

**HB**

**296**

**HFIN**

**FILE**

- HB 296 : ANGDA

- Sponsor Substitute HB 296 • Croft

- Amendment (DOR)

\* makes an appropriation GF : \$ 2,150,000

Heard and  
held 3/4/04

## Projected Gas Budget for FY '04 and FY '05

### I. Stranded Gas Negotiations

#### A. Producers (subject to \$1.5 million reimbursement agreement)

##### FY '04

Fiscal terms	\$250,000
Tariff/access	\$200,000
Engineering	\$50,000
Legal	\$150,000
Petrochemicals	\$50,000
Social impact	\$50,000
In-state gas	\$50,000
Markets/valuation	\$50,000

\$850,000

( incl. \$270,000 spent)

##### FY '05

Fiscal terms	\$300,000
Tariff/access	\$300,000
Engineering	\$200,000
Legal	\$300,000
Petrochemicals	\$300,000
Social impact	\$50,000
In-state gas	\$50,000
Markets/valuation	\$200,000

\$1,750,000

\$2,600,000

#### B. MidAmerican

(assumes completion of negotiations in '04)

##### FY '04

Fiscal terms	\$100,000
Tariff/access	\$100,000
Engineering	\$50,000
Legal	\$100,000
Social impact	\$50,000
In-state gas	\$50,000

\$450,000

( incl. \$170,000 spent)

C. Port Authority

(Subject to approval of application)

If approved:

FY '05

Fiscal terms	\$100,000
Tariffs Access	\$100,000
Engineering	\$100,000
Legal	\$100,000
Petrochemicals	\$100,000
Social impacts	\$100,000
Markets/valuation	\$100,000

\$700,000

II. ANGDA

FY '04

Finance <sup>1</sup>	\$100,000
Federal tax exemption	\$50,000
LNG Marketability	\$100,000

\$250,000

FY '05

Finance	\$100,000
LNG Marketability	\$100,000

\$200,000

\$450,000

III. Other

FY '04

Alberta inter-governmental	\$100,000
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\$100,000

FY '05

Energy bill regulatory proceedings (if the bill passes)

Tariffs, access	\$100,000
Loan guarantee	\$100,000
Alberta inter-governmental	\$100,000
Alaska Railroad	
Tax-Exempt Financing	\$100,000
Other proposals	\$500,000

\$900,000

\$1,000,000

<sup>1</sup> Includes capital structure, cost of capital, price and reserve requirements

TOTAL	
FY '04 Subject to reimbursement	\$850,000
FY '04 Not subject to reimbursement	\$800,000
Less \$170,000 spent	(\$170,000)
Net appropriation sought	\$630,000
FY '05 Subject to reimbursement	\$650,000
FY '05 Not subject to reimbursement	\$2,850,000
NET APPROPRIATION SOUGHT	\$3,480,000



## REPRESENTATIVE ERIC CROFT

### HB 296 Alaska Natural Gas Development Authority Proposed Budget

Component*	Amount
<b>Office</b> Salaries: Executive Director, Assistant Director, 2 Secretaries Rent Travel Misc.	\$500,000
<b>Operations</b> Research, Contracts, and Legal Services	\$800,000
<b>Total</b>	<del>\$1,300,000</del> <i>Increased to \$2,150,000</i>

\*The components and specific amounts in this budget are simply proposals. The Executive Director will have discretion over the actual expenditures.

What is ANGDA's contribution(s)  
that make it worthy of \$2.15 million of public money"

## **Benefits to Alaska**

- Make sure that Alaskan's receive the direct and indirect benefits of Alaskan gas
- Benefit analysis model integrates analysis in a new and broader view

## **Business Structure**

- Reduce transportation cost of gas by:
  - avoidance of income tax and
  - lower financing costs through tax-exempt bonding,thereby improving North Slope gas (public resource) marketability and well head values

## **Alaskan LNG Project**

- Complete feasibility study of LNG export project from Valdez (with a spur line from Glennallen to the Cook Inlet area) demonstrating that it is economic (can be financed) and competitive in the Pacific Rim LNG market

What is ANGDA's biggest challenge(s) ?

