



# 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>
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**Less**

Marine Costs	2.05
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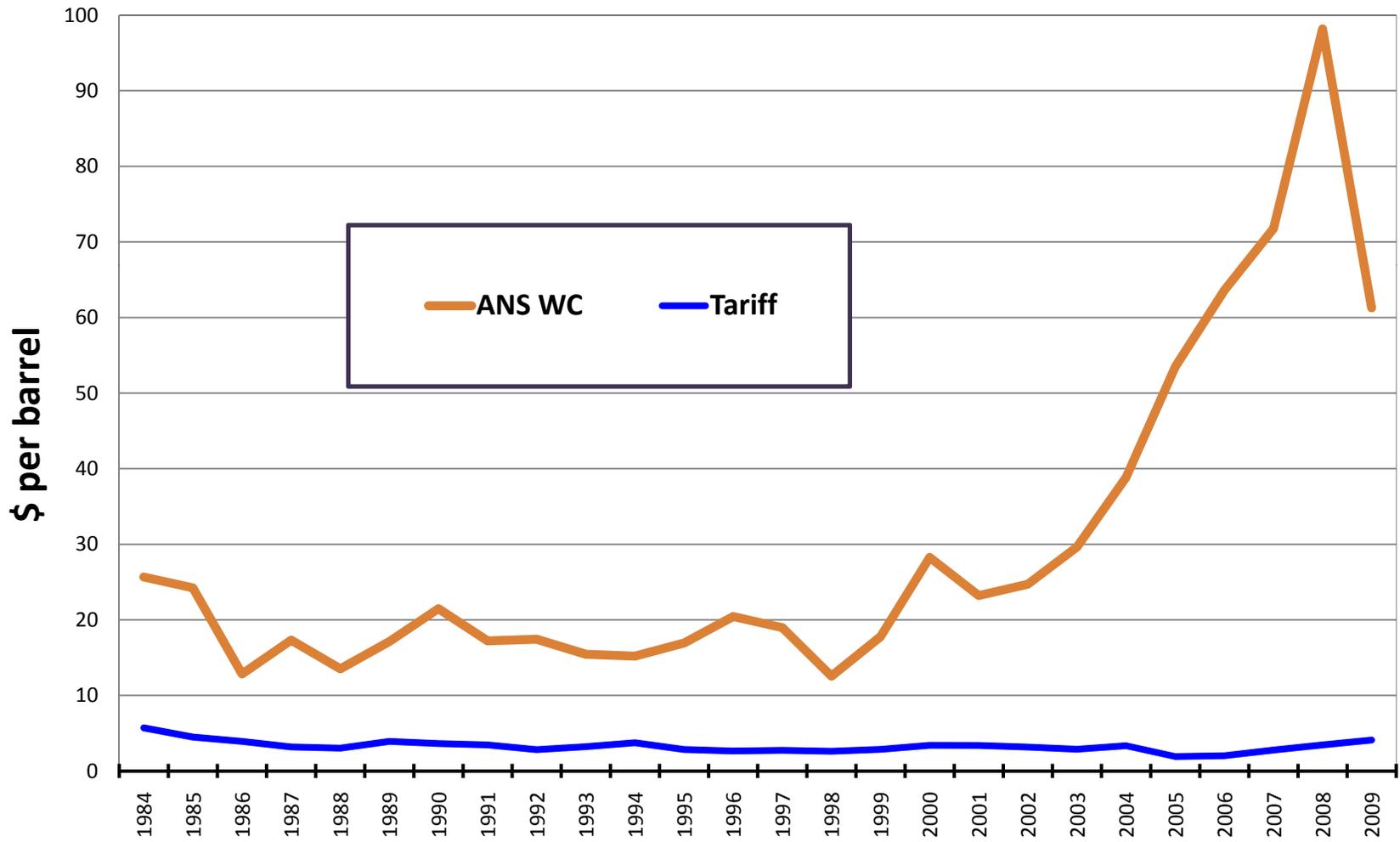
TAPS Tariff	4.10
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Feeder Pipeline	.35
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<b>ANS Wellhead Price</b>	<b>\$68.00</b>
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# TAPS Tariff vs Crude Oil Price





