

STATE OF ALASKA

DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL

Sean Parnell, Governor

1031 WEST 4TH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501-5903
PHONE: (907)269-5100
FAX: (907)269-5110

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VIA EMAIL TO SENATOR JOE PASKVAN@LEGIS.STATE.AK.US
& 1ST CLASS MAIL

The Honorable Joe Paskvan
Alaska State Legislature
1292 Sadler Way, Suite 308
Fairbanks, AK 99701

Re: Point Thomson Settlement

Dear Senator ~~Paskvan~~ ^{Joe}:

Thank you for your letter of April 30, 2012. You have asked a number of questions about the State's settlement of *Exxon Mobil Corporation v. State, Department of Natural Resources*, 3AN-06-13751 (consolidated), the litigation about the Point Thomson Unit. I welcome the opportunity to respond, with the assistance of the Department of Natural Resources.

Initially, I would like to clarify some aspects of the terms of the Point Thomson Settlement agreement ("the agreement"), in particular, the reference to a gas pipeline. While the agreement refers to two pipelines, it offers only *one* development path—that is, a Major Gas Sale as defined in Section 2.16—that contemplates a gas pipeline leaving the North Slope. Similarly, the State has agreed to take its royalty-in-kind under only *one* development path, *i.e.*, where the WIOs (the Point Thomson working interest owners) produce Point Thomson gas and inject it into Prudhoe Bay to aid in enhanced oil recovery. The State has not made any agreements affecting its royalty rights should the WIOs sanction a Major Gas Sale and construct a large-scale pipeline off the North Slope.

A brief summary of the development paths in the agreement may be helpful. As described below, in order to maintain their Point Thomson acreage, the Point Thomson WIOs must complete the IPS Project:

- **IPS Project:** The agreement requires the WIOs to complete the IPS Project, which is a gas cycling project that will result in approximately 10,000 barrels per day (bpd) production of liquid condensate into TAPS. The WIOs have completed the two wells necessary for this project (PTU 15 and PTU 16) and must complete construction of the production infrastructure by 2015, including construction of a common-carrier pipeline with the capacity to transport 70,000 bpd of liquids to existing infrastructure

at Badami.¹ The agreement provides strict forfeiture penalties should the WIOs not complete the IPS Project.

The agreement also addresses what happens after the IPS Project. Specifically, the agreement contemplates three post-IPS Project development scenarios, one of which the WIOs must choose by year-end 2019 or they will lose Point Thomson acreage. DNR thoroughly evaluated these development alternatives and concluded that, as set forth and specifically defined in the agreement, they are all in the public interest. The agreement provides for three different development paths because it is not clear today what the optimal Point Thomson development will be more than five years from now.

The three post-IPS Project development scenarios are:

- **Major Gas Sale:** (referred to in your letter as Alternative A.) This development path is the large-scale gas pipeline project as defined in Section 2.16, now likely to be an LNG project. The pipeline capacity must be greater than 500 million cubic feet per day (mmcf/d) and it must transport gas “off the North Slope.” In the agreement, the State has made no royalty commitments with respect to a Major Gas Sale. Rather, the State retains its full royalty rights under the leases and Alaska law, including the discretion to take royalty in-value or in-kind. The agreement is also clear that in proceedings before the AOGCC, DNR retains the right to oppose a Major Gas Sale development proposal at Point Thomson if the proposed project is inconsistent with the agreement’s terms (including Section 2.21) and applicable state law. Under this development path, gas would be available for in-state use and export.
- **Expanded Gas Cycling:** (Alternative B.) Under this option, the WIOs would increase IPS Project production by at least 10,000 to 20,000 bpd of gas condensates (DNR expects that if the WIOs choose this option, they likely will produce well beyond 30,000 bpd of gas condensates due to project economics). Under this development path, Point Thomson gas would not be available for in-state use or for export.
- **Prudhoe Bay Injection Project:** (Alternative C.) Under this development path, the WIOs would “blow down” Point Thomson, delivering the resulting liquids production into TAPS and transporting the gas to Prudhoe Bay for injection in order to enhance oil recovery at Prudhoe Bay. This development scenario does not address construction of a gas pipeline off the North Slope. It would require only a pipeline running between Point Thomson and Prudhoe Bay. This project was added to the agreement to provide for a development path at year-end 2019 if no Major Gas Sale has occurred. Both the State and the WIOs are optimistic that this project, if chosen, will be an intermediate step toward a later Major Gas Sale. Indeed, the construction of the gas pipeline between Point Thomson and Prudhoe Bay would serve as a pre-investment to a future Major Gas Sale and position Point Thomson gas for a future