## **Timely funding !!**

- By the time the fast track supplemental funding passes there will be barely 4 month left before the statutory deadline
- Quality information is needed in the feasibility study to support the multi-billion dollar decision to proceed or to stop
- The LNG market is very dynamic, moving rapidly, and we can not compete until the Alaska government and people want to move forward



## REPRESENTATIVE ERIC CROFT

### Sponsor Statement HB 296 Funding the Alaska Natural Gas Development Authority

In the 2002 election, 62 percent of Alaskan voters voted to create the Alaska Natural Gas Development Authority as a public corporation of the state to facilitate the creation of an Alaskan natural gas pipeline. The Authority would have a seven-member board of directors appointed by the governor to design, construct, operate and maintain a natural gas pipeline system.

With all of the public support and political rhetoric in favor of the project, the only thing missing is the financial support. HB 296 asks the Legislature to supply the seed money to get this vital economic stimulus started. Corporate investors need to see that Alaska is willing to commit to this project, and the best way to do this is to follow the public's lead and fund the Alaska Natural Gas Development Authority.

Alaskans know how valuable a natural gas pipeline would be to the citizens of this state in terms of jobs and economic growth. With oil production declining and vast amounts of natural gas going unused for lack of a viable means of transporting it to market, a natural gas pipeline is the most direct means of increasing the state's resource revenues.

HB 296 appropriates \$1.3 million based on a draft budget for the Alaska Natural Gas Development Authority that was prepared in November 2002 by Scott Heyworth, the chief sponsor of Ballot Measure 3. The draft budget requested \$2 million, but considering Alaska's current fiscal situation and proposed budget cuts, HB 296 proposes a more slim version that would lessen the Executive Director's salary, and cut some travel and miscellaneous funds. The \$1.3 million appropriation would still provide adequate resources to research and lay the groundwork for the project.

As of the end of April, the governor has appointed no members to the board and allocated only \$150,000 to the Authority. Alaska has waited long enough for a trans-Alaska natural gas pipeline. The people have spoken loudly in favor of pursuing the project, and now is the time for the Legislature and the Governor to listen.

## ANGDA supplementary funding request (\$2.15 million)

*(Heirze on 2/10/04)*

Covers major work areas related to:

- business structure for the lowest cost-of-service
- integrated analysis of the benefits to Alaska and Alaskans
- verification of key project design, cost, and schedule elements

Addresses all eleven elements listed in Ballot Measure 3 that must be included in the development plan

Interaction with the State's consideration of the Stranded Gas applications:

- Help with the work (ie, benefits analysis)
- Provide a lower cost-of-service business alternative that help gas marketability
- Augment sponsors ability to provide gas and benefits to Alaskans

ANGDA is working with the Administration team to define and contract for most important ANGDA and Stranded Gas work efforts. Total funding requirement seems consistent with several alternative work emphasis scenarios.

Resolution of the ANGDA Board passed unanimously on Feb 9, 2004 in support of the Administration's proposal to combine efforts of State resources working on North Slope gas issues.

"The Board of the Alaska Natural Gas Development Authority supports the appropriation of \$3,000,000. in the remainder of FY 04 to the Department of Revenue for work related to bringing North Slope gas to market."

Alaska Natural Gas Development Authority				FY 04 Funding Plan		
		Current		Added	FY 04	Development
		Spent	Pending	In FY 04	Total	Plan Element
<b>ANGDA</b>						
	Personal Services (Staff)	126		29	155	General
	Staff Travel	4	5	11	20	9 + General
	Board Travel	7	4	14	25	9 + General
	Office & Supply	6		19	25	General
	Report & Communication			50	50	Communication
<b>Business Contractors</b>						
	Benefit Analysis	50		100	150	3, 4, 5, 6, 7 & 11
	Tax Advice	25		125	150	Business Plan
	Market Insight	25		75	100	2, 9
	Financing		50	100	150	Business Plan
	Project Economics			100	100	2
<b>Project Contractors</b>						
	Contractor Co-ordination	15		120	135	1
	Spur Line Cost		20		20	1
	Permit Review		13	37	50	8
	LNG Plant Concepts			100	100	1, 10
	Engineering Design			750	750	1, 10
	Cost & Schedule			500	500	1, 10
	Downstream Concepts			20	20	1
<b>TOTAL</b>		<b>258</b>	<b>92</b>	<b>2,150</b>	<b>2,500</b>	

