



Senator Joe Paskvan

Alaska State Senate • District E • Fairbanks • Ft Wainwright

The Honorable Michael Geraghty
Attorney General of Alaska
P.O. Box 110300
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April 30, 2012

Dear Mr. ^{Mike}~~Attorney General~~,

Thank you for participating in the Senate Judiciary Committee's Point Thomson settlement hearing on Friday, April 27th. I believe that it was important for the committee to seek a better understanding of the current position of the State with respect to a natural gas pipeline.

As I work my way through this complex legal issue, I would appreciate your continued assistance. Please reply to the following questions at your earliest convenience.

Under the Point Thomson settlement agreement, is the decision to build or not build a major gas sale pipeline under the sole control of the Point Thomson Working Interest Owners (WIOs)?

As I currently understand the settlement agreement, there are only 2 alternatives which involve a gas pipeline: Alternative A, which would be a "major gas sale" pipeline built by the Producers with gas delivery off the North Slope and Alternative C, which would be an "in-state" pipeline built, if built, by someone other than the Producers. Is my understanding accurate?

I am interested in receiving the Department of Law's broad description of the State's legal right to obtain natural gas from the North Slope.

I respectfully request any Attorney General opinions on the topic of the trigger of Alaska's royalty with respect to Prudhoe Bay and with respect to the Point Thomson settlement agreement. In particular, I generally understand that the trigger is at the point that gas leaves a unit. Under this scenario, unless gas leaves a unit, no royalty may be claimed by the state. Is my understanding accurate?

I also have concerns as to the concept of an "overlift." I request any Attorney General opinion as to this concept.

I am concerned that there are multiple and potentially competing forces involving natural gas pipeline development from the North Slope region. I assume that the AGIA constraint as to maximum volumes for an in-state gas pipeline (i.e., .5 bcf/d or less by volume) remains the law of the land. Is this accurate?

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Under the Point Thomson settlement, gas volumes greater than .5 bcf/d are defined as a “major gas sale.” However, the AGIA process, requiring in-state volumes of less than .5 bcf/d, continues to obligate Alaska to \$500 million in contributions to gas pipeline development with a risk of treble damages. The Point Thomson settlement seems to allow ultimate decision making with respect to construction or not of a gas pipeline of greater than .5 bcf to the producers [WIO’s] until 2019 and then links Alaska’s receipt of natural gas for in-state use to delivery of Point Thomson natural gas into a gas pipeline to Prudhoe Bay. The election by Alaska is mandatory under the settlement agreement in that Alaska is contractually obligated to take royalty-in-kind as compared to in-value once the Point Thomson gas is produced into the gas pipeline and goes to a Prudhoe Bay delivery point.

Please let me know if this description as to Alaska’s ability to receive natural gas for in-state use is not accurate. In part, I am concerned that Alaska’s legal ability to receive natural gas is limited to the royalty share of natural gas out of Point Thomson.

If the Point Thomson WIOs control the gas volumes out of Point Thomson, does that also mean that the gas volumes of natural gas available for in-state use by Alaskans is controlled by the Point Thomson WIOs? Further, does the Point Thomson settlement in any way put Alaskans at risk of having to potentially accept a blow down of Point Thomson in order to have natural gas sufficient to fill an in-state gas pipeline? If the in-state line were built at .5 bcf/d in volume from Prudhoe Bay, does this mean that Alaska’s 1/8th royalty share requires 4 bcf/d in natural gas from Point Thomson to Prudhoe Bay for Alaskans to have rights of access to gas? I ask this question as page 16 of DNR’s Settlement Overview states in part: “Once Point Thomson gas is transmitted to Prudhoe Bay, state royalty-in-kind (RIK) is made available for in-state use.” Further, I ask this question as page 6 of DNR’s Settlement Overview states in part that the settlement: “Provides potential for significant gas volumes for in-state use no later than 2019.”

As to a major gas sale pipeline [Alternative A] built by the Producers, what is the most optimistic date for completion of such a line such that there were actual gas volumes for in-state use? As to a decision by the Producers not to build a major gas sale pipeline, what is the earliest and latest date under the settlement agreement for the public announcement of that decision? If and when the WIO decision is made that the Alternative A pipeline will not be built, does that become the date when it is first known that the Alternative C gas pipeline may be necessary to build a gas pipeline from the North Slope solely for in-state use?

Is 4 bcf/d in natural gas out of Point Thomson consistent with a blow down of Point Thomson? Under the settlement agreement, is Alaska forced to accept the blow down of Point Thomson gas, which may be wasteful of the oil resource, in order to receive its royalty share of .5 bcf/d for an in-state gas pipeline?

What volumes of gas, if it is something other than 4 bcf/d out of Point Thomson, are consistent with a blow down of Point Thomson?