¹ The completion date of this project has been set back one year due to the Corps of Engineers’ repeated delays in approving the WIOs’ EIS application.

Major Gas Sale. To select this development path, the WIOs must demonstrate that the enhanced oil recovery from Prudhoe Bay would offset any liquids loss from Point Thomson. *See* Section 2.21. In addition, the WIOs must persuade the AOGCC that this development option will satisfy state law requirements for conservation and maximum recovery. And the agreement is clear that DNR is free to oppose any development proposed to the AOGCC unless the proposal is consistent with the agreement's terms (including Section 2.21) and applicable state law.

Two elements of the Prudhoe Bay Injection Project seem to be causing confusion: (1) the State's agreement to take its royalty in-kind, and (2) the WIOs' commitment to make gas volumes available for sale to the State when it commits to this project. As explained in more detail below, taking royalty in-kind will ultimately maximize its value, and the immediate availability of gas will ensure a supply for the State while waiting for a large-scale gas pipeline project.

(1) State's agreement to take its royalty in-kind under the Prudhoe Bay Injection Project.

Under Alaska law and the terms of the Point Thomson leases and the unit agreement, royalty obligations attach when the gas leaves the unit boundary. In the event the WIOs choose and complete the Prudhoe Bay Injection Project, the State has agreed to take its royalty in-kind for gas that leaves the Point Thomson Unit boundary destined for injection at Prudhoe Bay. The State agreed to do this because the value of gas produced from Point Thomson and injected into Prudhoe Bay initially would be minimal. The State will therefore derive greater value from the gas by taking it in-kind and either: (a) having it injected into Prudhoe Bay along with the WIOs' gas to aid in enhanced oil recovery—which increases the State's royalty revenue from the resulting increased oil production; or (b) instead of re-injecting the gas, utilizing it for some other purpose, such as to fill an in-state gas pipeline. The agreement also provides that should the State choose to inject its in-kind gas into Prudhoe Bay, it can later withdraw this gas for in-state use. The State will not be responsible for any costs or fees associated with keeping its royalty-in-kind gas in the Prudhoe Bay reservoir.

The agreement also provides another choice for the State's royalty-in-kind gas—to leave it in Prudhoe Bay in anticipation of an eventual Major Gas Sale and construction of a large-scale pipeline off the North Slope. Under this scenario, once the big pipeline is complete, the WIOs would produce into this pipeline: (1) Prudhoe Bay gas; (2) Point Thomson gas that has been injected into Prudhoe Bay; and (3) previously unproduced gas from the Point Thomson field. For its part, the State could sell its in-kind gas that had been injected into Prudhoe Bay and put it in the big pipeline. The agreement also entitles the State to take payment in value from the Point Thomson lessees after project start-up of a Major Gas Sale for the State's Point Thomson in-kind gas that had been injected into Prudhoe Bay. By negotiating these royalty options, the State will derive greater royalty value than it would have by taking its royalty in-value when the gas is first produced from Point Thomson for injection into Prudhoe Bay.

- (2) The WIOs' commitment to make gas volumes available for sale to the State if they choose the Prudhoe Bay Injection development path.

