was no authority in the people that had to have it, namely the reliability councils, to enforce their rules and orders. And, of course, once the trouble started, it just ran wild.

Mr. WOOD. That is true.

Mr. DINGELL. And I think the gray areas or areas where there is less than adequate assurance that the RTO or the other agencies that have that responsibility can in fact enforce their orders and see to it that we have a situation where the utilities must comply. And I am particularly troubled, for example, that one utility in a State adjacent to Michigan has had a consistent history of troubles with regard to its reliability and how its behavior affects the neighboring utilities. And I am also troubled with the fact that the hearings of this committee revealed last year that there really is no authority there to assure whatever has to be done will in fact be done.

So I am concerned not only about that problem, but I am concerned also about the others where there may be gray areas and where there is not a clear authority for them to enforce their orders—and that everybody knows, including the utilities and the consumers, that they have that authority. So I am troubled about this.

Can you tell me that you are comfortable?

Mr. WOOD. I cannot tell you that. But I think one point I want to add to yours, and you have made case for me better than I can, but is that the rules themselves. You know, you said enforce the rules and orders; the rules themselves are not crisp and enforceable today. So we have really used the bully pulpit to bang on the experts on the industry that we rely on to develop the standards to get those developed by the end of this year. And they have actually set forth a process by which the NERC, the voluntary council, will actually adopt crisp and enforceable rules by February of 2005, which I wish it were tomorrow. But clearly that is better than the schedule they were anticipating before we started.



Mr. DINGELL. Well, I commend you for this. But my response is the old liturgical one, and that is let us pray.

Thank you, Mr. Chairman.

And thank you, Mr. Chairman.

Mr. HALL. Thank you, Mr. Chairman. Thank you, Mr. Dingell.

Old habits are hard to break.

Pat, thank you.

We are going to go back now to Mr. Walden and recognize him first. Somebody go upstairs and get Mr. Walden.

I will then recognize Mr. Boucher for your questions.

Mr. BOUCHER. Well, thank you very much, Mr. Chairman.

I really only have one question for Chairman Wood, and that relates to a matter that you addressed in your testimony. I noted your statement that if we are successful in enacting H.R. 6, that any legal questions that would arise under current law with regard to how you should handle an application to certify the pipeline, should it be filed under either the Alaska Natural Gas Transportation Act or in the alternative under the National Gas Act would be resolved. And so the passage of H.R. 6 eliminates those legal questions.

So my question to you is this: Other than approving H.R. 6 which, as you know, is problematic at the moment, is there anything else that we should consider doing in order to facilitate the construction of this much needed pipeline?

Mr. WOOD. Courts look to statements of congressional intent. And I think, unfortunately, they look at the congressional intent at the time the law was passed. So, unless we can find some good transcripts from 1974 or 1976 that have not come to light.

Again, I do not know that they are fatal on their face, that the ambiguities that exist in the current law are fatal on their face, Mr. Boucher, to an application. I do think they are the kind of thing that a corporate exec that is looking to spend \$15 billion is going to think twice about, though. About is he going to be stuck in a court, whether it is a district court or state, Federal. Probably Federal. Several layers of review before, you know, his company can go forward and invest that \$15 billion to build this huge project.

It is just one of those things that as a practical matter from dealing with energy businessmen for the last 15 years, I know how they think. And that is not an unfair characterization.

The Commission certainly can move forward in the 18 months and do this. I think after issuance of the certificate is when you would start to have issues. Well, I would love to see those legal issues resolved today.

I think if the Congress acted to resolve that part of it by the time we finish the certificate, say if one were filed today we would be through by next Christmas, that that would be probably good timing on that half.

Now the financial issues that Senator Murkowski just talked about and that Ms. Hall's asked some questions on, I think are probably the type of things that those business folks need to know before they even file a certificate.

The process with us, while I would hope it would be streamlined and efficient, is still costly. And to do the necessary environmental

reviews onsite in Alaska is, as you know, a different terrain to do that kind of review than just about anywhere else in the U.S.

So I think as a practical manner the legal half and the financial support half of the Alaska Natural Gas package probably do need to go together from a business matter. I think we could move forward and the legal issues do not kick in probably, or at least get challenged, until we issue a certificate which, again, would be about 18 months after filing with us. So you have got some time, I think, on that half. But as a practical matter I think they are woven together on the financial half for the business side.

Mr. BOUCHER. So if I interpret your remarks, you are saying that legal clarification from the Congress at this time would be helpful. But that there would be little reason for us to undertake passing a freestanding bill that simply provided, for example, the legal clarification if it were not tied to the loan guarantee and other things that we would have to do to answer the financial questions.

Mr. WOOD. Right.

Mr. BOUCHER. Is that a fair interpretation?

Mr. WOOD. And that is, honestly, just I would say an informed layman's assessment. I do think the next panelists could probably give you a real solid answer on that. But I have talked to them enough to know what I think it is.

Mr. BOUCHER. All right. Thank you very much.

Mr. WOOD. Thank you.

Mr. HALL. Thank you, Mr. Boucher.

We have a vote, and it would be nice if we could take care of this witness before we go to vote. So I will recognize Mr. Shimkus.

Mr. SHIMKUS. Thank you, Mr. Chairman. I just have one brief one, but I appreciate, Mr. Chairman, your comments on H.R. 6. There is a lot of other benefits in there, obviously the citing provisions, the natural gas provisions that we are really talking about here.

You discussed three different paths for pipeline approval; the National Gas Act, ANGTA and the proposed language in H.R. 6. In your opinion as Chairman of the Federal Energy Regulatory Commission which legislative path either enacted or proposed is preferable in order to see the pipeline built?

Mr. WOOD. The latter one. Just because it is up to date. I mean, ANGTA clearly was granted a certificate—

Mr. SHIMKUS. The latter one being H.R. 6?

Mr. WOOD. Yes, sir. The current legislation.

Mr. SHIMKUS. The current energy bill proposal? And as we have talked about before, there is so much other huge benefits.

I understand that the Ranking Member's desire about splitting provisions out, we are better to get all the provisions at one time because of the benefits of coal generation siting, expansion of the grid, renewable fuels.

Mr. WOOD. I guess all the ones that would be split out would probably make the whole bill all over again.

You know, again, I think the point of this hearing, and I mentioned that in my opening statement, is that the gas pipeline from Alaska is as important to I think the welfare of our citizens as—

Mr. SHIMKUS. Which I think you pointed out is the most provision in the bill.

Mr. WOOD. What else can we do to make this country's energy future significantly better than it is looking like it would be right now.

Mr. SHIMKUS. Right.

Mr. WOOD. It is this.

Mr. SHIMKUS. Yes. And I appreciate that.

Mr. Chairman, thank you. And I yield back.

Mr. HALL. The Chair recognizes Mr. Wynn.

Mr. WYNN. Thank you, Mr. Chairman. I do not have any questions.

Mr. HALL. All right. Then we will wind up here.

Mr. Wood, I take it that you still support comprehensive energy proposal that we sent to the Senate that they are laboring over now?

Mr. WOOD. Absolutely.

Mr. HALL. Before we start single shouting, which you are not opposed to single shouting if it comes to that?

Mr. WOOD. If it comes to that. But I think there is too much in there that we need for the country.

Mr. HALL. All right.

We will recess until the votes are over on the floor, which I estimate to be 30, 45 minutes.

Thank you, Pat.

Mr. WOOD. Thank you, Mr. Chairman.

[Brief recess].

Mr. HALL. Well, it appears that we have the main witness and two of the main members of the committee here. So I guess we can get underway.

As you may know, you are veterans and knowledgeable, all of this is transcribed and everybody gets a copy of it and everybody looks at it before we write the bills. The way we write legislation up here is to get people like you who know more about it than we do to come tell us about it. And it is going to appear that you are just talking to two of us right now, but really you are talking to the Congress because they all have copies of it and they will read it carefully, I am sure.

So, in order to go ahead and get the transcript underway, we might get underway. And when the third witness comes, we will make him feel right at home there. Is that agreeable with your, Strickland?

Mr. STRICKLAND. Absolutely. Mr. Chairman. Thank you.

Mr. HALL. You are ranking right now.

Mr. STRICKLAND. That is a first. Thank you, sir.

Mr. HALL. So we are happy to have Dennis McConaghy, Executive Vice President, Gas Development TransCanada Corporation. I have had the pleasure of meeting him and visiting with him and his assistant or partner. And very impressed by your knowledge.

And we have Mr. Carruthers, who is Vice President, UpStream Development of Enbridge Pipelines, Inc.

And we just need to hear from you men and your staffs and your background, and your opening statement. All the opening statement will be put in the record.

But I recognize you, Mr. McConaghy, right now to just summarize what you intend to tell us. And I am not limiting you on time, but try to hold it as close as you can to 5 or 6 minutes.

**STATEMENTS OF DENNIS MCCONAGHY, EXECUTIVE VICE PRESIDENT, GAS DEVELOPMENT TRANSCANADA CORPORATION; JOHN CARRUTHERS, VICE PRESIDENT, UPSTREAM DEVELOPMENT OF ENBRIDGE PIPELINES, INC.; AND KEN J. KONRAD, SENIOR VICE PRESIDENT, ALASKA GAS BP ALASKA**

Mr. MCCONAGHY. Thank you.

TransCanada appreciates this opportunity very much to participate in this hearing. And I would like to take just these opening remarks to brief you on TransCanada's longstanding efforts to bring this project to fruition. I would also want to note that TransCanada's CEO Hal Quisley is Chairman of the Interstate Natural Gas Association of America, INGA, which represents virtually all interstate and interprovincial natural gas pipelines in the United States, Canada and Mexico.

The construction of the Alaska Natural Gas Pipeline is a priority for INGA, and the Association has prepared written testimony for today's hearing, I ask Mr. Chairman, that INGA's written statement also be included in the record.

Mr. HALL. Without objection, it will be included.

[The statement follows:]

PREPARED STATEMENT OF THE INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA

Mr. Chairman and Members of the Subcommittee: The Interstate Natural Gas Association of America (INGAA) appreciates the opportunity to submit a statement for the record regarding an Alaskan natural gas pipeline. INGAA represents virtually all interstate and interprovincial natural gas pipelines in the United States, Canada and Mexico. Our association has advocated constructing an Alaskan natural gas pipeline for over 25 years. INGAA hopes that the provisions in the comprehensive energy bill (H.R. 6) regarding the Alaska project, coupled with the projected market conditions for natural gas in North America, will provide the impetus for rapidly developing a pipeline that connects the U.S. market to the extensive natural gas reserves on Alaska's North Slope.

NATURAL GAS SUPPLY SITUATION

It now is widely recognized that North America is experiencing a fundamental shift in the supply and demand equation for natural gas. For many years, the United States experienced an excess supply of natural gas—the so-called “gas bubble”—that kept prices relatively low and encouraged an increase in demand for natural gas. Both the industrial sector and the power generation sector increased their demand for natural gas by significant levels. Over the last three years, however, demand has caught up with supply, leading to sustained higher natural gas prices. At the same time, gas production from many of the traditional supply basins has begun declining. Areas such as West Texas, Oklahoma, the Gulf of Mexico, Western Canada and the San Juan Basin account for over 80 percent of current U.S. natural gas supplies; but production from all of these regions is forecast to decline over the next 15 years. It is anticipated that by 2020 these traditional supply areas will supply about 60 percent of U.S. demand.

These supply declines make it increasingly important to develop new supply basins in North America. This must be done sooner rather than later if we as a Nation are to avoid the adverse economic and energy security implications of a serious mismatch between natural gas demand and available natural gas supply. The Rocky Mountain region, for example, will be an instrumental part of the overall supply picture, as will the deep Gulf of Mexico, Eastern Canada and imports of liquefied natural gas. Another key supply area will be the Arctic frontier, which includes both the Alaskan North Slope and Canada's MacKenzie Delta. There are significant known natural gas reserves in the Arctic—the Alaskan North Slope alone has estimated natural gas reserves of 35 trillion cubic feet—and the potential for an even

larger resource base. Twenty five years of oil production in the region have provided a clear picture of the associated natural gas reserves; what has been lacking is the infrastructure to move these significant resources to markets in North America.

#### BUILDING AN ALASKAN PIPELINE

Constructing an Alaskan natural gas pipeline is not a new idea. The United States and Canada made significant progress in the late 1970s in approving a pipeline that would have connected the Alaskan North Slope with markets in the continental U.S. Involvement by the Canadian government was critical, because more than two-thirds of the proposed pipeline was to be built in Canada.

