

Frequently Asked Questions

ASAP as a “Contract Carrier” versus a “Common Carrier”

What is a “Common Carrier” pipeline?

A Common Carrier pipeline provides at least a portion of its transportation service on an “as required” basis. Shippers using that service are permitted to use the system when they have products to ship but are not required to commit to long-term use of the line. Oil pipelines are typically common carrier pipelines. For example, the Trans Alaska Pipeline System (TAPS) operates as a common carrier, and accepts nominations for oil transport from any and all creditworthy entities that have petroleum to ship that meets certain quality specifications. However, shippers are not required to commit to long-term use of the system. If nominations for the service exceed capacity for any given month, capacity is apportioned among those who want to ship oil, generally on a pro-rata basis. Additionally, if a shipper does not provide product for shipment, they are not required to pay the tariff. The shipper using that service only pays for the capacity that is actually utilized.

What is a “Contract Carrier” pipeline?

A Contract Carrier pipeline provides firm transportation service to entities that have signed long-term capacity reservation contracts. Gas pipelines are typically contract carrier pipelines. The pipeline guarantees that contracted-for capacity will be available and the shipper agrees to pay for capacity regardless of whether or not they use it during any given period. None of the capacity is required to be set aside for “as required” service. Whenever idle capacity is available the contract carrier will offer transport on a non-firm (“interruptible”) basis, but there is no guarantee that capacity will be available again on a going-forward basis. Capacity is only guaranteed to those who have made long-term commitments.

Why does it matter if a pipeline is a Common Carrier or Contract Carrier?

The primary difference between the two modes surrounds who bears most of the costs and commercial risks associated with decisions about how much capacity to build, or whether to build at all. Historically, a Common Carrier was required to forecast demand and build enough capacity to satisfy estimated commercially viable demand for transport services. Since no commercial obligations to use the line existed, obtaining financing was complicated by the need to convince the lender that a commercially viable market for transport service would exist when the project came on line. Because they are best positioned to forecast demand, most common carrier pipelines were built by producers or refiners. The same challenge continues today for the portion of the pipeline that the Common Carrier is required to set aside for “as required” service.

A Contract Carrier, rather than making its own estimate, generally will build capacity to the extent it has binding commitments from shippers for “firm” capacity. In the current era, these binding commitments are made during an “Open Season” in which the pipeline solicits interest in transport service and shippers decide whether or not to make a long-term commitment to the line. These firm transportation

commitments can also be negotiated prior to an Open Season with a Presubscription Agreement. Under either scenario, unless the value of the shipping commitments, which require the shippers to make reservation payments to the pipeline, generally covers the costs of the pipeline, no pipeline is built. Because these commitments have creditworthiness standards attached, financing becomes relatively easy once they are in place.

Why is it important for ASAP to be a Contract Carrier?

If ASAP is to secure financing on reasonable terms, and keep the cost of gas to Alaskans at the lowest feasible cost, it will need commitments from shippers to use and pay for the line over a long period of time. Those making long-term financial commitments to the line will want assurances that the capacity they are committed to paying for will be available for their use, and not apportioned to others should capacity prove insufficient. These two-way commitments will be entered into by Presubscription Agreement or during ASAP's "Open Season" where capacity is offered and subscribed to on a long-term basis.

As a contract carrier, ASAP will still be open to potential expansions of pipeline capacity provided any expansion does not violate the provisions of AGIA or other provisions of state law and the parties are willing to enter into commercially reasonable arrangements. Typically, the party requesting the expanded capacity would pay for the cost of expansion.