The Prudhoe Bay Injection Project also includes a commitment by the Prudhoe Bay WIOs to make significant gas from Prudhoe Bay immediately available to the State when they commit to the Prudhoe Bay Injection Project. This provision is intended to assure a sufficient supply of gas for the State if the WIOs choose this development option, because any "big pipeline" Major Gas Sale project would, at best, be several years away and potentially more. For example, if the WIOs committed to the Prudhoe Bay Injection Project in 2019, the State might need to take immediate action to secure an in-state gas supply. This is partly why the State has agreed to take royalty-in-kind—to have its own gas available for in-state needs as may be appropriate. To utilize its royalty-in-kind gas, however, the State would have to wait until the WIOs complete the Prudhoe Bay Injection Project. To ensure a supply of gas for State projects in the interim, the agreement provides that the State may purchase gas *immediately* upon the WIOs' commitment to a Prudhoe Bay Injection Project.

It is important to note that under this "make gas available immediately" provision, the State would purchase Prudhoe Bay gas owned by the Prudhoe Bay WIOs as a simple commercial sale. It would not be a purchase of, or an advance on, any eventual royalty-in-kind gas from Point Thomson. The price would be based on comparable, contemporaneous North Slope sales. The only relation these sales would have to the royalty-in-kind provisions discussed above is that the precise volumes of Prudhoe Bay gas made available to the State for immediate purchase will be tied to the anticipated volume of royalty-in-kind Point Thomson gas the State will receive upon completion of the Prudhoe Bay Injection Project.

And the State does not have to exercise its right to purchase gas. The provision was intended to provide flexibility to future policy makers, recognizing that if the WIOs choose the Prudhoe Bay Injection Project, a big pipeline Major Gas Sale project may not yet be on the immediate horizon, a fact that may have consequences for in-state gas use and energy planning.

Responses to Specific Questions

With this background, we now respond to your specific questions. Because several of the concerns you express seem to arise from a misunderstanding of some terms of the agreement, we have attempted to clarify such terms.

- **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)?**

No. The agreement provides that if a Major Gas Sale pipeline is constructed, the WIOs will retain Point Thomson acreage. The agreement does not inhibit or otherwise restrict the ability of any individual or entity to build a large-scale gas pipeline off the North Slope of Alaska.

- **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?**

No. As the above discussion indicates, only one development path, a Major Gas Sale as defined in Section 2.16 (Alternative A), involves construction of a gas pipeline off the North Slope. Under the Prudhoe Bay Injection Project discussed above (Alternative C), the agreement provides for the WIOs to construct a gas pipeline running between Point Thomson and Prudhoe Bay, and for the gas to be injected into the Prudhoe Bay reservoir. The gas would be available to the State for in-state use in the event that a gas pipeline is built to transport gas off the North Slope, but such a pipeline is not an element of this development path. The Point Thomson Settlement does not prohibit the State, or anyone else, from building a gas pipeline to transport gas off the North Slope at any time.

- **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.**

This description is not accurate. A "Major Gas Sale" is defined as a project transporting gas off the North Slope with throughput of more than 500 mmcf/d, but it does not limit Alaska's legal ability to receive its royalty share of natural gas from Point Thomson under any scenario. Nor is Alaska's legal ability to receive natural gas linked to delivery of Point Thomson gas into a pipeline to Prudhoe Bay. Rather, the agreement provides that should the WIOs choose to send Point Thomson gas to Prudhoe Bay for injection into that reservoir, the Prudhoe Bay WIOs *must* make gas available for sale to the State. This is not the only scenario, however, under which the State may procure natural gas from the North Slope.

Moreover, the AGIA project assurances provision (referred to in your question as "a risk of treble damages") does not require in-state volumes of less than 500 million cubic feet of gas per day. It would apply only if the State were to grant certain preferential tax, royalty, or monetary treatment "for the purpose of facilitating the construction of a competing natural gas pipeline project in this state ... designed to accommodate throughput of more than 500,000,000 cubic feet a day of North Slope gas to market." (See AS 43.90.440(a) and (c)(1)).

- **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?**

The AGIA statute is still in effect; however, as discussed in the previous response, it does not limit maximum volumes for an in-state gas pipeline. It provides for limited monetary payment to the AGIA licensee only if the State grants certain preferential treatment or money for the purpose of facilitating the construction of a competing natural gas pipeline project designed to accommodate throughput of more than 500 mmcf/d of North Slope gas to market.