Congress enacted the Alaska Natural Gas Transportation Act (ANGTA) in 1977, which established a coordinated approval process for an Alaskan natural gas pipeline. The Canadian Parliament enacted a counterpart, the Northern Pipeline Act, in 1978. Significant segments of the Canadian portion of the pipeline actually were authorized and constructed during the 1980s, and currently deliver Western Canadian production to U.S. markets. Declining natural gas prices in the 1980s, however, made constructing the Alaskan segment uneconomic, and the pipeline's sponsors mothballed the project and waited for market conditions to change.

That market change now has occurred, and the need for an Alaskan pipeline is greater than ever. Still, a combination of factors makes the timely construction of an Alaskan pipeline uncertain. These factors include the long lead time for authorization and construction, the enormous capital commitment required by pipeline sponsors and the price risk that must be assumed by those with an economic stake in the pipeline and in producing the natural gas. If permitting started today, it would still take a decade before a pipeline could begin delivering natural gas to U.S. markets. This is one of the reasons why Congressional action is needed now, setting some clear permitting guidelines, reducing some of the economic risk associated with this project, and getting construction activity underway as soon as possible. Any further delay in beginning the construction of this pipeline will cost American consumers billions of dollars annually in higher natural gas prices.

#### JOBS FOR AMERICA

The members of this Subcommittee have heard from businesses across the country that are adversely affected by high natural gas prices. The fertilizer and chemical manufacturing industries have been hit particularly hard. Federal Reserve Chairman Alan Greenspan has, in a number of statements before Congress, expressed concern about future natural gas supplies and the adverse economic effect of sustained higher prices for this critical source of one quarter of the Nation's primary energy input. Developing new natural gas supplies, and building the infrastructure needed for transporting it to consuming markets, has become a major economic and jobs issue, even if it does not command much attention on the evening news.

New supplies of natural gas from Alaska would help balance supply and demand and result in more reasonable natural gas prices for consumers and industry. In addition, constructing a pipeline from Alaska would create a huge number of jobs—some estimates are as high as 400,000 jobs—in construction, steel and pipe manufacturing, compressor manufacturing, and all of the affiliated equipment and service needs for such an enormous undertaking. And this figure does not include the thousands of jobs that would be saved by lowering natural gas prices domestically. Simply put, the Alaskan natural gas project translates into U.S. jobs.

#### THE ENERGY POLICY ACT OF 2003 (H.R. 6)

The conference report to H.R. 6, the Energy Policy Act of 2003, includes a number of provisions dealing with the Alaskan natural gas pipeline, including:

- Title III, Subtitle D—Builds upon the 1977 ANGTA by creating a new expedited permitting and judicial review process for any proposed Alaska pipeline project. Section 386 also permits federal loan guarantees of up to \$18 billion for qualifying projects, in order to reduce financing costs and help mitigate some of the associated financial risk of the project.
- Section 1355—Permits an accelerated depreciation schedule of 7 years, as opposed to the normal 15 years, for “high volume natural gas pipelines” such as the one from Alaska.
- Section 1356—Extends the enhanced oil recovery tax credit to natural gas treatment facilities associated with a “high volume natural gas pipeline” such as the Alaska project.

These provisions address a number of the financial risks that have impeded this project over the last 25 years. INGAA endorses the enactment of H.R. 6, as amended, in order to provide the catalyst for reviewing, permitting and constructing an Alaskan natural gas pipeline as soon as practicable.

The conference report to H.R. 6 does not include a production tax credit, often referred to as a "price floor", for Alaska North Slope gas, while the current version of S. 2095 includes this production tax credit. This is a financial benefit that would accrue to producers, and not necessarily to the owner and operator of the pipeline. Therefore, INGAA has elected to remain neutral on this issue. Two of the three North Slope producers have argued that the production tax credit is needed to mitigate the risks associated with their commitment to long-term capacity contracts on an Alaska natural gas pipeline. The proposed tax credit would apply should market prices for natural gas fall below \$3.25. With prices forecast in the \$5 range for the foreseeable future, it is unlikely that the tax credit would ever apply.

#### AN INDEPENDENTLY OWNED PIPELINE SERVES THE PUBLIC INTEREST

The natural gas industry in North America has never been a vertically integrated industry. In other words, the same companies generally do not produce, transport and distribute natural gas to consumers. This historic structure was taken one step further by the natural gas industry restructuring that followed wellhead decontrol in the 1980s. Prior to the restructuring, interstate pipelines had a direct role in the supply function, because they purchased natural gas from producers and resold the aggregated supply to natural gas distributors and other large-volume customers. As a result of the restructuring, interstate pipelines are now purely transporters of natural gas. This restructuring has promoted greater competition, transparency and efficiency in the natural gas industry to the benefit of consumers and the Nation's economy.

In contrast, the oil industry generally has been, and remains, vertically integrated. The major integrated oil companies produce, refine, transport and retail oil products to consumers. In other words, these companies have an economic stake in all segments of the oil product supply chain.

The distinctions between these two industry models are relevant to some of the threshold questions in connection with authorizing an Alaska natural gas pipeline. The three North Slope producers are all major integrated oil companies and the producers have stated, at various times, their desire to control the pipeline that would bring Alaskan gas to consuming markets in the lower-48 states. This would be in sharp contrast to the industry model in the remainder of North America, where once gas is gathered and processed, it is transported to market utilizing interstate and interprovincial pipelines owned and operated by third parties. This distinction now is highlighted by the fact that several North American transmission pipeline companies have expressed an interest in building, owning and operating the Alaskan natural gas pipeline.

INGAA submits that this choice has significant public policy implications, and is more than just a commercial decision. A pipeline owner and operator that is solely in the business of transporting natural gas has different economic motivations than does an owner and operator that is primarily a producer. A pipeline company has the incentive to construct and operate the facility to maximize the volumes of natural gas that can be transported efficiently, regardless of the source or ownership of supply. That is not necessarily the case for a producer-owned pipeline. A producer's primary motivation is to operate the pipeline to maximize the value of its natural gas production. Doing so may not necessarily involve sizing or operating the pipeline, or designing rate structures that treat other sources of supply in a non-discriminatory manner. In other words, some of the very same concerns that motivated the Federal Energy Regulatory Commission (FERC) to mandate open access transportation and, ultimately, to compel pipeline companies to abandon the wholesale merchant function are relevant in considering the public policy choices on ownership of the Alaska natural gas pipeline.

Producers may respond that these concerns are inconsequential, because the Alaska natural gas pipeline will be subject to FERC regulation regardless of its ownership. While it is contemplated that a producer-owned pipeline would be regulated, this does not fully address the concerns about the public policy implications associated with who owns and operates the pipeline. For example, while FERC may authorize the pipeline, it does not control directly the proposed size of the pipeline, business decisions on the size and timing of pipeline capacity expansions, or proposals for rates and tariffs. Under current law, FERC cannot compel a pipeline to expand its facilities and it must bear the legal burden should it choose to challenge a pipeline's rates and tariffs should it believe that they are no longer just and rea-

sonable. Given these limitations, it is plain that separating pipeline ownership from ownership and control of the natural gas resource base will promote greater efficiency, transparency and competition in the construction and operation of an Alaska natural gas pipeline. This, in turn, will result in greater benefit to consumers and the economy.

#### CONCLUSION

INGAA would like to thank the Subcommittee for scheduling a hearing on this important element of America's energy policy. The Alaska natural gas pipeline is a necessary addition to the Nation's critical infrastructure. We hope the Congress will pass H.R. 6 this year, and in doing so create the incentives for getting this project underway.

Mr. MCCONAGHY. Thank you.

TransCanada is a leading North American energy company. It owns one of the largest natural gas transportation systems in the world and has pipeline and electric generation operations and facilities extending across Canada and into the northern United States.

By way of background, the Alaska Natural Gas Transportation Act, ANGTA, of 1976 established a transportation system to deliver Alaska natural gas, designated an entity to receive a certificate to construct and initially operate that system, and sought to expedite the construction by limited judicial and regulatory review.

ANGTA also designated the route for the pipeline along the Alaska highway, and both chambers of the U.S. Congress and the State of Alaska have reaffirmed this selection by various initiatives with respect to routing.

Also, in the late 1970's Canada and the United States signed an Agreement on Principles, entering into a bilateral treaty to govern relations between the two countries for the transportation of Alaskan gas across Canada. And the Canadian government enacted the Northern Pipeline Act to implement these Canadian-U.S. agreements, and they remain in force today.

Entities which are wholly owned by TransCanada were issued certificates to construct and operate the Alaska and Canadian portions of the pipeline. TransCanada has steadfastly maintained these certificates and intends to build the Canadian facilities that connect the Alaska pipeline to U.S. markets.

The first phase of the Alaskan gas pipeline in Canada was known as the "prebuild," and that was constructed by a TransCanada subsidiary in the late 1970's at a cost of over one billion dollars.

Although changes in the North American natural gas supply and demand balance postponed the completion of the pipeline through Canada and into the Lower 48, expert consensus today is of the view that the total natural gas supply from traditional sources will be insufficient to meet projected growth in North American gas demand. And as we have heard earlier this morning, the consensus that this project is required as part of the continental gas supply mix is, I think, well shared broadly.

TransCanada, on the basis of its own engineering studies over this period, continues to be of the view that the highway route is the most economic and the least risky. Furthermore, TransCanada anticipates having available spare capacity in its existing systems whose utilization would eliminate, or reduce the need for additional

pipeline infrastructure from Alberta to the Lower 48 when the Alaska volumes begin to flow.

For example, with inexpensive capital debottlenecking, there could be over 3 Bcf of capacity available to transport Alaska gas across TransCanada's Alberta system.

TransCanada strongly believes that the project is necessary and economic. However, the project does have unique risks and they have to be addressed before stakeholders can invest the billions of dollars.

Important progress has been made recently. TransCanada has signed a memorandum of understanding with the State of Alaska and has agreed that in order to encourage parties to reach the necessary commercial and regulatory agreements, it will convey the State right-of-way to any holder of a final FERC certificate to construct an Alaska gas pipeline that interconnects with its facilities that TransCanada has the right and will to build in Canada.

Additionally, TransCanada has resolved issues related to historic costs in the Canadian portion of the project and has also obtained a reaffirmation from the Canadian government of its commitment and preference for the U.S.-Canada treaty and the Northern Pipeline Act.

So the question is still there, what needs to be done to resolve the impasse to bring forward this project. We have the view that four critical groups North Slope producers, TransCanada and potentially other pipeline entities, the State of Alaska and the U.S. Government have to come together and develop an optimal mix of commercial and fiscal terms under the framework of the existing treaty and the Northern Pipeline Act. A key part of this process will be negotiations in the State of Alaska under Stranded Gas Act which are going to unfold this year. That process, hopefully, will define long term fiscal and tax regimes. And we are of the view that the U.S. Government will have to also play a critical role in ensuring ultimately that no single group is required to bear an undue portion of the risks that are necessary to bring this project forward.

TransCanada looks forward to working with stakeholders to bring forward a viable project.

In conclusion, TransCanada remains as committed to this project today as it has over the past 20 years and will continue to move the project forward to complete the Canadian segment utilizing its existing infrastructure and its existing rights and is willing to participate as constructively as it is asked to in the Alaska segment.

I thank you for this opportunity to make those opening remarks.  
[The prepared statement of Dennis McConaghy follows:]

PREPARED STATEMENT OF DENNIS MCCONAGHY, EXECUTIVE VICE PRESIDENT, GAS DEVELOPMENT, TRANSCANADA CORPORATION

#### INTRODUCTION

Good morning, Chairman Hall and Members of the Subcommittee. My name is Dennis McConaghy. I am the Executive Vice President for Gas Development of TransCanada Corporation (TransCanada), the parent company of TransCanada PipeLines Limited. TransCanada appreciates the opportunity to participate in this proceeding on the status of the Alaska natural gas pipeline, to brief you on TransCanada's longstanding efforts to bring this project to fruition, and to discuss the current initiatives underway to ensure that Alaska's enormous supplies of nat-



ural gas are delivered on a timely basis to U.S. markets that urgently need this critical supply.

TransCanada is a leading North American energy company. It owns one of the largest natural gas transmission systems in the world—over 24,200 miles—and has operations and facilities extending across Canada and into the northern United States. TransCanada transports approximately two thirds (11 Bcf/d) of western Canada's natural gas production, representing 16% of North American production, to markets across North America. TransCanada also owns, controls or is constructing more than 4,700 MW of electric generation in Canada and the United States. Headquartered in Calgary, Alberta, Canada, TransCanada's American holdings include interests in five American pipelines and numerous electric operations in the United States. TransCanada recently has agreed to purchase a major natural gas pipeline in the Pacific northwest. TransCanada is an international leader in the construction of natural gas pipelines under harsh frontier conditions.