## Required Elements in the Development Plan

### Alaska Natural Gas Development Authority

Ballot Measure 3 stated that

The development plan must include:

1. Estimates of Construction Costs and Timelines
2. Gas Procurement Prices
3. Use of the State's Royalty Gas
4. Estimates of Revenue to the General Fund and the Alaska Permanent Fund
5. A Revenue Sharing Plan with Municipal Governments
6. A Plan for the Delivery and Pricing of Natural Gas to Communities Along the Pipeline Route and to South-Central Alaska through a spur line
7. A Plan for Delivery and Pricing of Natural Gas to Yukon River and Coastal Communities
8. A Payment Schedules to Companies Providing Permits or Other Valuable Assets
9. A Marketing Plan to Approach Potential Buyers
10. A Plan to Maximize Alaska hire,  
Including Project Labor Agreements
11. A Plan to Ensure Meeting the Highest Environmental and Safety Standards, Including a Citizen Advisory Council

THE  
FOLLOWING  
DOCUMENT(S)  
ARE  
POOR  
ORIGINAL  
COPIES

<b>ANGDA Funding by Development Plan Elements</b>			
<b>Development Plan Element</b>		<b>Contract Reference</b>	
		Contract co-ord	\$135
		Spurline cost	\$20
1	Cost & Timelines	LNG plant concepts	\$100
10	Alaska Hire	Engineering design	\$750
		Cost & schedule	\$500
		Downstream concepts	\$20
2	Gas Procurement Prices	Market insight	\$100
9	Marketing Plan	Project economics	\$100
3	State's Royalty Gas	Benefit analysis	\$150
4	GF & PF Revenue		
5	Municipal Sharing		
6	Gas to Communities		
7	LNG to Communities		
11	Environmental & Safety		
8	Value of Permits	Permit review	\$50
	General & Overhead	Staff salary & benefits	\$155
		Travel	\$45
		Office & supplies	\$25
	Communication	Report & communications	\$50
	Business Plan	Tax advice	\$150
		Financing	\$150
<b>TOTAL</b>			<b>\$2,500</b>

Alaska Natural Gas Development Authority				Alternate FY 04 Funding Strategies			
				<u>Alternative Priority Strategies</u>			
				<u>Base Case</u>	<u>Partner</u>	<u>Defer Report</u>	
				<u>FY 04</u>	<u>FY 04</u>	<u>FY 04</u>	
				<u>Spent</u>	<u>Added</u>		
<b>ANGDA</b>					275	375	225
Personal Services (Staff)	126	29	155	180	155		
Staff Travel	9	11	20	45	20		
Board Travel	11	14	25	50	25		
Office & Supply	6	19	25	50	25		
Report & Communication		50	50	50	0		
<b>Business Contractors</b>					650	1,200	900
Benefit Analysis	50	100	150	250	200		
Tax Advice	25	125	150	250	150		
Market Insight	25	75	100	250	150		
Financing	50	100	150	250	250		
Project Economics		100	100	200	150		
<b>Project Contractors</b>					1,575	925	1,105
Contractor Co-ordination	15	120	135	185	135		
Spur Line Cost	20		20	50	30		
Permit Review	13	37	50	50	50		
LNG Plant Concepts		100	100	100	100		
Engineering Design		750	750	250	500		
Cost & Schedule		500	500	250	250		
Downstream Concepts		20	20	40	40		
<b>TOTAL</b>	<b>350</b>	<b>2,150</b>	<b>2,500</b>	<b>2500</b>	<b>2230</b>		

