



# TAPS Tariff History & Going Forward

*Presentation to the  
Senate Finance Committee  
February 16, 2010  
Alaska Department of Revenue*



# Outline for Presentation



- **Netback Calculations**
- **Tariff History: 1978 to Present**
  - Challenges
  - Settlements
  - TSM
  - Opinion 502
- **Tariff Calculation & Drivers**
  - T Put
  - COS Components
- **Going Forward**



# **Production Tax and Royalty Calculation Based on Wellhead Value**

- State oil and gas leases and production tax statutes calculate royalty and tax based on wellhead value
- Oil is primarily sold at west coast refineries
- Wellhead value is calculated through a net-back process that allows for deduction of transportation costs to point of sale



# Transportation Costs



- Two primary transportation costs
  - pipeline tariffs
  - marine (tanker) costs
- Pipeline tariffs are set by state and federal regulators
- Intrastate rates set by Regulatory Commission of Alaska (RCA)
- Interstate rates set by Federal Energy Regulatory Commission (FERC)



# ANS Netback Price

Estimated February 2010



|                         |                |
|-------------------------|----------------|
| <b>West Coast Price</b> | <b>\$74.50</b> |
|-------------------------|----------------|

**Less**

|              |      |
|--------------|------|
| Marine Costs | 2.05 |
|--------------|------|

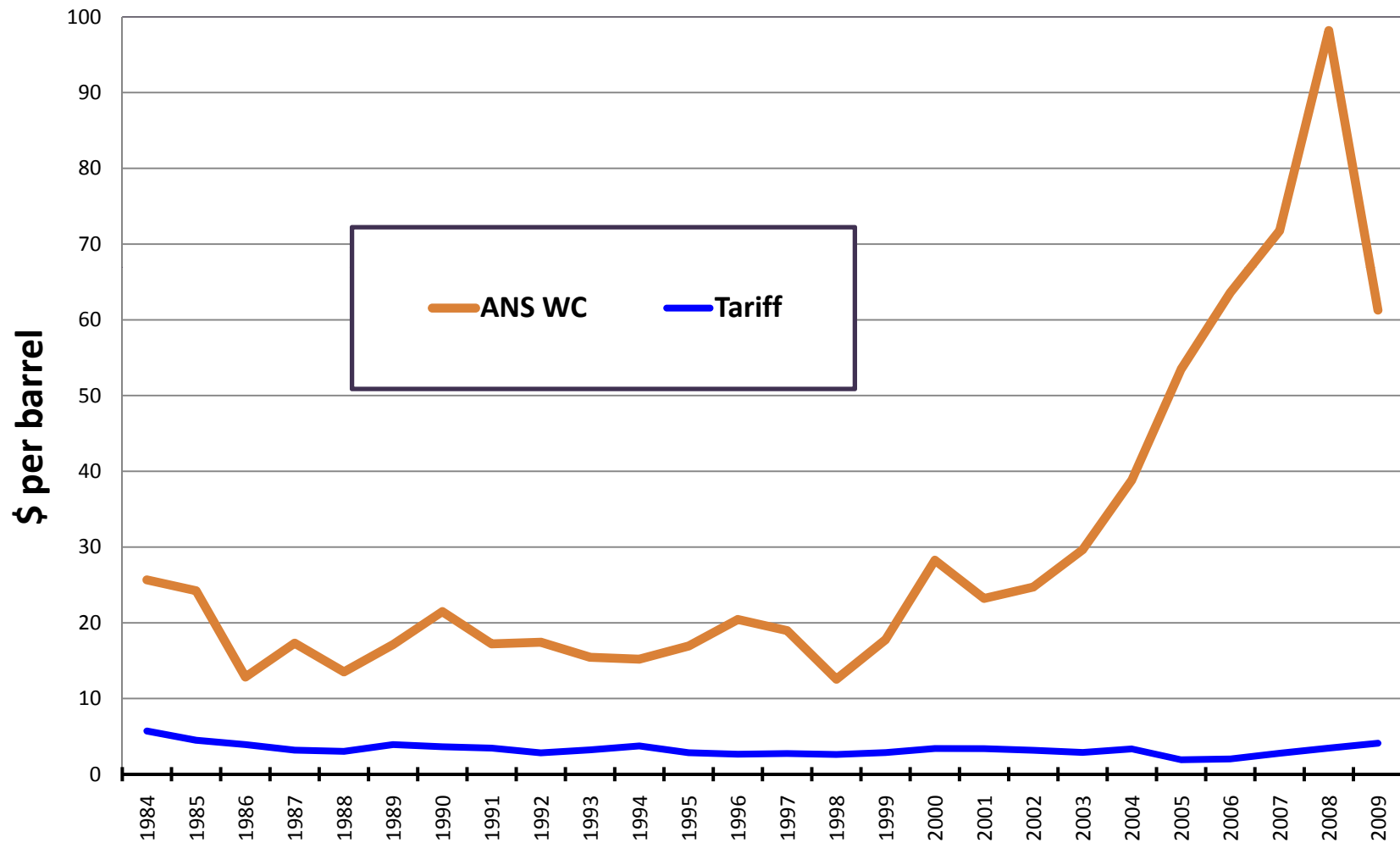
|             |      |
|-------------|------|
| TAPS Tariff | 4.10 |
|-------------|------|