- **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?**

The answer to each of these questions is no. The agreement provides gas for in-state use under two development scenarios described above (a Major Gas Sale project could result in gas for in-state use because the State retains its discretion to take its royalty-in-kind), and the State has discretion whether to take this gas and how to use it. The agreement does not restrict the State's ability to secure gas from the North Slope for any purpose. To the contrary, it provides a powerful tool—previously unavailable—to procure significant volumes of North Slope gas for in-state use by 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?**

The agreement provides that the WIOs may sanction a Major Gas Sale at any time prior to the end of 2019 in order to retain acreage. As noted, an "Alternative C" pipeline would run only between Point Thomson and Prudhoe Bay, and there is no direct linkage between an "in-state" pipeline off the North Slope and the Major Gas Sale project addressed in the agreement. However, if a Major Gas Sale is not sanctioned by 2016, then the WIOs must begin permitting and engineering work for either Expanded Cycling or a Prudhoe Bay Injection Project (or potentially both). But the agreement does not require them to pursue a Prudhoe Bay Injection Project. Thus, even if the WIOs do not pursue a Major Gas Sale, the agreement does not

guarantee that Point Thomson gas will be made available for in-state use because the WIOs could decide to pursue Expanded Cycling or stay with the IPS Project and lose acreage.

- **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?**

No. As an initial matter, DNR does not believe a "blow down" would necessarily constitute "waste." The agreement permits a "blow down" at Point Thomson in two situations: (1) if there is a Major Gas Sale off the North Slope, *i.e.*, the large scale gas pipeline that will provide gas to Alaskans and markets beyond, and that will open the North Slope to oil and gas exploration and development; or (2) if the WIOs complete the Prudhoe Bay Injection Project (which by definition must offset any lost liquids at Point Thomson with increased oil recovery at Prudhoe Bay). If either development proposal constitutes waste as defined by State law, the AOGCC will not authorize the project and the State is free to oppose such a project in front of the Commission. The State at all times remains free to facilitate a small diameter in-state gas line and retains all applicable commercial and legal avenues to secure gas for such a project. The agreement provides the extra bonus of having gas immediately available for purchase for in-state use should the WIOs commit to a Prudhoe Bay Injection Project.

- **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?**

No. The State is entitled to its royalty share of natural gas as it is produced by the WIOs from both the Prudhoe Bay and Point Thomson fields. If no commercial opportunity to sell gas exists, the best use of the gas may be to re-inject it into the field to maintain reservoir pressure and enhance liquids production. This currently occurs with most of the gas at Prudhoe Bay. If a commercial opportunity becomes available to sell gas in the future, for example a Major Gas Sale pipeline, then the State would expect the WIOs to produce and market gas consistent with their obligations under their State leases. The volume of gas produced and sold would likely require AOGCC review and approval to make sure that reservoir pressures were maintained at acceptable levels.

- **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.**

As a general matter, state oil and gas leases in Alaska provide that royalty obligations are triggered when produced hydrocarbons leave the lease boundary. If the lease is part of a unit, the

royalty triggering event is produced hydrocarbons leaving the unit boundary. The concept of "overlift" describes the scenario where a WIO is selling more gas than it is entitled to under its percentage of lease ownership (e.g., a WIO sells 100 units of gas but is only entitled to 50 units based on its ownership percentage). The other WIOs in the lease would be "underlifted" if a WIO overlifts. Overlifts typically are subject to a negotiated gas balancing agreement, which describes how the underlifted WIOs are "paid back" by the overlifting WIO for their share of the gas. Our research failed to locate any Attorney General opinions addressing this concept.

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

Please see section 1 in the description above of the Prudhoe Bay Injection Project. The State has agreed to take royalty in-kind under one specific development scenario to maximize the State's royalty interest in those circumstances.