# 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





# 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





# Cost of Service Components

Operating Expenses

+ Return **OF** Rate Base

+ Return **ON** Rate Base

+ AFUDC Amortization\*

+ Income Tax Allowance

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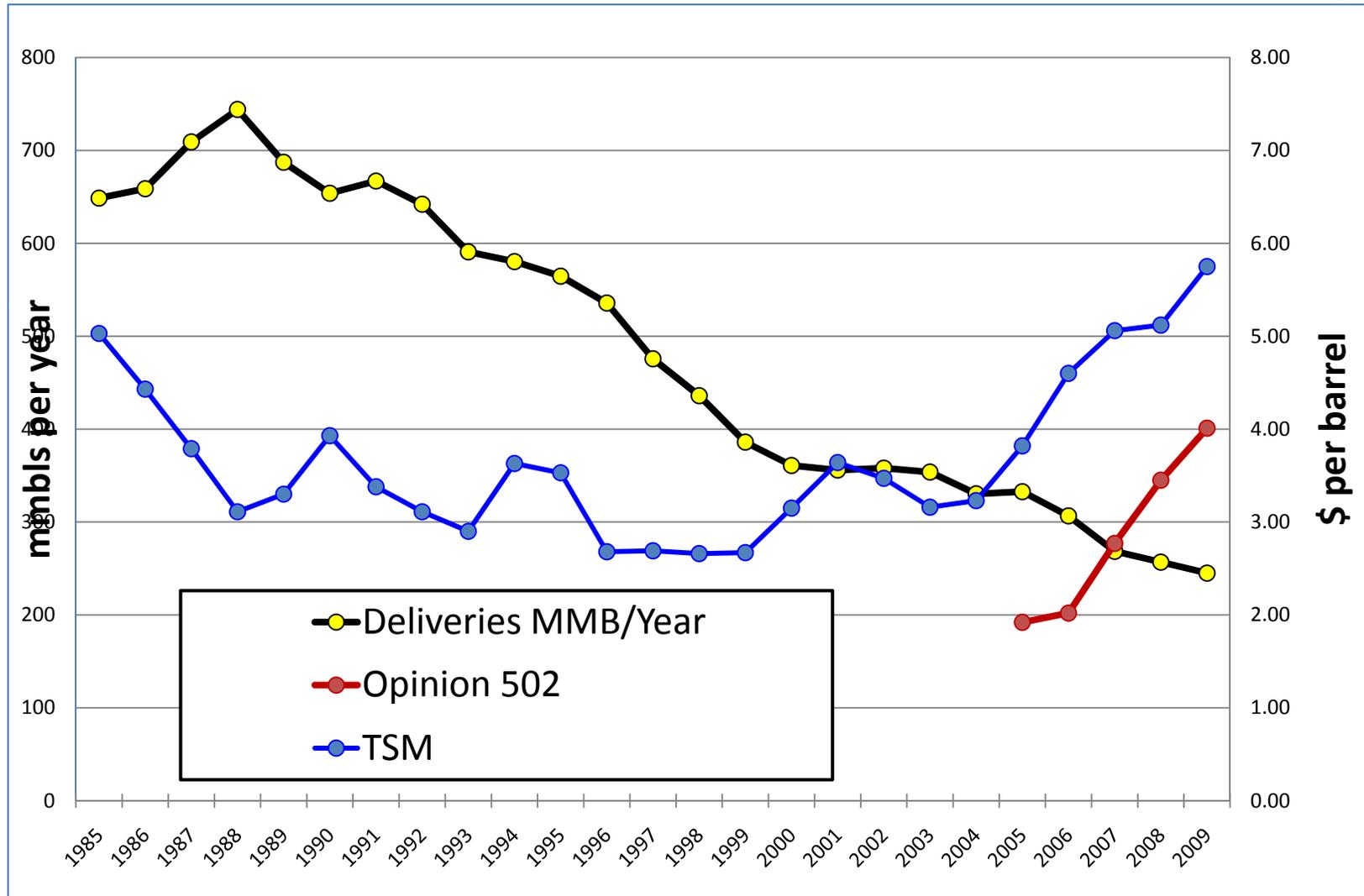
= COST OF SERVICE or

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