#### INTEREST IN THE ALASKA GAS PROJECT

TransCanada subsidiaries now hold the certificates to construct both the Alaskan and Canadian portions of the Alaska Natural Gas Transportation System. TransCanada has maintained and advanced the project in the last two decades and recently has undertaken several important steps to move the project forward in light of the urgent need for additional gas supplies in the Lower 48 states.

The Alaska Natural Gas Transportation Act (ANGTA), enacted in 1976, established mechanisms to select a transportation system to deliver Alaskan natural gas and to designate an entity to receive a certificate to construct and initially operate that system. In addition, ANGTA included provisions to expedite the construction process, including limited judicial and regulatory review processes. The route for the pipeline along the Alaska Highway was designated under ANGTA and both Chambers of the U.S. Congress and the State of Alaska have reaffirmed this selection by including prohibitions against alternative routes in recently passed energy legislation.

In the late 1970's, Canada and the United States signed an Agreement on Principles, entering into a bilateral treaty to govern relations between the two countries for the transportation of Alaskan gas to market via the system selected under ANGTA. The Canadian government enacted the Northern Pipeline Act (NPA) to implement the Canada-U.S. agreements.

An entity which is now wholly-owned by TransCanada was issued, pursuant to ANGTA, a certificate of public convenience and necessity to construct and operate the Alaska portion of the pipeline. TransCanada has maintained this certificate and, as discussed below, is prepared to work with the critical players—the North Slope Producers, the U.S. Government, the State of Alaska, Alaskan interests and consumers—to assure that the benefits of this certificate and associated rights can be harnessed to ensure the timely construction of the pipeline project.

TransCanada intends to build the Canadian facilities that connect the Alaska pipeline to U.S. markets, combining new facilities with existing facilities to create an economically attractive delivery system for Alaskan gas. Following a competitive hearing process that was held in the 1970's, the NPA issued the certificates of public convenience and necessity to construct and operate the Canadian portions of the pipeline to Foothills Pipe Lines Ltd. ("Foothills"), now wholly-owned by TransCanada. The first phase of the Alaskan gas pipeline in Canada, known as the "prebuild," was constructed by Foothills in the late 1970's at a cost of over one billion dollars, and has been expanded five times since to meet the needs of U.S. markets. The prebuild facilities now transport approximately 30% of Canadian exports to American markets.

Although changes in the North American natural gas supply and demand balance postponed the completion of the pipeline through Alaska and Canada, over the past 25 years the governments of Canada and the United States have preserved the pipeline treaty so that it remains in force today. Additionally, Foothills has steadfastly maintained the certificates issued to it by the Government of Canada to construct the remaining Canadian portions of the pipeline. Most recently, in November 2003, Canadian Prime Minister Chretien reaffirmed the benefits of proceeding under the framework contemplated under the bilateral treaty between Canada and the U.S. and Canada's intention to meet its commitments to facilitate the planning and construction of the Canadian portions of the project under the NPA.

Most recently, TransCanada has continued its efforts to move the project to fruition by signing a Memorandum of Understanding (MOU) with the State of Alaska designed to advance the development of the project. Under the MOU, TransCanada will file an application under Alaska's Stranded Gas Development Act and complete

its acquisition of necessary rights-of-way from the State. TransCanada also has agreed that, in order to encourage parties to reach the necessary commercial and regulatory agreements, it will convey the State right-of-way to any holder of a final FERC certificate to construct an Alaskan pipeline that interconnects with facilities that TransCanada has the right to, and will, build in Canada. TransCanada already holds the Federal right-of-way within the State of Alaska.

#### DEMAND FOR ALASKA GAS

TransCanada is wholeheartedly committed to this project. Canadian and U.S. experts have concluded that the total natural gas supply from traditional sources in Canada and the U.S. will be insufficient to meet projected growth in North American gas demand, particularly that of the Lower 48. Consequently, natural gas from frontier basins in Alaska and Canada's north are required within a decade, along with new liquefied natural gas (LNG) supplies, to ensure North America has adequate supplies of competitively priced natural gas.

Although there are several critical uncertainties that would affect the forecast of North American natural gas demand, including long-term growth rates of the U.S. and Canadian economies, the level of oil prices, the relative price of natural gas to other fuels, the effect of environmental policies such as the Kyoto Protocol, and the conventional natural gas supply response, inadequate natural gas supply could cause sustained high gas prices and negatively impact the North American economy over the long term.

TransCanada expects that gas supply from traditional U.S. and Canadian natural gas sources will decline by approximately 1 Bcf/d from 2002 through 2012, leaving a gap of approximately 13 Bcf/day to be filled by new sources of supply. Without new gas resources, natural gas prices could be expected to rise high enough to restrict gas demand and economic development.

We believe that natural gas from the Mackenzie Delta in Canada's north, Prudhoe Bay gas from Alaska and new sources of LNG are all required early in the next decade if North America is to have acceptable gas prices.

#### RISKS OF THE PROJECT

TransCanada strongly believes that the Alaska pipeline project is both necessary and economic. However, the project has unique risks that must be addressed through the appropriate allocation of risks among the interested parties—the producers, the owners of the pipeline, the State of Alaska, the Federal Government and consumers.

The Alaska pipeline will require the investment of billions of dollars in new facilities and the expansion of existing facilities. However, given the risks of construction and the risks of projecting commodity prices ten years into the future and beyond, significant challenges remain before the necessary commercial underpinnings for the project can be put into place. Important questions, such as the willingness of players to accept a portion of the completion and overrun risk and the burdens of long-term shipping and gas purchase contracts, remain unresolved today.

Important progress has been made in recent years in moving the project forward. The producers have engaged in an extensive and expensive study process to review the options and finances of a pipeline project. The producers also have sought Federal legislation that they state would enhance their willingness to proceed with the project. TransCanada has resolved issues related to historic costs in the Canadian portion of the project and has obtained a reaffirmation by the Canadian Government of its commitment to the U.S.-Canada treaty and the Northern Pipeline Act. As well, TransCanada has played an important role in facilitating the progress of the Mackenzie Valley pipeline project. Equally important, in discussions with the State of Alaska and others, most recently in the MOU executed with the State of Alaska, TransCanada has indicated its willingness to facilitate the construction of the Alaskan segment of the project, in addition to TransCanada's facilities in Canada.

#### THE PATH FORWARD

Based on TransCanada's own in-depth engineering studies, the Alaska Highway route designated under ANGTA continues to be the most economic and least risky route through Alaska to transport Alaskan gas to market. It avoids additional costs and delays by minimizing potential technology, environmental, and regulatory problems that could seriously delay the construction of the project in both Alaska and Canada. TransCanada's Alberta gas pipeline infrastructure currently has approximately 2 Bcf/d of spare capacity, and we forecast there could be an additional 2 Bcf/d of spare pipeline capacity at the time Alaskan gas is delivered to market. The utilization of this spare capacity could eliminate the need for any additional new pipe-

line infrastructure from Alberta to markets in the Lower 48 states. It would also allow for the serving of diverse markets in the U.S. The Alaska project is expected to initially transport 4.5 Bcf/d. Integration of the project into TransCanada's existing pipeline infrastructure in Alberta, which has a capacity of approximately 13 Bcf/d, will reduce the capital costs and cost overrun risks to complete the project from the Alaskan North Slope, reduce regulatory risks and minimize environmental and other societal impacts.

However, the owners of Alaska gas and the developers of the pipeline that will deliver that gas to U.S. consumers will not invest the hundreds of millions of dollars needed for the initial phases of the project, which will not produce cash flow for nearly a decade, unless they have an opportunity to earn a reasonable level of return on their investments. Shippers and investors need to be able to manage the risks inherent in constructing a project of this magnitude in frontier areas, but the private financial markets are unable to provide the tools necessary to adequately manage the unique risks of this project.

What is needed to solve this impasse, in the face of North America's critical demand for additional natural gas?

Ultimately, four critical groups—the North Slope Producers, TransCanada, the State of Alaska and the U.S. Government, must come together and develop an optimal mix of commercial and fiscal terms, under the framework of the existing U.S./Canada pipeline treaty and the Northern Pipeline Act. The final structure must result in the long-term commitment of North Slope gas supplies to commercially viable shippers, reasonable certainty with respect to both tariffs for shippers and returns to investors in the pipeline, acceptable conditions for the sale of gas by the producers, opportunities for in-state deliveries of natural gas, and conditions for the expansion of the pipeline under terms that encourage the development of new natural gas supplies in Alaska.

A key part of this process will be negotiations with the State of Alaska under the Stranded Gas Development Act. This process will help define the long-term fiscal and tax regime required to attract the producers to long-term commitments, whether for the sale of natural gas or as shippers, as well as some of the terms and conditions for the pipeline itself. The Federal Government will have a critical role to play in assuring that no single group is required to bear, in full, risks that are necessary to benefit the entire Nation. Of course, TransCanada will continue to work with the Producers and others on the necessary commercial terms and structures for the project.

#### CONCLUSION

Conventional sources of natural gas are projected to be insufficient to meet expected growth in natural gas demand in North America over the next decade. However, frontier gas sources already discovered in northern Canada and Alaska can be delivered to markets in the Lower 48 on competitive terms in this timeframe to meet forecasted demand. Specifically, Alaskan gas can be in-service by 2012 by moving along the Alaska Highway and across Canada under the existing Canada/U.S. treaty and the Northern Pipeline Act, then integrating with the existing North American pipeline grid in Alberta. Using the Foothills system under the Northern Pipeline Act in Canada will expedite the Alaska project, avoid a new round of negotiations between the U.S. and Canada, and provide maximum benefits to both countries.

TransCanada remains as committed to the project today as it has been over the past 20 years. Furthermore, TransCanada has taken the unprecedented step of indicating its willingness to transfer critical rights to the successful developer of the Alaska segment of the project as part of a project that is true to, and consistent with, the U.S./Canada pipeline treaty and TransCanada's rights within Canada. TransCanada hopes that its willingness to take this important step will encourage others to complete the process of developing the commercial, regulatory and statutory structure necessary to ensure the timely delivery of critical Alaskan gas supplies to North American markets. TransCanada believes that an appropriate allocation of risks can be developed that will ensure that no industry segment is asked to shoulder an unbearable economic burden and that consumers will, because of the price benefits of the introduction of new suppliers, pay lower rates than they otherwise would face.

TransCanada looks forward to continuing to work with the Producers, the State of Alaska, and the U.S. and Canadian governments to enable a viable project that adequately addresses the significant frontier construction and financial risks in Alaska in a manner that capitalizes on the efficiencies of utilizing current Canadian infrastructure. TransCanada's ability to expedite regulatory processes in Canada

under the NPA and its expertise as one of the world's leading pipeline companies provide a valuable component to the overall project.

Thank you for this opportunity to testify on the status of the Alaska natural gas pipeline. I would be happy to respond to your questions.

Mr. HALL. Thank you.

Mr. Carruthers?

#### STATEMENT OF JOHN CARRUTHERS

Mr. CARRUTHERS. Thank you, Mr. Chairman and members of the subcommittee for this opportunity to offer Enbridge's views on the recent developments.

Enbridge Inc. is a leading North American energy delivery company in both Canada and the U.S. with roots stemming back 150 years. We own Canada's largest gas distribution company and the world's longest petroleum pipeline extending from western Canadian through to the U.S. midwest. This crude system delivers over 1 million barrels per day to U.S. refiners serving roughly 10 percent of the United States imported crude supply. We own, or are major partners in over 10,000 miles of natural gas pipelines in the U.S. and Canada, and own 50 percent of the Alliance Pipeline.

As noted, last week Enbridge submitted an application to Alaska for approvals under the Alaska Stranded Gas Development Act signaling our intention to take a lead role to take a lead role in the creation of a consortium to drive this project to a completion. Enbridge is uniquely positioned to lead this effort. We have unequalled experience in pipelining north of the 60th as we built and operate the underground Norman Wells crude oil pipeline and the Inuvik natural gas system.

We are experienced in the building and maintaining underground pipelines in continuous and discontinuous permafrost, and through tribal communities.

Over the past decade, we have been involved with planning, permitting and construction of roughly 3,000 miles of new gas and liquids pipelines. Stakeholder consultation, construction cost management and comprehensive multi-jurisdictional environmental assessments are nothing new to us.

We are a financially healthy company with a sound reputation in the industry and among stakeholders, and we have a market perspective as we are the owner of the largest gas distribution system in Canada serving more than 1.7 million customers.

In other words, the proposal we put forth is built a carefully considered approach based on decades of experience and a full appreciation of the challenges ahead. We share the view of many others that a number of supply sources will be combined to meet rising demand, including incremental supplies from nonconventional production, the deep gulf, Rockies and new LNG plants.