|                 |     |
|-----------------|-----|
| Feeder Pipeline | .35 |
|-----------------|-----|

|                           |                |
|---------------------------|----------------|
| <b>ANS Wellhead Price</b> | <b>\$68.00</b> |
|---------------------------|----------------|



# TAPS Tariff vs Crude Oil Price





# Initial TAPS Tariff



- TAPS began shipping oil in 1977
- Initial tariffs filed by TAPS Carriers charged over \$6.00 per barrel
- Filed rates go into effect subject to refund until litigation completed



# Initial TAPS Tariff Litigation

- State protested initial tariffs in 1977
  - FERC
  - APUC (RCA predecessor)
- In 1985 with no end to litigation in sight  
State and TAPS Carriers negotiated tariff settlement





# TAPS Settlement Agreement (TSA)

- Formulaic method to calculate annual rates
- Annual true-up based on actual costs
- Settlement formula set rate ceiling
- State would not protest charged rate unless
  - higher than those derived from the TSM methodology
  - imprudent costs or otherwise inconsistent with the law



# Other TSA Provisions

- Binds only State and TAPS Carriers
- Third party shippers free to challenge settlement rates anytime
- State could audit annual filings
- Could be terminated January 1, 2009
- Otherwise expire at the end of 2011



# TAPS Intrastate Rate Protest

December 1996 Tesoro Alaska filed protest of the 1997 TAPS intrastate rates

2002 RCA issued Order 151 ruling

- 1997-2000 annual rates were not just and reasonable
- Established lower intrastate rate
- Ordered refunds



# Interstate Rate Protests



- 2005 the State protested Carriers' interstate rates for unlawful discrimination
- Argued difference between the interstate and intrastate rates violated TSA and Interstate Commerce Act prohibitions
- Anadarko then protested 2005 rates as not "just and reasonable"
- State and Anadarko protested 2006, 2007 and 2008 TSA based annual rates when filed on same grounds



# FERC Decision and Opinion 502

May 2007 the FERC ALJ issued an initial decision finding the TAPS 2005 and 2006 interstate rates were not just and reasonable

June 2008 FERC issued Opinion 502 affirming ALJ on all issues

- Ordered carriers to file new 2005 and 2006 rates based on current FERC regulatory formula (154-B methodology)
- Ordered refunds based on refiled rates
- Refunds for 2005-06 result in additional \$600 million to State for adjusted production tax and royalty liabilities



# 2007– 2008 TAPS Rate Protests

- FERC ordered TAPS Carriers to recalculate and refile 2007 and 2008 annual rates based on Opinion 502 methodology
- Refunds for 2007-2008 result in additional \$200 million to State for adjusted production tax and royalty liabilities



# **TAPS Settlement Terminated Effective January 1, 2009**



- TSA allowed early termination before the December 31, 2011 expiration date
- State terminated settlement