- **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?**

These questions do not accurately reflect the agreement. Alternative A is the Major Gas Sale project which does not address royalty-in-kind gas or making gas available from Prudhoe Bay. This is not to say that if a Major Gas Sale project is sanctioned that the State cannot later agree to take royalty-in-kind or cannot agree to purchase gas from the WIOs at Prudhoe Bay. Further, the agreement does not limit the ability of the State—or anyone else, including the WIOs—to build a gas pipeline off the North Slope or take other steps to procure gas for in-state use.

- **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?**

The agreement places no restrictions on the State's ability to develop a gas pipeline for in-state use or export or to otherwise address in-state gas needs. Further, such activity by the State would not "void" or "nullify" any of the WIOs' contractual obligations under the agreement. State involvement in a gas pipeline off the North Slope with volumes of greater than 500 mmcf/d would implicate the AGIA project assurances in AS 43.90.440 as noted above. Finally, there is no reason to make any assumptions about an export component of any gas pipeline project involving State participation.

- **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?**

This pipeline is part of the IPS Project and should not be conflated with the discussions of natural gas pipelines that would leave the North Slope. You are correct that "economics" may not be invoked by the WIOs as an excuse not to complete the IPS Project. The WIOs may request royalty modification under Section 4.8 of the agreement consistent with their rights under Alaska law.

- **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?**

The agreement places no restrictions on the development of any gas pipeline, including the State's ability to develop a gas pipeline or to otherwise address in-state gas needs. Likewise, the agreement places no limits on volumes for a pipeline for in-state use. It does not address, and makes no assumptions about, the State's involvement in a gas pipeline project of any size. If a large-scale natural gas pipeline were constructed off of the North Slope with a capacity in excess of 500 mmcf/d, the project would involve the WIOs or some affiliate(s) of the WIOs in some capacity (it is not realistic to conclude otherwise) and thus would allow the WIOs to forgo the other development alternatives and pursue a Major Gas Sale development under the agreement.

The 500 mmcf/d limitation referenced in this question is found only in AGIA. An entity other than TransCanada that constructed a gas pipeline in excess of 500 mmcf/d would not be in violation of the assurances provision of AGIA. The assurances provision applies only if the State grants certain preferential treatment or money to facilitate construction of a competing natural gas pipeline project designed to accommodate throughput of more than 500 mmcf/d of North Slope gas to market.

- **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? 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?

It is not clear what "comments ... that AGIA's statutes may be applied to an in-state gas pipeline" you are referring to in this question. However, AGIA is not limited in its application to an in-state pipeline, international pipeline, or export project. Further, the agreement does not conflict with AGIA. As discussed above, AGIA does not prohibit an in-state gas line with a design capacity greater than 500 mmcf/d, but the assurances provisions may apply if the State grants certain preferential treatment or money for the purpose of facilitating the construction of a competing natural gas pipeline project with throughput of more than 500 mmcf/d of North Slope gas to market. Finally, there has been no contact with TransCanada specific to the agreement; the agreement is independent of the AGIA process and TransCanada has no involvement with it. There is no requirement to ask TransCanada whether it approves of the Agreement.

The other questions raised in this paragraph are policy matters that DNR and Governor Parnell's administration have addressed elsewhere in numerous forums.

- **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?**

No. State involvement in any form of gas pipeline, whether a line leaving the North Slope or a line originating in Cook Inlet, would not violate the Point Thomson Settlement. Further, by its terms, the AGIA project assurance provision applies only to North Slope gas, so a gas line carrying Cook Inlet gas would not "violate" AGIA.

- **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?**

No. Construction of an in-state gas pipeline with a capacity of 500 mmcf/d or less does not implicate any contractual obligations in the agreement (this response assumes your AGIA reference is to the volume limitation defining a competing gas pipeline in the project assurances provision in AGIA). Construction of an in-state gas pipeline does not relieve the WIOs of their obligations to develop Point Thomson as provided in the agreement or the ramifications of failing to do so.

Again, I appreciate the opportunity to respond to your questions about the agreement. Please feel free to contact me if you have any further questions. Thank you very much for your attention to these important issues.

Sincerely,



Michael C. Geraghty
Attorney General

cc: Commissioner Dan Sullivan, Department of Natural Resources