Further, we believe that MacKenzie Valley Pipeline will be completed ahead of the Alaska gas pipeline, although we expect a significant portion of the MacKenzie gas will serve the energy needs of Alberta's production. And I think that's very important that MacKenzie continue to proceed from a Canadian support perspective.

Enbridge believes that the Alaska Natural Gas Project is a critical step beyond these measures, and that the time is now to drive the Alaska gas project to success.

Enbridge itself is proposing a more phased or measured approach to building the Alaska gas pipeline that we believe can have significant advantages, including faster initial gas delivery with a gain of 1 year, better opportunities for North American steel manufactures, less risky more predictable costs and greater expansion opportunity.

Enbridge proposes to take a lead role in implementing this measured approach through the alignment of stakeholder interests and a consortium of owners. We have proposed a pipeline from Prudhoe Bay south to a point near Fairbanks and then along the Alaska highway to Gordondale, Alberta where it would interconnect with existing pipeline infrastructure such as Alliance, TransCanada and Duke Energy Pipeline Systems now serving and expandable to deliver gas into the Lower 48.

Our phased approach would begin with construction with a buried 36 inch diameter pipeline providing 2.6 Bcf per day of initial capacity. The pipeline would then be expandable with the addition of more compressor stations and pipeline segments as dictated by both exploration and continental market demand to create an ultimate design capacity in excess of 5 Bcf per day.

We propose that the pipeline be an open access pipeline operated by an independent operator. This measured approach is subject to firm shipping commitments and a final plan developed by the consortium and we have estimated this phased concept to cost \$7.5 billion for the initial segment with an ultimate cost for the more than 5 Bcf per day estimated at 13.8 billion.

Upon kickoff the project can be in service in about 9 years.

The project includes some 1100 miles of new pipeline in Canada, and while certain approvals for the Canadian segment received some 25 years ago pursuant to the Northern Pipeline Act, the Act does not provide exclusive rights to build a pipeline. Enbridge would file applications under the National Energy Board and Canadian Environmental Assessment Act under a well developed Federal process with modern efficient environmental reviews and stakeholder consultation.

Our view is that a new application for the Canadian segment under the NEB and CEAA protocol would be the most efficient regulatory process with the least risk.

Several measures are key to ensuring momentum for this important project. First, critical to the enabling legislation including the loan guarantee should be enacted before Congress adjourns to reduce regulatory and financial risks.

Please note that our interest in this project is market driven and does not require price support or exclusivity. And in answer to a previous question, all our discussion with Canadian Federal and provincial governments indicate strong support for the development of Alaska natural gas, except for the production tax credit, and we anticipate they will ensure expeditious project development.

Second, Alaska needs to address the multitude of issues related to the fiscal impact on producers and taxes imposed on the project.

And finally, alignment of a consortium of owners and stakeholders including gas markets and their State regulators is necessary to proceed with procuring long term shipping commitments.

In short, Enbridge proposes a consortium and measured approach design that will provide significant advantages to shippers, consumers in the State of Alaska. The measured approach offers a more flexibility solution matching capacity to exploration's success and market demand. This results in less project risk, access to gas by consumers of up to one earlier, greater expansion capability and more competitive opportunities for U.S. and Canadian steel manufacturers.

Thank you for the opportunity to address you today. I am pleased to answer any questions that you may have on issues related to our proposal.

[The prepared statement of John Carruthers follows:]

PREPARED STATEMENT OF JOHN CARRUTHERS, ENBRIDGE INC.

Thank you Mr. Chairman, Ranking Member Boucher and Members of the Subcommittee and for this opportunity to present our views on the status of the Alaskan natural gas pipeline that will soon serve the energy needs of North Americans for decades to come.

*Introduction:* I have worked in the industry for over 20 years and during most of the last 5 years have focused my professional attention on North America and northern gas and energy development. Enbridge Inc. is a natural gas and petroleum transportation and distribution company based in Calgary, Alberta, Canada with U.S. headquarters in Houston, Texas. We have been in the energy business for over 150 years through our ownership of Canada's largest local gas distribution company based in Toronto. We operate the world's longest liquid petroleum pipeline transporting over 2 million barrels *per day* of western Canadian crude oil production with the majority of that supply feeding the Great Lakes refinery region. We deliver most of the crude oil refined in the states of some Committee members and, in all, deliver roughly 10% of the United States' imported crude supply. We own or are involved with close to 12,000 miles of natural gas gathering and transmission pipelines, including our 50% ownership in the Alliance Pipeline.

*Enbridge Role in Alaska Natural Gas Pipeline:* On April 30, 2004 Enbridge Inc. submitted an application to the Alaska Department of Revenue for approvals under the *Alaska Stranded Gas Development Act*. This application signaled Enbridge's intention to take a lead role in the creation of a consortium that will pursue the opportunity to plan, permit, build and operate the Alaska natural gas pipeline. Enbridge believes the time is now appropriate to further develop this project and has invested significant expertise and resources to framing a proposal to drive this pipeline to completion.

Enbridge is uniquely positioned to lead this effort. In addition to our extensive background operating large diameter transmission systems, we have unequalled experience in pipelining north of the 60th parallel through our ownership of the underground Norman Wells crude oil pipeline and the Inuvik natural gas systems. We have been involved with planning, permitting and environmental assessments of roughly 3,000 miles of newly constructed large diameter gas and liquid pipelines built over the last decade, gaining significant perspectives and expertise on the regulatory environments in the U.S. and Canada, including projects requiring major international, provincial and state border crossings. These projects have solidified our experience in stakeholder consultation and approaches required to minimize the affects of a large project on the environment and the community. Enbridge has a solid reputation with stakeholders and has a net worth of \$4.1 billion (Canadian) with another \$1.3 billion (U.S.) added through our sponsorship of the U.S.-based Enbridge Energy Partners, L.P.

*Enbridge Experience in Northern Pipelining:* The proposed pipeline route starts in continuous permafrost and then gradually transitions into sporadic pockets of discontinuous permafrost, found first in low-lying areas and eventually becoming more prevalent in southern sections of the pipeline. The discharge gas from the compressor stations located in permafrost regions will be cooled to mitigate potential impacts on pipe and soil. Based on our extensive northern experience, we emphasize

that the challenges of constructing an underground pipeline in permafrost and discontinuous permafrost should not be underestimated.

To further update our knowledge gained during our construction of the Norman Wells liquid pipeline in the mid-80's and the Inuvik Gas Project five years ago, Enbridge has participated in a study and field trials in Alaska to examine the state-of-practice trenching in permafrost terrain. The objective of this study and subsequent field trials was to identify parameters that limit and control trenching productivity in permafrost terrain and arctic conditions. The field trials were conducted in Prudhoe Bay and Fairbanks, Alaska using two chain-type trenchers. BP America Inc. has coordinated both the studies and the field trials. Enbridge headed the analysis of the field trial data and correlation of the study findings. While there were other parties participating in the trencher studies, only BP and Enbridge were common to both the study and the field trials involving the trenchers. This data gained in these studies will be of significant value to the development of the pipeline system. The ability to predict trenching progress will enhance project cost estimating accuracy. Incorporating this information early in the design process will result in reduced project cost risk and a reduction in the potential for rework.

*Now is the Time to Initiate the Alaska Natural Gas Pipeline:* Mr. Chairman and members, many of you have heard testimony over many years on the means of meeting America's energy demand for this century. The Energy Information Administration has been before this body and will no doubt continue to reinforce the environmentally friendly role natural gas will play in meeting demand expected to rise to over 30 trillion cubic feet per year by 2012. Each of you represents consumers who have been faced with energy bills that have stretched the average American's budget. We all have an interest in participating in the success of this and other projects that will meet this demand, assure reliable supply and stable prices.

To be clear, Enbridge believes that there are a number of required solutions to meet this demand. We are, in fact, involved in northern Texas in several transportation projects that will deliver production from non-conventional supplies of gas shales and tight gas sands. Enbridge is closely monitoring developments and new Liquefied Natural Gas (LNG) plants that we expect will soon play a significant role in replacing waning supplies from conventional domestic U.S. production. And we are actively seeking business opportunities to build the additional pipeline infrastructure needed once supplies from the Rockies are further developed. Each of these efforts, along with development in the deep Gulf of Mexico are important incremental steps and have been the subject of prior testimony before this Committee.

We also expect the Mackenzie Valley natural gas pipeline project will proceed ahead of an Alaskan project, although a significant portion of that incremental supply will be used to meet the energy needs of Alberta's oil sand production projects.

Assuring incremental supply from each of these projects presents its own challenges, but nevertheless, it will not be sufficient to assure North America's energy independence and supply predictability needed for the future.

Enbridge believes that the Alaskan natural gas project is the next step beyond Mackenzie Delta, LNG and non-conventional natural gas supplies and the time is ripe to drive the Alaskan gas project to success over the next decade.

*A Measured Approach:* Enbridge is proposing a phased or "measured approach" to building the Alaska Gas Pipeline which we believe has significant advantages including faster completion of construction and initial gas delivery; more opportunities for North American steel manufacturers, pipe plants and contractors; more predictable costs, and lower transportation tolls and shipping commitment risks.

Over the past several years, Enbridge has engaged in several efforts to better understand the market drivers for the Alaska natural gas project. We have invested considerable resources to identify what we believe is a project that is responsive to continental North American natural gas demand. We believe that our measured approach will provide the best benefits to producers, explorers, the state of Alaska, the people of Alaska, North American steel manufacturers, consumers and stakeholders located in proximity to the proposed route.

Enbridge proposes to take a lead role in forming a consortium of owners. The Project will require producer and market support and a strong alignment of key stakeholders to manage the risk that a project of this size and scope will present.

We propose the "southern route" starting in Prudhoe Bay, through Alaska and the Yukon to Gordondale, Alberta. More specifically, the Alaska Segment would follow the existing Trans Alaskan Pipeline System right-of-way from Prudhoe Bay to Fairbanks, Alaska. From this point, the proposed natural gas pipeline would generally follow the Alaska Highway to the Canadian border. The Canadian Segment of the pipeline would continue to follow the highway to Fort Nelson, British Columbia and then on to Gordondale, Alberta where it would interconnect with existing pipeline infrastructure, such as Alliance, TransCanada, and Duke Energy pipeline systems.

As well, subject to regulatory, technical and economic conditions, Enbridge would facilitate access at appropriate locations along the pipeline to accommodate local gas distribution development.

Enbridge proposes that the consortium of owners would develop the Canadian segment of the pipeline concurrently with the Alaskan portion of the project.

Enbridge proposes that the Project, including the Alaska Segment be developed in phases. The proposed initial development would consist of a buried 36-inch diameter natural gas pipeline system and related facilities. The initial capacity of the proposed project will be 2.6 billion cubic feet per day and would be expandable as dictated by exploration and continental market demand. The buried pipeline would operate at approximately 2,500 psi with compressor stations located at appropriate intervals along the line. Expansion could be accomplished through construction of additional compressor stations and incremental segments of a second pipeline (referred to as "looping"), if required, to create an ultimate design capacity in excess of 5 Bcf/day. The pipeline would provide take-away capacity for natural gas reserves located both within and outside of the Alaska North Slope region. Final details of line size, operational pressure, and planned buildup will be developed through extensive dialogue with producers, consortium owners, explorers and shippers and detailed design work.

A key advantage of specifying smaller diameter pipe materials is that U.S. and North American pipe mills will have a better ability to manufacture pipe of sufficient specifications. Availability of pipe from both local and offshore suppliers will sharpen competition and provide greater opportunity for the U.S. and North American industry, and improve the Project schedule that will deliver Alaskan gas to consumers quicker.

A 48-inch diameter or larger pipeline would, in our view, take about one year longer to deliver gas to market and reduce the involvement of North American suppliers and contractors. While feasible, (Enbridge operates both liquid and natural gas pipelines of this diameter), our view is the phased-in approach better aligns the large new supply of gas with the market demand.

The initial phase will provide take-away capacity of 2.6 Bcf/day and is estimated to cost \$3.3 billion for the Alaska Segment and \$4.2 billion for the Canadian segment. Enbridge has estimated the eventual cost of this conceptual design (i.e. with capacity expanded to exceed 5 Bcf/day) for the entire project to be \$13.8 billion in 2004 dollars. These costs are sensitive to the price of steel to make the pipe that has been recently driven higher by tight worldwide supply. Costs could be different once shipping commitments are made and detailed design and routing work is complete. However, the measured approach is more flexible, enabling capacity to be closely matched to exploration success and market requirements.