# Post-Settlement Rate Protests

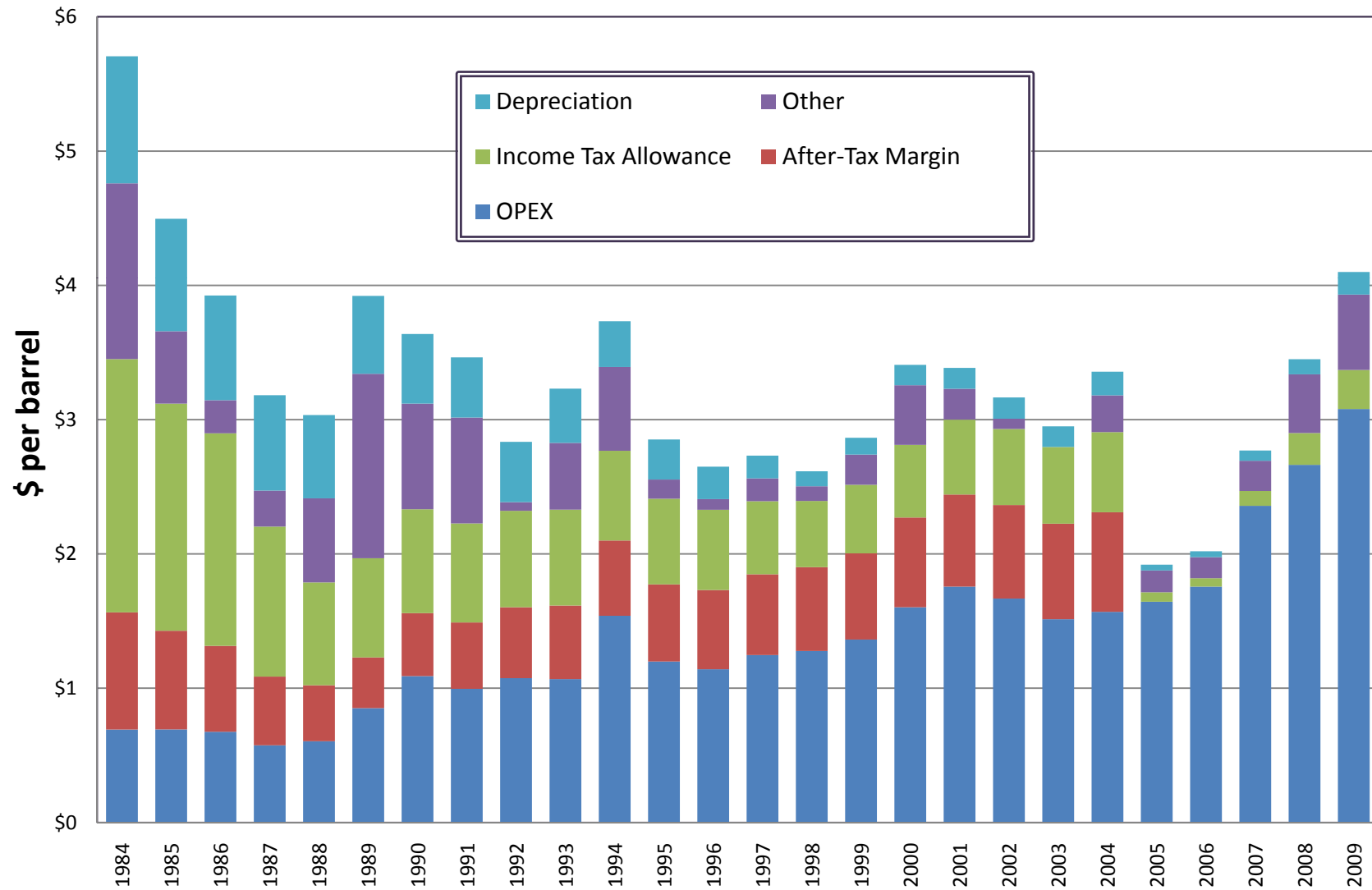


- TAPS Carriers filed new intrastate rates at end of 2008 -early 2009
- TAPS Carriers filed new interstate rates in second half of 2009
- State and Anadarko protested those rate filings and new rate hearing is set at the FERC for October 2010