Can Alaska require the Producers to produce .5 bcf/d from Prudhoe Bay alone for in-state use, even if Point Thomson is not developed? By agreeing to accept RIK from Point Thomson, does this mean that only after Point Thomson gas is delivered to Prudhoe Bay will Alaska have the legal right to significant volumes of gas for in-state use?

Why is Alaska waiving its right to royalty-in-value even if no in-state gas pipeline exists?

Assuming the Alternative A pipeline is built by Point Thomson WIOs, is the only requirement under the settlement agreement, for access to Prudhoe Bay natural gas for in-state use, triggered when a major gas sale decision is made by Point Thomson WIOs? If the Point Thomson WIOs decide not to build a major gas sale pipeline, is the only access to natural gas by way of a gas pipeline built by someone other than the WIOs? In other words, is it true that gas under the Alternative C approach for in-state use only will not be built by the Producers?

Can Alaska “compete” with the Point Thomson WIO’s and develop an Alternative C pipeline with volumes for export? In other words, can the state at this time participate in developing a gas line with volumes greater than .5 bcf/d without violating the Point Thomson settlement agreement [or the AGIA statutes]? If the state were to do this, will, at the minimum, the WIO’s contractual obligation under the settlement agreement be voided or nullified as to an Alternative A pipeline? Under Alternative A of the settlement agreement, can it be assumed that no gas pipeline will be built with state participation which may have an export component?

Is the only line which “economics or costs...cannot be used as a rationale or justification for not completing...,” the 12-inch line for Point Thomson liquids from Point Thomson to Badami? Is the same 12-inch liquids pipeline eligible for royalty modification under section 4.8 of the settlement agreement?

Can an in-state line be built with volumes greater than .5 bcf/d without violating either or both AGIA statutes and the Point Thomson settlement agreement? Does the settlement agreement set the maximum gas volumes for an in-state line at .5 bcf/d or less? Does the settlement agreement assume Alaska’s good faith in not developing an in-state pipeline until the WIO’s have made their decision whether to construct the large diameter Alternative A pipeline? If any gas pipeline were built in excess of .5 bcf/d by someone other than the WIO’s under the settlement agreement, would that relieve the WIO’s from having to perform under Alternative A or other portions of the settlement agreement? If any gas pipeline were built in excess of .5 bcf/d by someone other than TransCanada, would that someone currently be in violation of the AGIA statutes?

Comments have been made that AGIA’s statutes may be applied to an in-state gas pipeline. Why? Isn’t any discussion of an in-state gas pipeline premature until the WIOs have determined that a major gas sale pipeline will be built? Has TransCanada agreed to the WIOs’ construction of a gas pipeline as defined as a major gas sale pipeline? I believe that AGIA’s limitation prohibits an in-state gas line with a design capacity greater than .5 bcf/d. Is this correct? Does

the Point Thomson settlement agreement provide for the potential construction under Alternative A approach of a gas pipeline with design capacity greater than .5 bcf/d? Is the Point Thomson settlement agreement in current conflict under the language of the AGIA statutes as to the construction of an LNG export line under Alternative A concept of the Point Thomson settlement? Has TransCanada been contacted for its approval of the Point Thomson settlement agreement as relates to a pipeline other than that as set forth in the AGIA statutes? If so, please provide all documents as to the contacts and agreements reached. Did the Commissioner under the AGIA regulatory process or otherwise specifically reject the LNG approach?

Will a large diameter gas pipeline – for example, a 4.5 bcf/d pipeline – produce the lowest tariff as compared to an in-state pipeline of 1 bcf/d or smaller? Stated otherwise, will a .5 bcf/d pipeline or less produce a higher tariff than a large diameter pipeline?

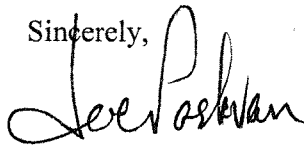
Will injecting another gas pipeline concept, whether in the format of HB 9 or otherwise, produce more potential for Alaska to be in breach of either AGIA or the Point Thomson settlement agreement with respect to gas from the North Slope? Is it true that a gas line from Cook Inlet to Interior Alaska does not and cannot in any way violate either the AGIA statutes or the Point Thomson settlement agreement?

Does the construction of an in-state gas line, in compliance with AGIA limitations, impede or potentially remove any obligation upon Point Thomson WIOs to construct an Alternative A gas pipeline?

Does Alaska shoot itself in the foot with respect to a higher tariff if the State advances a small-diameter pipeline for in-state use and, shortly after, the WIOs, under the terms of the Point Thomson settlement, decide to build a lower tariff large-diameter pipeline?

If you have any comments or questions, please don't hesitate to contact me any time.

Sincerely,



Joe Paskvan

Cc Senator Gary Stevens, President, Alaska State Senate
 Senator Hollis French, Chair, Judiciary Committee
 Senator Bert Stedman, Co-Chair, Finance Committee
 Commissioner Dan Sullivan, Department of Natural Resources