A long-term commitment will be required to align interests and commercialize the pipeline. Enbridge has a history of developing and embracing unique commercial arrangements that benefit both shippers and developers. Enbridge will proceed to develop the commercial phase of the project as expeditiously as possible. An in-service pipeline in nine years from project kick-off is a reasonable expectation.

The Project includes some 1,100 miles of new pipeline in Canada. While other pipeline companies received certain approvals for the Canadian segment some 25 years ago pursuant to the *Northern Pipeline Act*, that Act does not provide exclusive rights to build a pipeline. For the Canadian segment, Enbridge would file application with the National Energy Board (NEB) and Canadian Environmental Assessment Agency (CEAA) under a well-developed federal process as well as other regulatory bodies with jurisdiction. Following the NEB's and CEAA's comprehensive project review procedures, Enbridge's proposal will ensure that the Project is subject to modern and efficient environmental assessment and regulatory processes. Moreover a precursor to any application for the Canadian segment will be consultation with First Nations and other aboriginal communities and stakeholders. Our view is a new application under the NEB and CEAA protocol would be the most efficient regulatory process with the least risk. Addressing Canada's environmental and regulatory process efficiently will provide the foundation for developing the project in a timely manner while mitigating unnecessary risk.

Enbridge expects that capacity on the both the Alaskan and Canadian segments of the pipeline will be marketed and subscribed on an open-access, non-discriminatory basis. The proposed pipeline will therefore be available to transport all Alaskan gas supplies that meet standard posted tariff conditions and quality requirements. As an operator of thousands of miles of common-carrier transmission pipeline, we believe that a consortium of owners with an independent operator will best serve the interests of all producers and explorers in the region and North American consumers.



*Factors for Success:* Several issues are key to ensuring the momentum for this important major project continues.

To stay commercially viable, natural gas prices must remain above historical price levels. While that may not seem to be a major concern in light of recent pricing, the influx of non-conventional and LNG supply and the portion of MacKenzie Delta gas delivered to the Lower 48, together with possible demand destruction may serve to offset the recent tight supplies and higher prices we have seen in the last few years.

Secondly, Enbridge believes that the current provisions in the Energy Bill (H.R. 6) regarding Alaska gas are a necessary precursor to this project. The federal loan guarantees and accelerated depreciation serve to reduce financial risk. The provisions on regulatory review significantly reduce the risks of extensive delays or judicial reviews faced by so many projects in the lower 48. We urge you to continue the hard work invested in the Energy Bill and assure that at least these provisions are enacted before Congress adjourns.

Thirdly, the state of Alaska must actively participate to address the multitude of issues related to fiscal impacts on producers as well as state provisions for income, property, sales and inventory taxes. These are very significant issues that must be addressed to mitigate the impact of these material costs on the economics of the Project.

Next, Enbridge is prepared to lead a collaborative approach with producers, Alaska, market participants and qualified investors such as Native Corporations and others to form a consortium that could take on a project of this size. Enbridge is prepared to take a significant equity interest in this consortium.

While not a matter before the Energy and Commerce Committee, Enbridge believes that settlement of aboriginal land claims in some regions in Canada would expedite an Alaska Highway Pipeline Project and would more clearly clarify consultation and participation processes for aboriginal communities. However, we believe that the current National Energy Board and other regulatory processes in place in Canada are sufficient, without the need for new legislation.

And finally, a decision on Enbridge's measured approach by a consortium is necessary to proceed with procuring long-term commitments from shippers for pipeline capacity.

Once these issues are behind us, the project could then start and be completed within about nine years.

*Summary:* In short, Enbridge's proposed consortium and "measured approach" design will provide significant advantages to shippers, consumers and the State of Alaska. Increased competition by pipeline suppliers will reduce the cost of the pipe and provide jobs for U.S. and North American plants. The measured approach offers a more flexible solution, matching capacity to exploration success and market demand. This results in reduced transportation tolls, less project risk, access to gas by consumers up to a year earlier and significantly longer construction job opportunities.

Thank you for the opportunity to address you today and I hope I have helped in your understanding of new developments on the Alaska gas pipeline Project. I am pleased to answer any questions you may have on issues related to this Project.

Mr. HALL. Mr. Carruthers, thank you very much.

We now hear from Ken Konrad, Senior Vice President, Alaska Gas BP Alaska.

You can take the time you need. We would like for you to stay as close to 5 or 6 minutes as you can, and then we will open it with questions, okay? Recognize you at this time. Thank you for being here.

#### **STATEMENT OF KEN J. KONRAD**

Mr. KONRAD. Sorry I was a little late getting here. I was catching a slice of pizza.

Anyway, thanks for the opportunity to be here.

I would like to begin by saying the North American gas market is extremely important to BP. We are currently the largest natural gas producer and holder of reserves in North America, and we are investing heavily in mature basins trying to offset decline.

We are also investing \$15 billion in the deeper water Gulf of Mexico creating new supplies of domestic oil and gas to serve American consumers. And we are also actively pursuing numerous plants to increase LNG supplies to the U.S. And, of course, we have significant interests in stranded gas in Alaska and also in Canada.

We believe Alaska gas has the potential to play a major role in supplying significant volumes of gas to the North American market in the decades ahead. Government and industry experts agree that the North American supply situation is increasingly tenuous. Traditional supply basins will not meet projected demand in the coming years and additional supplies are very clearly needed. It is further agreed, absent policies that support and encourage new supplies from a variety of diverse sources, the gas market may be forced to balance in undesirable ways. This may include higher natural gas prices resulting in further demand destruction and/or fuel substitution into heavier fuels such as coal or oil.

Alaska is blessed with enormous natural gas resources and 35 trillion cubic feet has already found. I might add that that has been found while industry has been looking for oil, not gas. So it is sort of by accident. Government studies estimate 100 tcf or more may be added to that figure. However the gas is remote and very expensive to transport to U.S. markets 3500 miles away.

Since the discovery of Prudhoe Bay, industry and governments have searched for a commercially viable way to move this stranded gas to market. BP has participated in nearly all of those studies. However, to date, none of these efforts has identified a commercially viable project. In the meantime, the gas has been conserved and put to good use. All gas produced from fields on the North Slope is re-injected into reservoirs to aid recovery. Over the years billions and billions of dollars have been invested to increase gas-handling capability and to manufacture enhanced oil recovery solvents to increase oil production. Through these investments over the years, an additional three billion barrels of domestic reserves have been realized.

In 2001 and through early 2002, Alaska's North Slope Producers BP, ConocoPhillips and ExxonMobil conducted a feasibility study for an Alaska gas pipeline, investing one million man-hours of work and \$125 million, to study in detail many aspects of the project. The project was estimated to cost on the order of \$20 billion and would be the largest private sector investment ever. And I might add, that we looked at all aspects of the project, not just a pipe from here to there, but included the gas treatment plant, pipes in Alberta, evacuation systems natural gas liquid processing facilities; all the infrastructure that is going to be needed to develop this resource.

It is the enormous scale of this project that magnifies the risks and inhibits the attraction of investment capital. The risks are several, but they include cost overruns, regulatory and fiscal risks, market risk, commercial risk, to name a few. Any one of these alone could severely damage an Alaska project, and need to be in some way mitigated in order to have confidence to move forward to the next phase.

But it is also the enormous scale of the project that generates significant interest and benefits to North American consumers and

governments. For example, 4 bcf a day or more of supply into North American markets for decades to come. Hundreds of thousands of direct and indirect jobs across North America.

A secure supply of domestic energy and the associated balance-of-trade benefits and \$90 billion of direct U.S. Federal tax revenues over the life of the project.

The feasibility study that I referenced earlier concluded that the project was certainly technically feasible but not currently economic given that the project risks outweighed the prospective rewards, preventing the project from attracting investment capital. BP has identified progress across four key areas as necessary in order to advance the project to the next phase of activity:

No. 1: Cost reductions to help improve project returns; No. 2: Passage of U.S. legislation; No. 3: Developing a fiscal contract with the State of Alaska; and Number Four: Establishing a clear and predictable regulatory process in Canada.

And I will take a few moments to explain a little bit more each one of those. First cost reductions.

Lower costs means higher returns, higher probability of the project moving ahead. BP has made good progress maturing new technologies and improved designs that we believe hold promise in reducing project costs. We certainly intend to validate these potential savings as we enter the next phase of engineering.

Second, passage of U.S. Federal legislation including key regulatory and fiscal measures.

I would like to thank this committee for adopting the Alaska gas pipeline regulatory provisions contained in H.R. 6, and in particular the provisions that were passed by this committee that we think are superior to any of the other provisions that have been previously considered in the Senate or actually that came out of conference. So I would thank this committee for that.

These regulatory provisions, coupled with the fiscal provisions considered in the Senate, if passed, would significantly increase the probability of a project advancing to the next stage of engineering and permitting. And that phase itself would require about nearly a billion dollars to conduct further engineering and permitting activities.

Third, a fiscal contract with the State of Alaska that provides clear and durable fiscal framework. Investors need to know with certainty what the terms and conditions are before investing billions of dollars, not after.

In the spring of 2003, I'm pleased to say the State of Alaska passed legislation enabling the negotiation of fiscal terms for a gas pipeline project. BP, along with ConocoPhillips and ExxonMobil, are in active negotiations with the State of Alaska to develop a clear and durable contract that enhances the economics of the project. Both the State and the producers are working hard and are hopeful a contract can be developed in the near term.

Fourth, establishing a clear and predictable Greenfield regulatory process in Canada that meets the needs of a modern day project and broadly matches the time lines identified in the proposed U.S. legislation. Federal Working Group in Canada is currently working on this process and we believe good progress is being made, nonetheless their focus right now is predominately

Mackenzie Valley project, and they are certainly looking to the U.S. to pass legislation as a signal of U.S. interest in the project.

Although progress has been made across all four of these fronts, we cannot yet declare a victory on any of the necessary government frameworks. Nonetheless, we remain very hopeful that success can be achieved in the near term.

We are often asked how long it will take to deliver gas to consumers once the necessary government frameworks are in place. And I always begin with the caveat: This is a very, very large, very, very, very large and difficult project, and it is impossible to predict perfectly when everything will occur. The next major phase of this project alone will require a \$1 billion commitment for engineering and permitting and in itself will take several years. Assuming that phase is successful and final cost estimates support proceeding to construction, gas could be flowing in 9 to 10 years.

In summary, we believe that natural gas from Alaska's North Slope can play a key role in meeting the future needs of North American consumers, but only if the project risk/reward balance supports the attraction of investment capital. Public policy in the U.S., Canada, and Alaska will have a significant impact on that risk/reward balance, and we will be evaluating the project and our next steps in light of government decisions.

We remain intently focused on identifying a commercially viable Alaska gas pipeline project. It is one of the most significant gas development opportunities in our portfolio. And I think to echo what Senator Murkowski said earlier, it is a project with enormous intrinsic merit. It has got win/win/wins all over it.

We welcome the opportunity to provide policymakers with information and perspectives regarding the project.

Mr. Chairman, thank you. I would be happy to answer any questions.

[The prepared statement of Ken J. Konrad follows:]

PREPARED STATEMENT OF KEN J. KONRAD, SENIOR VICE PRESIDENT FOR ALASKA  
GAS, BP ALASKA

Mr. Chairman and Members of the Subcommittee, I am Ken Konrad, Sr. Vice President for BP Alaska and am responsible for BP's development and commercialization activities for Alaska North Slope gas.

Thank you for the opportunity to provide the Subcommittee with BP's perspective on the Alaska gas pipeline project.

I would like to begin by saying that the North American natural gas market is extremely important to BP. Here are a few reasons why:

- We are currently the largest natural gas producer and reserves holder in North America.
- We are investing \$15 billion in the Gulf of Mexico to supply domestic oil and gas to U.S. consumers.
- We are actively pursuing plans to increase LNG supplies to the U.S.
- We have significant interests in "stranded gas" in Alaska and also Canada.

We believe Alaskan gas has the potential to play a major role in supplying significant volumes of gas to the North American market in the decades ahead.

NORTH AMERICAN SUPPLY SITUATION

Government and industry experts all agree that the North American supply situation is increasingly tenuous. Traditional supply basins will not meet projected demand in the coming years and additional supplies are clearly needed.

It is further agreed, absent policies that support and encourage new supplies from a variety of diverse sources, the gas market may be forced to balance in undesirable ways. This could include higher natural gas prices resulting in further demand de-

struction and/or fuel substitution resulting in greater reliance on heavier fuels such as coal or oil.

Northern Alaska is blessed with enormous natural gas resources and 35 trillion cubic feet of gas already discovered (while looking for oil). Government studies estimate 100 TCF or more may be ultimately recoverable, however the gas is remote and expensive to transport to major U.S. markets—3500 miles away.