# Components of TAPS Tariff





# Cost of Service Components

Operating Expenses

+ Return **OF** Rate Base

+ Return **ON** Rate Base

+ AFUDC Amortization\*

+ Income Tax Allowance

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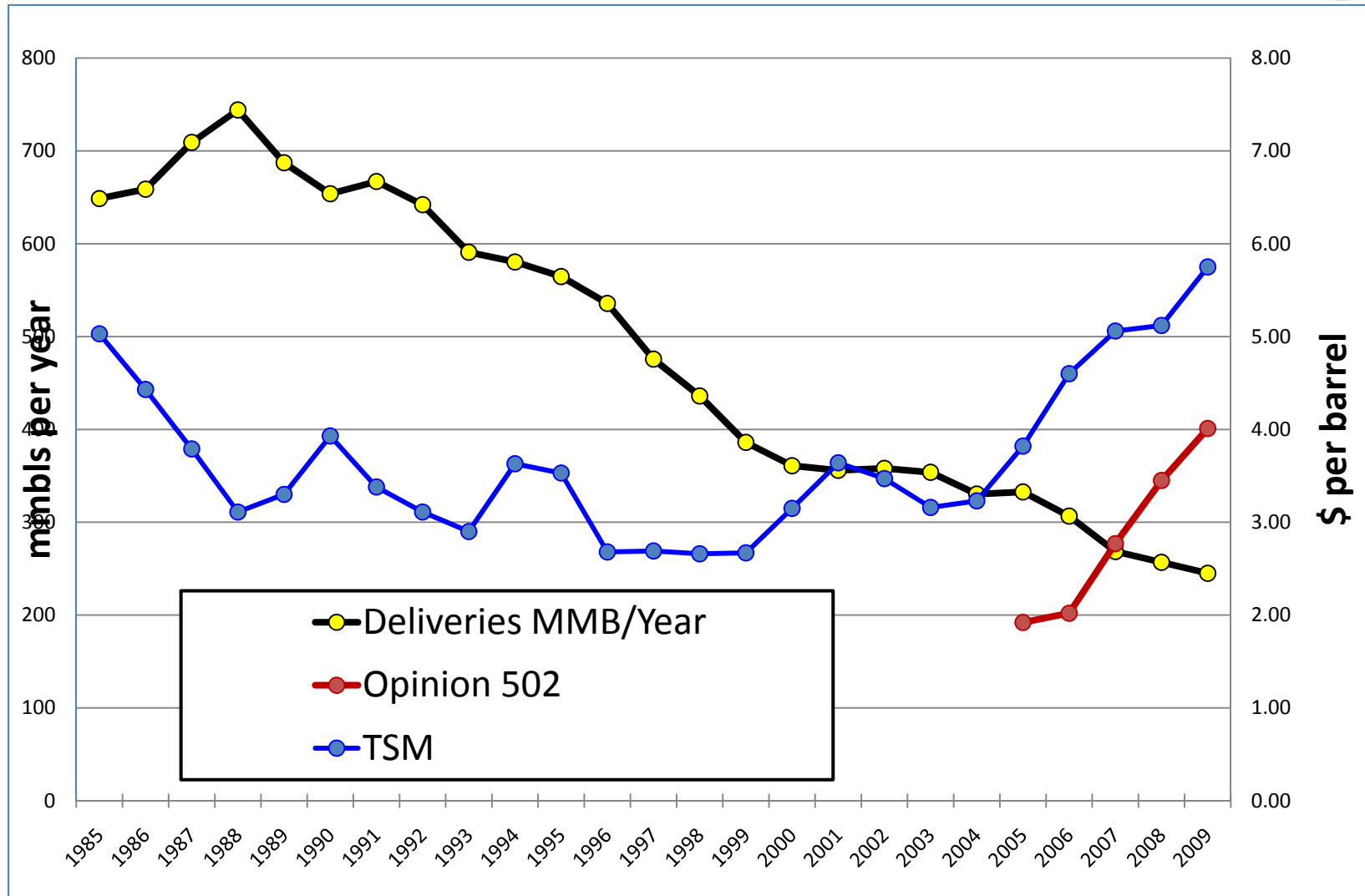
= COST OF SERVICE or

Total Revenue Requirement

\*Allowance for Funds Used During Construction



# TAPS Throughput and Tariff





# Importance of Throughput

$$\text{Tariff} = \frac{\text{Total Revenue Requirement}}{\text{Throughput}}$$

Tariff increases if

- Costs increase
- Throughput declines
- Combination of both



# Throughput Required to Maintain 2010 Tariff Level

|      | Million Barrels Per Year |              |      | Thousands |
|------|--------------------------|--------------|------|-----------|
|      | Forecast                 | Level Tariff | Diff | Per Day   |
| 2011 | 225                      | 229          | 4    | 12        |
| 2012 | 226                      | 231          | 5    | 13        |
| 2013 | 228                      | 232          | 4    | 11        |
| 2014 | 228                      | 234          | 6    | 16        |
| 2015 | 223                      | 235          | 13   | 35        |
| 2016 | 217                      | 237          | 20   | 54        |
| 2017 | 208                      | 238          | 29   | 81        |
| 2018 | 197                      | 239          | 42   | 115       |
| 2019 | 183                      | 240          | 56   | 154       |



# Tariff Going Forward

- Uniform rate
- Filed rate of \$4.10
- No settlement agreement
- No access to data other than filings
- Stacked rate filings and protests
- FERC hearing October 2010
- Unresolved issues