#### HISTORIC EFFORTS TO COMMERCIALIZE ALASKA GAS

Since the discovery of Prudhoe Bay in 1968, industry and government together have searched for a commercially viable way to move this stranded gas resource to market. However, to date, none of these efforts has identified a commercially viable project.

In the meantime, the gas has been conserved and put to good use. Gas produced from fields on the North Slope is re-injected into reservoirs to aid oil recovery. Billions of dollars have been invested over the years to increase gas-handling capability and to manufacture enhanced oil recovery solvents that increase oil production. Through these investments, an additional three billion barrels of domestic oil reserves have been realized.

#### ALASKA GAS PIPELINE PROJECT OVERVIEW

During 2001 and early 2002, Alaska's North Slope Producers (BP, ConocoPhillips and ExxonMobil) conducted a feasibility study for an Alaska gas pipeline, investing one million man-hours and over \$125 million, to carefully study many aspects of the project.

In total, the project was estimated to cost on the order of \$20 billion and would be the largest private sector investment ever.

Project risks and benefits:

It is the enormous scale of this project that magnifies the risks and inhibits the attraction of investment capital. These risks include cost overruns, regulatory and fiscal risks, market risk and commercial risk, to name a few. Any one of these alone could severely damage an Alaska gas project, and each needs to be mitigated in order for BP to have sufficient confidence to move forward to the next phase of activity.

It is also the enormous scale of the project that generates significant benefits to North American consumers and governments. Some highlights include:

- 4+ bcfd of supply for North American consumers for decades to come
- Hundreds of thousands of direct and indirect jobs over project life
- A secure supply of domestic energy and the associated balance-of-trade benefits
- ~\$90 billion of direct U.S. federal tax revenues assuming the U.S. EIA price forecast

#### NECESSARY STEPS TO ADVANCE TO NEXT PHASE

The feasibility study that I referenced earlier concluded that the project was technically feasible but not currently economic. Project risks outweighed prospective rewards, preventing the project from attracting investment capital. BP has identified progress across four key areas as necessary in order to advance the project to the next phase of activity.

1. *Cost reductions to help improve project returns*
2. *Passage of U.S. federal legislation.*
3. *Developing a fiscal contract with the State of Alaska*
4. *Establishing a clear and predictable regulatory process in Canada*

Let me briefly explain each:

- *First, cost reductions are needed to help improve project returns.* BP has made good progress maturing new technologies and improved designs that we believe hold promise in reducing project costs. We intend to validate these potential savings as we enter the next phase of engineering.
- *Second, passage of U.S. federal legislation including key regulatory and fiscal measures.* I would like to thank this committee for adopting the Alaska gas pipeline regulatory provisions contained in HR6. Those provisions, in our opinion, provide the greatest regulatory clarity of any of the various versions considered over the past several years. These regulatory provisions, coupled with the fiscal provisions considered in the Senate, if passed, would significantly increase the probability of a project advancing to the next stage of engineering and permitting—which would mean the project sponsors spending nearly a billion dollars to conduct preliminary engineering and permitting activities.

- *Third, a fiscal contract with the State of Alaska* that provides a clear and durable fiscal framework is needed. Investors need to know with certainty what the terms and conditions are before investing billions of dollars, not after. In the spring of 2003, the state passed legislation enabling negotiation of fiscal terms for a gas pipeline project. BP, along with ConocoPhillips and ExxonMobil, are in active negotiations with the State of Alaska to develop a clear and durable contract that enhances project viability. Both the state and the producers are working diligently through this process and are hopeful a contract can be developed in a timely manner.
- *Fourth, establishing a clear and predictable Greenfield regulatory process in Canada* that meets the needs of a modern day project and broadly matches the timelines identified in the proposed U.S. legislation is also needed. A Federal Working Group in Canada, composed of key federal agencies, is currently working on such a process, although a key priority in Canada remains progressing the Mackenzie Delta pipeline. While the Canadian Government is actively considering a regulatory framework to help the Alaska gas project advance, they are clearly looking towards passage of U.S. legislation to confirm U.S. interest in the project.

Although progress has been made across all four fronts, we cannot yet declare success on any of the necessary government frameworks. Nonetheless, we remain hopeful success can be achieved in the near term.

#### HOW LONG WILL IT TAKE?

Mr. Chairman, I am often asked how long it will take to deliver gas to consumers once the necessary government frameworks are in place. My response always begins with the following caveat. This is a very, very large and difficult project, and no one has the perfect crystal ball. The next major phase of this project alone will require a nearly \$1 billion commitment for detailed engineering and permitting and will itself take several years. Assuming this phase is successful and final cost estimates support proceeding to construction, gas could be flowing 9-10 years after entering the next phase.

In summary, we believe that natural gas from Alaska's North Slope can play a key role in meeting the future needs of North American consumers, but only if the project risk/reward balance supports the attraction of investment capital. Public policy in the U.S., Canada, and Alaska will have a significant impact on the risk/reward balance, and we will be evaluating the project and our next steps in light of government decisions. We remain intently focused on identifying a commercially viable Alaska gas pipeline project—it is one of the most significant gas development opportunities in our global portfolio. We welcome the opportunity to provide policymakers with information and perspectives regarding the project.

Mr. Chairman, thank you again for the opportunity to appear. That completes my testimony. I'd be happy to answer any questions.

Mr. HALL. Well, thank you.

We thank you three for being willing to come and testify. Not everyone that we talk to evidenced a real great desire to do that, and we thank you and thank you for the time you spent with us preparatory to this.

It seems to me that TransCanada owns the right-of-way, Enbridge has about half of the Alliance Pipeline to Chicago and BP has what? Twenty-eight percent of the gas on the North Slope with ExxonMobile and ConocoPhillips having the other. But your big problem how to share the risk on making it all happen. Is that the major question that you have?

Mr. KONRAD. Well, I think two elements. One is raising the returns of the project.

Mr. HALL. Is what now?

Mr. KONRAD. Well, risk and reward. If a project has high perspective returns, you can tolerate risk.

Mr. HALL. Oh, yes.

Mr. KONRAD. And if it has high risk, you need higher returns.

Mr. HALL. You think BP would tolerate all the risk then and take a—

Mr. KONRAD. No, I do not think so. This is a challenging project and it is going to take, I believe and as I tried to say in my testimony, a partnership of the U.S. Government, Canadian government the Alaskan government and the three major producers and potentially pipeline companies joining as well provided they are prepared to add value and take some risk. So it is going to take everyone rolling in the same direction.

Mr. HALL. Yes, I was facetious with you. I did not think you were going to lay it right on the table there. But I do not know, it seems like if we ever figure out how; it is such a worthwhile project that can just absolutely save this country and give us energy wise that means all those signs around nuclear plants “no nukes can say no wars” if we could solve what you all are here giving us testimony.

And you all heard the testimony today of Chairman Wood and the Senator. So Mr. Konrad in your testimony you said that BP, ConocoPhillips and ExxonMobile—by the way, you are the ones that can or break this, are you not? You feel that position?

Mr. KONRAD. Most of the risk inevitably is going to fall on the shippers of the gas or the producers. That is just the nature of the industry.

Mr. HALL. Yes. In your testimony you say BP, ConocoPhillips and ExxonMobile are in active negotiation with the State of Alaska, “to develop a clear and durable contract that enhances project viability.” And I guess that means a pipeline?

Mr. KONRAD. Exactly.

Mr. HALL. And is that in direct competition with TransCanada or Enbridge?

Mr. KONRAD. I do not know that it is in direct competition. What we are trying to do with the State of Alaska is to—the nature of the fiscal regime in Alaska is that the producers pay the taxes whether severance tax, royalty, income tax, or even the taxes on the pipeline. Any taxes paid by the pipeline are passed through to the shippers. So the producers are taking that risk and we are looking to get into a binding durable agreement with the State of Alaska. And we have actually asked Alaska that any terms that we agree regarding the pipeline itself, that those be transferrable to any party. So we have encouraged a wide opened playing field.

Mr. HALL. Yes. Your appearance here helps us get the attention of the United States, of the Congress and of this committee. Are there any seemingly insurmountable hurdles that you have with the Canadian government?

Mr. KONRAD. No, I do not believe so. I think they are looking to—

Mr. HALL. They want it, they support it?

Mr. KONRAD. They have consumers just like the U.S. does. They have people that want jobs just like the U.S. does. They enjoy the notion of energy security.

I think they do have a priority to see MacKenzie gas flowing first, and we are supportive of that. But if that falls into place, I think the Canadian government will do what is needed, absolute.

Mr. HALL. And Mr. McConaghy, you and gave us a good preliminary look at this earlier. The producers have spent a lot of money on a feasibility study concerning the project. And I think you mentioned it your testimony. That study said that the project’s cur-

rently uneconomic, but your testimony indicates that the project is economic. Do you want to address that Mr. McCONAGHY. Yes. I think the issue is how, as you mentioned a few minutes ago, is the inherent risks of this project going to be allocated amongst the parties that have to assume that risk. And that is going to, as Mr. Konrad noted, principally going to fall to the shipper of the gas, and that is most likely to be currently the producers of the North Slope, the three firms that you cited.

The final landing of what pipeline terms, what the State fiscal issues and whatever is done by the U.S. Congress in terms of risk mitigation, all of those elements will come together and have to still come together to determine what is the right landing on risk mitigation that will actually take a project which we believe is today a project that is economic, can move forward provided each of the private sector participants feel that the amount of risk that they are being asked to bear is responsible or them to do so.

And I would go on to say that another risk that is inherent in this project is the risk of the regulatory process itself and any other interventions that parties make which all goes to trying to take advantage of those existing elements both of infrastructure and of existing statute that minimize the prospect that this project has major hurdles either in the hearing room or in other venues if all the appropriate stakeholders can't be accommodated.

Mr. HALL. I thank you. I am about 41 seconds over my time.

So I recognize Mr. Strickland for questions.

Mr. STRICKLAND. Thank you, Mr. Chairman.

And I want to thank those of you who have testified.

I was sitting here listening thinking of a hearing we had not many weeks ago, and Mr. Greenspan was with us talking about the current situation with natural gas supplies and pricing in this country. And he, quite frankly, told us he saw no short term answers.

And as you talk, I think at least two of you have indicated that you think there may be a possibility if this were to move forward of the completion and having supplies available in this country in around 9 years. Is that assuming that we are going to start tomorrow or when would the actual work have to begin in order to have supplies available within 9 years in your judgment?

Mr. KONRAD. In our judgment it would be 9 to 10 years from the completion of the government frameworks that we have talked about, the U.S. legislation, signed executed contract with the State of Alaska where we are making good process and the regulatory process in Canada, which I think can be done fairly expeditiously once they see a signal from the U.S. Government.

When the gun goes off there, in our view, it would be 8 to 10 years if everything clicked pretty well.

Mr. STRICKLAND. Do the others of you concur with that?

Mr. CARRUTHERS. That would be consistent with our view, and we would see that you could have a loopline system available 1 year earlier than a larger single system.

Mr. STRICKLAND. Mr. Carruthers, I was intrigued by what you said regarding the measured approach. You indicated faster completion of construction, a faster initial gas delivery, more opportunities for American steel manufacturers; I am especially interested



hearing your rationale there, pipe plants and contractors, more predictable costs, lower transportation costs and so on.

Can you specifically say why you believe your approach would make more opportunities for American steel producers likely?

Mr. CARRUTHERS. Yes. And we are really driven looking at that process in terms of a consistent theme in terms of risk reduction. And we would see that—and so if I can get back to it, in terms of there's a huge known resource of 35 tcf, which would support over a 30 year period about 3 Bcf of pipeline commitments. So we were thinking that it may be better to take a more measured approach to match that volume, because we were not sure who would step up the additional capacity. But in that when you look at 36 system, there is more capacity in North America for mills to manufacture that, particularly because of the wall thickness. So at a 52 inch over 1 inch wall thickness it is very little, if any, capacity in North America to manufacture that, where at a 36 inch system that is available in North America so they could compete for that.

Mr. STRICKLAND. So my understanding is that the piping for the oil pipeline can primarily from Japan, is that correct?

Mr. CARRUTHERS. Historically people would have looked at sources over the world in terms of North America, Germany and Japan in particular for sourcing their steel. Depending on the size, they could all be competitive for that.

Mr. STRICKLAND. Excuse me for interrupting, but so would all three of you concur that with one 52 inch pipeline it would be unlikely that American steel companies would be able to compete because they do not have the capacity for that kind of production? Am I hearing your opinion correctly?

Mr. CARRUTHERS. That would be our opinion that without significant investment, which we did not think was likely, that is correct.

Mr. STRICKLAND. Do the others—

Mr. MCCONAGHY. I think we would be of the view that there is still a reasonable case that a 48 inch pipeline which helps improve the overall economies of scale is still more likely the appropriate pipe sizing, particularly for future expansion opportunities. And that is within the capacity of North American—some North American steel manufacturing facilities.

Mr. STRICKLAND. So the Alaska Oil Pipeline is what? Forty-eight?

Mr. KONRAD. The taps line is 48 inch, but it is thinner wall thickness, yes.

Mr. STRICKLAND. And so what you are talking about is a thicker—

Mr. KONRAD. The designs that all of us are contemplating is modern day gas pipeline design which is higher pressure, which means more wall thickness. As Dennis alluded to, the pipelines are kind of the ultimate economies of scale type of construction. You can build it this big and it costs so much, and you can add a few inches and your unit costs or the cost per mcf to transport it goes down quite dramatically. So like John indicated, and we have looked at that design in quite a bit of depth. It is smaller diameter and it is probably because of that, slightly lower risk. But the tariffs, if you will, or the unit cost to transport the gas tends to be

higher. And that is why we do not—the whole challenge of this project is getting the tariff.

The market is there, the gas is there. The whole project is doing it, getting it from A to the consumer at the lowest tariff. And we think that a large diameter line does that most effectively.

Mr. STRICKLAND. Mr. Chairman, can I just make a concluding comment, and I will be very brief?

Mr. SHIMKUS [presiding]. You may.

Mr. STRICKLAND. The problems of getting the Congress to agree on anything I think involves self interest on the part of those of us who are a part of the Congress. And it seems to me that as someone who is concerned about and from a steel producing region that to have the opportunity for American steel companies to be a vital participant in the production of the materials for this pipeline could go a long way toward really causing an excitement amount many of us who are concerned.

I understand that is an esoteric, some might even say narrow or self interested point of view, but it is one that I think to me and I think to many others could be very important.

Thank you, Mr. Chairman.

Mr. SHIMKUS. The Chair now recognizes my colleague from Maine.

Mr. ALLEN. Thank you, Mr. Chairman. And thank you for holding this hearing.

I have just a couple of questions for all three of you. First of all, the Senate just took up the energy bill and turned it down for a second time. The legislation is ont likely to move again this year. Do you have positions breaking out—well, I would argue out the electricity reliability provisions or the natural gas pipeline provisions as separate legislation? Would that be helpful to you?

Mr. KONRAD. Well, we believe the country needs a comprehensive energy policy, and that would certainly be our preference. If Congress decides that it feels it is more appropriate to pass it in a piecemeal fashion, I think you will see BP supporting the Alaska gas provisions in whatever form that they come. But I think the Nation does need an energy policy.

Mr. MCCONAGHY. Certainly TransCanada has had the position and we have tried to be fairly careful as a Canadian company not opining on how the U.S. Congress should pass legislation. But I think certainly we have never had any opposition to the moving forward of the Alaska provisions. We have seen in respect of them, they would all be constructive additions to moving the project forward.

Mr. CARRUTHERS. Similarly we would see the Alaska provisions as very important to the U.S. energy.

Mr. ALLEN. Okay. Let me just ask you, in the early 1980's energy prices were quite high and Congress, you know, considered this pipeline. However, the FERC Chairman Wood just testified that natural gas discoveries in Canada and in the Lower 48 States ballooned and world oil prices moderated. You have asked for a congressional guaranteed minimum price for gas from Alaska that was included in the Senate energy bill but excluded from the conference report. You know, I realize that trying to predict fuel oil prices and natural gas prices is a risky business. But, you know,

how would you describe the risks involved in lower prices today and as compared to—let me say this another one.

Can you evaluate the risks and the likelihood of prices, natural gas prices in the next 5 to 10 years being higher than they are today or lower than they are today? Can you talk about the risks of their being lower or their likelihood or not of their being higher?

Mr. MCCONAGHY. I would just offer this comment. I think that unless this project finds a way of moving forward and also if LNG certifications do not move forward—

Mr. ALLEN. Right.

Mr. MCCONAGHY. [continuing] the only way the North American gas supply to demand balance will balance will be through higher prices. And there is going to be of that in the short run until some of this additional infrastructure is development because, frankly the amount of supply addition that is going to be possible from both Canada and the United States is conventional supply regions is going to be difficult to do much better than hold its own. So with growing demand, and natural gas is the fuel choice at the margin for incremental electricity production, what we are really talking about is improving the ultimate price level at some point either likely the tail end of this decade or for the next, but that is really the realities of how long it is going to take us to get these kinds of project mobilized. And that is just really I think the plain facts of the matter.

Mr. ALLEN. Anybody else have a point?

Mr. CARRUTHERS. Just consistent with Dennis' views, but also suggest that prices do not need to increase further than they are today to make the project viable. It is just a risk of it was not that long ago there was lower prices that would not support a project. In all probability we would see that prices do support a project, but it is a huge investment.

Mr. ALLEN. So even a slight risk of lower prices is a problem is what you are saying I think?

Mr. CARRUTHERS. That would be my assessment in terms of the market. Ultimately it is really a resource owner's issue in terms of pricing.

Mr. ALLEN. Right.

Mr. Konrad, anything?

Mr. KONRAD. Well, I would just state the obvious that to the extent there is more supply in the North American markets that prices should moderate. And we would certainly expect that if policies are in place to encourage tight gas production, to encourage LNG terminals that gas can be supplied to North America at prices below what they are today.

Mr. ALLEN. Okay.

Mr. KONRAD. I might also point out I have heard the vocabulary of price floor a couple of times. I believe members of this committee are clear that the production tax credit being considered is a 52 cent credit. It is not a floor. It never exceeds 52 cents. If the price drops a dollar, it is 52 cents; if it drops \$2 it is 52 cents. It actually is identical in its mechanism to what we all have become quite familiar with, the Section 29 or even the marginal well credit. So it is the same mechanism.

Mr. ALLEN. Okay. Thank you.

The clock up there is acting very strange.

Mr. SHIMKUS. You do not have 53 minutes. You do not have 53 minutes, no.

Mr. ALLEN. I was hoping. Thank you.

Mr. SHIMKUS. A couple of quick points. And I know my friend from Ohio is here, too, is just for the record we know what the end use of some of the natural gas is in this country. We know electricity generation is kind of a new end use, relatively new. We know home heating.

Someone mentioned some of the other major uses of natural gas, who you sell it to and what it is used for, or do I need to do that?

Mr. KONRAD. Well, the whole petrochemical complex, fertilizer, polyethylene or the whole host of industries that gets into plastics and onward that are dependent on natural gas feed stock.

Mr. SHIMKUS. So the reason why I mention this is because when we talk about our concerns in industry and manufacturing, there are a lot of competing forces in this country, variables, that allow us to be competitive or allow us not to be competitive. You guys are in a very competitive industry. Energy is one of those.

As I mentioned in my opening statement, you know, my farmers have a tripling of cost for fertilizers because of the tripling of costs of natural gas.

In the steel industry a major component for just the running of the steel plant is natural gas, and that is a cost of doing business. And if that cost triples, then that is another variable that makes it very difficult to compete. But I think with my colleague from Maine's question on there is a lot of risk with this project. And we have listed, you know, the possibility of 8 to 10 years that maybe the lower 49 may see benefits.

Will there be because of the impatience that we will have as Americans and consumers, we will see fuel shifting in ways that maybe my friends in Maine may not like. Those of us in the coal regions in this country are going to be kind of excited. That planned natural gas generator facilities that was mentioned earlier, while no longer be planned, are still there but the electricity generation plant of choice now is going back to coal.

So even for my friends who are environmental concern, there will be fuel shifting over time and that may lower—there is always going to be a high demand for natural gas in the out years, I believe, but it may not be as high if we go back to nuclear-based low generation and coal generation. And that is a risk that you all have to consider in this out year projection of trying to recovery your costs. Is that not true?

Mr. CARRUTHERS. I think it is especially true, but one thing I would be more concerned about is the fact of the impact on the North American economy of not seeing a long term secure reliable source of energy. So I think that overall demand impact of the economy would be a big concern.

Mr. SHIMKUS. And that would be if we do not fuel shift?

Mr. CARRUTHERS. Even with fuel shifting I am just thinking you need to see a long term—

Mr. SHIMKUS. Right. And that is part of the debate of a national energy policy is that you have broad approach on addressing a lot of concerns. If we move to a hydrogen economy right now, the com-

modity product of choice is natural gas. We may go into ethanol, we may go into coal as far as being able to product hydrogen, but the commodity fuel of choice today to move to a hydrogen economy is natural gas. And if we do not expand our supply, that really puts that at risk.

Mr. McCONAGHY. My only comment would be is that I think a certain amount of fundamental change in terms of where certain kinds of commodities are going to be actually produced is perhaps irreversible. And some of that phenomena has been seen in fertilizer, in petrochemical industries. Notwithstanding that, I think it is still apparent by most energy experts who look ahead, and I think actually also from the perspective of what is in the best interest of the U.S. economy, to still see great value in facilitating the importation of LNG and also moving forward with this project. Because those are really the two major supply sources that have yet to really make a major contribution. And when you do that, you do not necessarily restore those industries, but you do in terms of having significant production positions in North America, but you do what I think fundamentally you can do that is within the scope of the economic. And it will generate benefits for all interests in the U.S. economy.

Mr. SHIMKUS. Right.

Let me just end up. There is concern especially that a project of this magnitude might pose vertical integration issues and less of a competitive aspect nature across the country. But with the proposed in essence consortium of players, does that not dispelled that concern?

Mr. CARRUTHERS. It would be our view that it does. I think if we are talking about the project in particular, a very keen important part of the project. So I do not think you would want to eliminate that.

Mr. SHIMKUS. If the Federal Government enacts the Alaska Natural Gas Pipeline provisions would anyone be so bold as to predict that they would commit to the pipeline?

Mr. CARRUTHERS. That is one step. That is a very major step.

Mr. SHIMKUS. Right. And then the other stuff is the market forces, developing the consortium and projecting return?

Mr. CARRUTHERS. Fiscal certainty with the State of Alaska.

Mr. McCONAGHY. If we are talking about the provisions that were contained in the conference report, certainly if those move forward as I have said before I think those are constructive steps and they may even be necessary steps. The real task is still for the commercial parties to try and find the right mix of risk sharing as well as the State of Alaska and perhaps there will be still more work for this Congress to do in adjusting that risk reward balance.

Mr. SHIMKUS. Right.

Mr. CARRUTHERS. One further comment that I do not think has been addressed. I would still see there is significant room for the market to participate. We have often talked about, Ken mentioned that the producers may underwrite the long term ship commitments. But really the biggest beneficiary are consumers and they should have an interest in ensuring the pipeline goes ahead from a long term perspective. Obviously it needs regulatory support. So

I would say that is another very key component to allocating risk out and helping the project move ahead.

Mr. SHIMKUS. Right. I know we had a hearing last week on deep well drilling and part of the debate was on just, again, referring to the industrial sector, the cost in the United States for natural gas versus Russia, which is an essence one-fifth. Actually greater, one-tenth of the cost, which the consumer should. But the consumers, other than a natural gas bill, are not the sole payers of the commodity. It is passed on to the fertilizer, it is passed on to the finished good and the like.

We have been joined by my colleague from Michigan, and I would like to recognize him for a round of questions.

Mr. ROGERS. Thank you, Mr. Chairman.

Thank you panel. I know you have been here a while.

I just want to change gears briefly. I am from Michigan and we certainly have been hit in the manufacturing sector pretty hard, and when we look at why that is occurring we know that taxation, litigation, and regulation are direct uncompetitive disadvantages for Michigan manufactures as it applies to the rest of the world, as is our energy costs right now, especially natural gas. Can you talk about the provisions of H.R. 6 and what that would mean for manufacturing jobs in America on a cost basis? I don't mean it would solve all the problems today, but just as it relates to our high cost verses our uncompetitiveness with our neighbor countries, especially the ones we are competing with on the very jobs that are moving and shifting.

Mr. KONRAD. Well, to the extent H.R. 6, we have talked about very clearly, some key government frameworks, the energy bill is one of them. Should that allow a project to advance: (1) additional supplies into the market should help mitigate price volatility. And second, for Michigan, the scale of this project, it is difficult to describe it. Every number on this project has a lot of zeros after it, but things like pick-up trucks. We were talking about steel earlier. There is not just steel for the pipe, there is steel for compressor stations, there is still for—an enormous amount of steel, enormous amount of construction equipment. The list kind of goes on and on, and so I would think that for a manufacturing State like Michigan trenchers, backhoes, pick-up trucks; all that would be quite stimulative, I would expect.

Mr. ROGERS. And that is in direct relation to what the bill would provide for us for building and supplying natural gas, or at least providing incentives.

Mr. KONRAD. Yes.

Mr. ROGERS. That does not count the fact that it would also reduce the natural gas costs. We have I believe it is two plants that will not go on line because natural gas is too expensive to burn for energy, for electricity.

Mr. KONRAD. The market needs more gas. Alaska is a great source of that, but we should not limit ourselves to Alaska. It is going to need to be LNG. It is going to need to be deep water. It is going to need to be mature basins' type gas. And any policies that are put in place to encourage supply will help mitigate high prices, absolutely. And it will help manufactures.

Mr. MCCONAGHY. I mean, I would just add that I think those provisions are absolutely constructive provisions in terms of putting in place those things that will add to supply which, in turn, is useful to the kind of interest that you have just described in addition to the construction impact that Ken has just noted. So clearly those provisions are absolutely constructive. They may not translate into immediate price mitigation because these are long term, high capital infrastructure projects and they really are going to be putting in place today a legacy for the next decade, at least in terms of Alaska.

Mr. ROGERS. But if we want to look at competitive advantages down the road, waiting is not going to solve our problem on H.R. 6. I mean you are saying it will not impact prices today, but waiting until next year or 2 years from now is not going to help us out?

Mr. MCCONAGHY. I totally concur with that. Moving forward would be a constructive thing to do.

Mr. ROGERS. What happens if we do not do anything? What happens to the price of natural gas in places like Michigan, a peninsula State?

Mr. KONRAD. Prices go up, as I said in my testimony, you get further demand destruction as industry perhaps has to move off shore or substitution into heavier seals such as oil or coal or other heavier fuels, which have policy implications in itself.

Mr. ROGERS. So if I am a manufacturer who is dependent on natural gas either directly in a manufacturing process or indirectly if we do not do anything we are putting a direct cost on every job in that shop? It is coming, right? I mean the prices are going up, we are not going to eat that price, right?

Mr. MCCONAGHY. All other things being equal, margins will be squeezed. That is right.

Mr. ROGERS. I mean, some of you have facilities, you understand the cost of doing business. I mean, we know that we are not going to pay Chinese wages and they are not going to pay wages. And we are going to have to do everything that we can do to be competitive in the United States, and energy is a big part of that. Now, if you're going to make that decision, do I stay here in an uncertain market where I am not sure what my energy costs will be or do I build a plant in Russia where I know I am going to be able to get it ten times cheaper, I will get close to the energy source? That is a very real possibility for decisions that these companies are going to make, is it not?

Mr. CARRUTHERS. Yes.

Mr. ROGERS. And some of you may even had those discussions with companies who are looking closer to their energy sources, have you not?

Mr. CARRUTHERS. Well certainly it is a major consideration in determining what your long term business viability is. And in case of Alaska, it is a very well known resource in the United States. It just seems a crime not to pursue that opportunity.

Mr. MCCONAGHY. Congressman, our company is not focused on international infrastructure today.

Mr. ROGERS. Yes.

Mr. MCCONAGHY. So we are not really looking to supply services for entities that are trying to bring gas to production facilities in other locals in the world.

I think the only point I would make is that bringing forward more natural gas into North America from Alaska that is to the Lower 48 and through LNG is absolutely in the best interests of the continent. We firmly believe that.

What industries are going to be able to take natural gas or take its derivative in terms of electrical power and prosper with that in terms of the next decade? You know, there is a whole set of economic decisions that are going to play themselves out.

I think what we are contending is that it is in the best interest of the economy to bring these supply sources into the economy and how they ultimately translate into what kinds of industries should be located in North America. That's a whole more complicated question. I think what we are suggesting is that the advent of these new gas supplies is absolutely in the national interest but it is a different question as to in the long run what industries are going to be able to use what degree of energy inputs in whatever form.

Mr. ROGERS. And my point only was that some of these companies will base their decisions on the cost of energy including natural gas, if they stay or if they leave. It is absolutely critical for a—

Mr. MCCONAGHY. Absolutely.

Mr. ROGERS. [continuing] State like Michigan that we get this off.

Thank you very much, Mr. Chairman.

Mr. SHIMKUS. Thank you.

I thank the panel for your patience in putting up with us.

And this hearing is adjourned.

[Whereupon, at 12:47 p.m. the hearing was adjourned.]

[Additional material submitted for the record follows:]

#### PREPARED STATEMENT OF THE AMERICAN CHEMISTRY COUNCIL

The American Chemistry Council represents the nation's largest industrial users of natural gas. Last year, the U.S. chemical industry's natural gas bill increased by \$6.5 billion. Higher costs mean U.S. producers are losing market share to foreign manufacturers. It means domestic producers have less money to invest in their businesses. And it means U.S. companies are being forced to close production and eliminate jobs. U.S. chemical manufacturing has lost more than 90,000 jobs since 2000 according to the Bureau of Labor Statistics.

We commend the Subcommittee for holding this hearing to see what can be done to speed up construction of the Alaskan gas pipe line, but as important as building an Alaskan pipeline is, it is a long-term solution, and industries like ours need immediate action as well.

Three years of extreme volatility and high prices in natural gas prices are taking a terrible toll on the chemical industry—a critical infrastructure industry vital to the country's national and economic security. Affordably-priced natural gas helped make chemicals the nation's largest export industry. In the late 1990's the industry posted the largest commercial trade surpluses in the nation's history—\$19.7 billion. Those exports have sustained hundreds of thousands of good-paying jobs.

The U.S. has become a net importer (\$9.6 billion last year) of chemical products—and much of this stunning decline can be traced to natural gas prices. Five years ago, chemical products poured from the U.S. Gulf Coast to Asia. Today, we are being beaten by Asian importers in our own backyards.

Stephen Brown of the Federal Reserve Bank in Dallas recently told the Louisiana Public Service Commission, "You're looking at the gradual destruction of employ-



ment in certain petrochemical firms. Given the prices of natural gas and oil, the petrochemical industry here could be gone in 10 to 20 years.”

In March, James Ray, vice president and general manager for the Texas division of the Eastman Chemical Company told *The New York Times*, “Gas price spike continue to idle capacity basic chemical manufacturing in the United States, and the long-term outlook remains bleak

The *Washington Post* recently ran an article on the front page of its business section. The headline said, “Chemical Industry in Crisis: Natural Gas Prices are Up, Factories are Closing, And Jobs are Vanishing.” Mississippi Chemical Corporation became one of the latest companies to verify that headline when, on March 26, it announced it will lay off 72 workers and close the bulk of its fertilizer and plastics manufacturing plants in Donalsonville, La. by the end of May. The company said extreme fluctuations in natural gas prices contributed to the decision.

“We have the highest natural gas prices in the industrialized world,” R. William Jewell, vice president for energy at Dow Chemical, told the *Post*. In the past two years, Dow has closed four major chemical factories in North America and replaced them with production from Germany, the Netherlands, Kuwait, Malaysia and Argentina.

“These jobs didn’t leave the US because of labor costs,” Jewell told the *Post*. “They left the US because of uncompetitive energy costs.”

On April 25, the *Chicago Tribune* ran a story titled, “Energy Costs an Offshore Factor.” The lead sentence said, “Escalating energy costs—especially for natural gas—are causing US companies to close plants and move overseas. “When Germany is a more competitive platform for production than Louisiana,” said Greg Lebedev, President and CEO of the American Chemistry Council, “something is seriously out of whack. We are effectively being uninvited to maintain our plants here.”

On April 21 Federal Reserve Chairman Alan Greenspan told the Joint Economic Committee of Congress, “We are losing a lot of business, especially in chemical-related areas, because we can’t compete at these (natural gas) prices.”

In the past five years, the US chemical industry has lost \$50 billion in business to foreign competition. High and volatile natural gas prices is a major reason why.

Last fall, the National Petroleum Council (NPC) issued a definitive report on natural gas markets. The NPC report projects that natural gas consumption by the chemical industry will decline by 25 percent in the next five years. Some of that will result from efficiencies, some will result from fuel switching, but most of that decline will come as a result of demand destruction—natural gas consuming factories shutting their doors and moving away.

The NPC report is the most important wake-up call ever issued on natural gas. It is nothing less than an indictment of business as usual energy policies—policies that are fundamentally contradictory. The NPC stated it most succinctly:

“Government policy encourages the use of natural gas but does not address the corresponding need for additional natural gas supplies. A status quo approach to these conflicting policies will result in undesirable impacts to consumers and the economy, if not addressed.

“The solution is a balanced portfolio that includes increased energy efficiency and conservation; alternate energy sources for industrial consumers and power generators, including renewables; gas resources from previously inaccessible areas of the United States; liquefied natural gas (LNG) imports; and gas from the Arctic.”

The report goes on to say how government policies contribute to price volatility. “Today, many regulations and policies affecting natural gas are in conflict. Public policies are promoting the use of natural gas as an efficient and environmentally attractive fuel. These policies have led to restrictions on fuels other than natural gas for the siting of power generation and industrial facilities, restrictions on fuel switching, and fuel choice limitations.

“Other laws and regulations have been enacted that limit access to gas-prone areas—areas where gas can be explored for and produced in an efficient and environmentally friendly manner—and there are outright bans to drilling in certain regions. There are laws and regulations that unnecessarily hinder pipeline and infrastructure siting or interfere with the functionality of the market in ways that lead to inefficiencies. Overall, these conflicting policies have contributed to today’s tight supply/demand balance, with higher and volatile gas prices. The beneficial effects of additional gas use can be achieved more efficiently and at a lower cost with policies that eliminate the current conflicts.”

The report says that business as usual will lead to a monumental tax on American consumers and businesses. Our current ways will impose \$1 trillion in new costs on the economy, NPC concludes.

We have carefully reviewed the reports finding and recommendations and find ourselves agreeing with nearly everything it says.

- The nation must get serious about using gas more efficiently and conserving energy. Some experts have estimated that reducing the amount of natural gas used to generate power by 5 percent would reduce natural gas consumption by 1.5 trillion cubic feet a year—enough natural gas to heat 18 million homes.
- The nation must maintain a diverse fuel base and create more opportunities for consumers to switch fuels when market conditions warrant. Today, we have the technology to supply clean-burning gas—made from coal and other hydrocarbon sources—to utilities and industrial customers.
- The nation must invest in energy infrastructure.
- And the nation must increase natural gas supplies.

Building the Alaska pipeline is clearly part of the solution to the natural gas crisis. But it is one part of the solution. Congress must enact a balanced portfolio of policies—aimed at curbing demand, diversifying fuel use, increasing supply, and building infrastructure—that enable consumers to buy adequate supplies at globally competitive prices. Failure to do so will accelerate the ongoing exodus of manufacturing capacity—and jobs—now taking place in the US.

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INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA  
WASHINGTON, D.C.  
*May 28, 2004*

The Honorable JOE BARTON  
*Chairman*  
*Committee on Energy and Commerce*  
*2125 Rayburn HOB*  
*Washington, DC 20515*

The Honorable RALPH M. HALL  
*Chairman*  
*Subcommittee on Energy and Air Quality*  
*2125 Rayburn HOB*  
*Washington, DC 20515*

DEAR CHAIRMAN BARTON AND CHAIRMAN HALL: On May 5h, 2004, the Subcommittee on Energy and Air Quality held a hearing on the Alaska Natural Gas Pipeline. Dennis McConaghy of TransCanada Corporation was one of the invited witnesses, and at the hearing, he requested that a written statement from the Interstate Natural Gas Association of America (INGAA) be entered into the record. As both the Chairman of INGAA and the President and CEO of TransCanada, I am writing to correct some comments which were part of the INGAA written statement.

Subsequent to the hearing, a number of members of the INGAA Board of Directors have expressed their concerns about, and objections to, comments made in the statement regarding vertical integration. While the INGAA comments were specifically directed at the potential ownership of the Alaska pipeline, the statement could be interpreted as a more broad-based argument against any vertical integration in the natural gas industry. This was not the intent of the statement, and that is not the position of INGAA on the matter of vertical integration. In addition, while the INGAA statement expressed a preference of independent ownership of the Alaska pipeline, this should not be interpreted as an argument advocating a government policy that restricts the ownership of the pipeline. As several INGAA Board members have stated, any party willing to adhere to the regulations regarding natural gas pipelines should have an opportunity to construct, own and operate the Alaska pipeline project.

We regret any misunderstanding the written statement may have caused, and thank you for the opportunity to correct the record. INGAA also intends to correct the record on these matters in future hearings before the Congress. Please let me know if you have any questions.

Respectfully,

HAROLD N. KVISLE  
*Chairman*