<b>Alaska Natural Gas Development Authority</b>		<b>FY 04 Funding Plan</b>				
		<b>Current</b>		<b>Added</b>	<b>FY 04</b>	<b>FY 04</b>
		<b>Spent</b>	<b>Pending</b>	<b>In FY 04</b>	<b>Total</b>	<b>Sub-Total</b>
<b>ANGDA</b>						<b>275</b>
	Personal Services (Staff)	126		29	155	
	Staff Travel	4	5	11	20	
	Board Travel	7	4	14	25	
	Office & Supply	6		19	25	
	Report & Communication			50	50	
<b>Business Contractors</b>						<b>650</b>
	Benefit Analysis	50		100	150	
	Tax Advice	25		125	150	
	Market Insight	25		75	100	
	Financing		50	100	150	
	Project Economics			100	100	
<b>Project Contractors</b>						<b>1,555</b>
	Contractor Co-ordination	15		120	135	
	Spur Line Cost		20		20	
	Permit Review		13	37	50	
	LNG Plant Concepts			100	100	
	Engineering Design			750	750	
	Cost & Schedule			500	500	
	Downstream Concepts			20	20	
<b>TOTAL</b>		<b>258</b>	<b>92</b>	<b>2,150</b>	<b>2,500</b>	

<b>Nominal Pipeline Sizes &amp; Capacity</b>			
<b>NOMINAL CAPACITY</b>	<b>GASLINE DIAMETER</b>	<b>PIPE AREA</b>	<b>IMPLIED RESERVES</b>
<b>(BSCFPD)</b>	<b>(Inches)</b>	<b>(36" = 1.)</b>	<b>(TCF)</b>
<b>1.25</b>	<b>24</b>	0.44	<b>9</b>
<b>2</b>	<b>30</b>	0.69	<b>15</b>
<b>3</b>	<b>36</b>	1.00	<b>22</b>
<b>4</b>	<b>42</b>	1.36	<b>30</b>
	<b>30 - 30</b>	1.39	
<b>5</b>	<b>36 - 30</b>	1.69	<b>35</b>
	<b>48</b>	1.78	
<b>6</b>	<b>36 - 36</b>	2.00	<b>45</b>
	<b>52</b>	2.09	
<b>7</b>	<b>54</b>	2.25	<b>50</b>
	<b>40 - 40</b>	2.47	
<b>8</b>	<b>42 - 42</b>	2.72	<b>60</b>
	<b>60</b>	2.78	
	<b>48 - 36</b>	2.78	
<b>10.5</b>	<b>48 - 48</b>	3.56	<b>75</b>
<b>12</b>	<b>72</b>	4.00	<b>90</b>

*Chart is illustrative for comparing North Slope gas projects - Heinze 12/03*

February 12, 2004

Mr. David L. Sokol  
Chairman and Chief Executive Officer  
MidAmerican Energy Holdings Company  
P. O. Box 657  
Des Moines, IA 50303-0657

Dear Mr. Sokol:

The Board of Directors of the Alaska Natural Gas Development Authority (ANGDA) and I welcome you and your company to Alaska and your sponsor group interest in bringing North Slope gas to market. As a public corporation of the State, ANGDA's interest is in the timely delivery of Alaska gas to the market in a way that provides the maximum benefits to Alaska and Alaskans.

ANGDA was created by public initiative and directed to pursue a gasline to Valdez, LNG export, and a spur line from Glennallen to the Cook Inlet area. Obviously this project has a number of common aspects to your proposed AlCan highway gas project and we would welcome the opportunity to work with you in a mutually beneficial way.

Additionally, ANGDA has undertaken several work projects (i.e., a "benefits analysis" model) that may be of interest in your project definition and discussions with the State. We also are currently defining our business structure to assure that the leverage of being an Alaskan public agency contributes to the lowest cost-of-service possible in North Slope gas transportation.

In all of these areas we are anxious to contribute to your project's success and would welcome the earliest opportunity to interact directly in Alaska or at your headquarters.

Harold Heinze  
CEO, Alaska Natural Gas Development Authority

Copied To: Mr. Robert Sluder, MEHC Alaska Gas Transmission Company, LLC  
Mr. Ken Thompson, Pacific Star Energy  
Mr. Carl Marrs, CIRI

February 13, 2004

To:

Mr. Joe Marushack  
 Vice President  
 ANS Gas Development  
 ConocoPhillips Alaska

Mr. Ken Konrad  
 Sr. Vice President  
 Alaska Gas  
 BP Exploration Alaska

Mr. R. D. Schilhab  
 Vice President  
 ExxonMobil Alaska  
 Production

Dear Sirs:

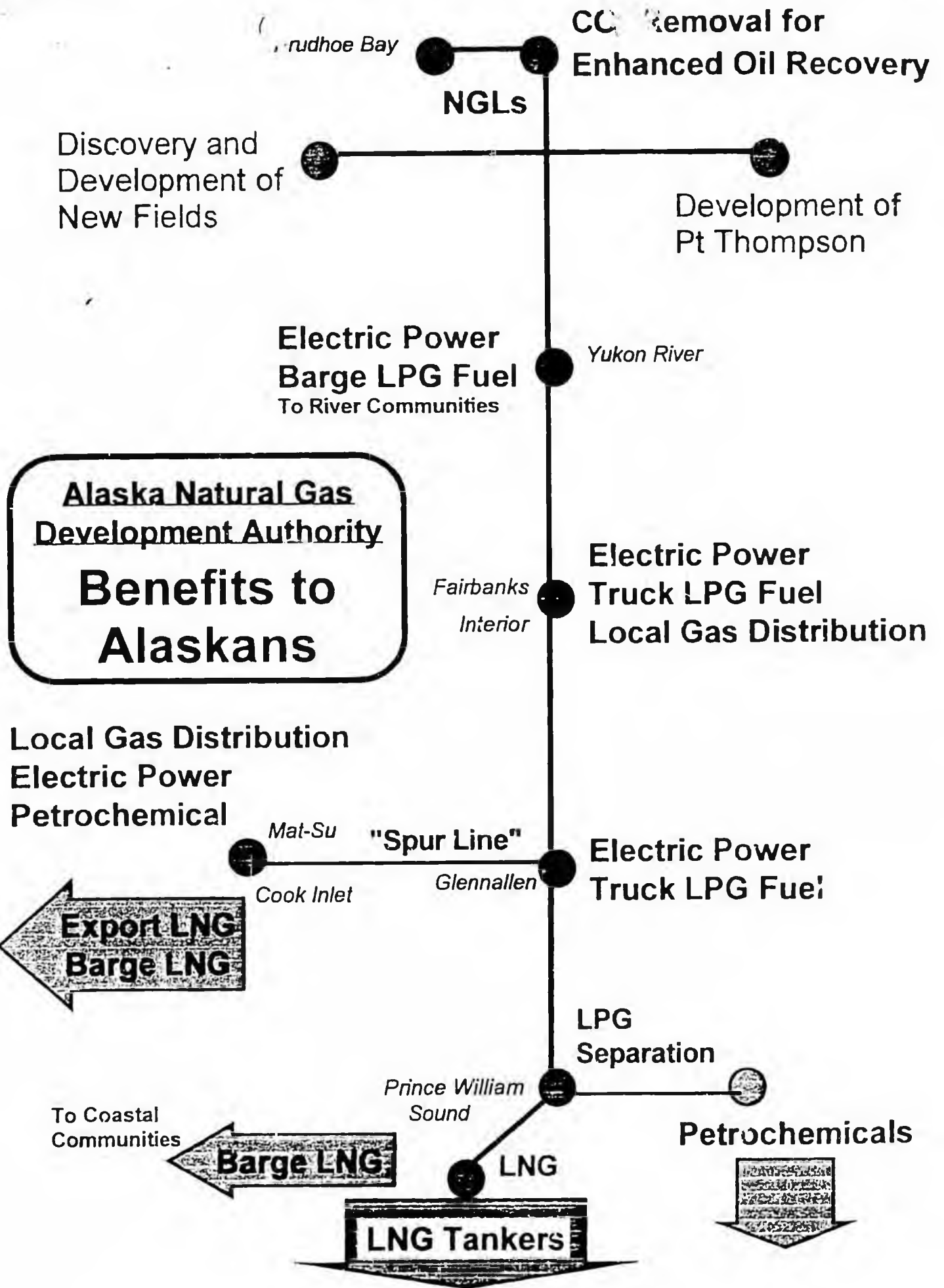
The Board of Directors of the Alaska Natural Gas Development Authority (ANGDA) takes note of your recent application to the State of Alaska under the Stranded Gas Act.

As a public corporation of the State, ANGDA's interest is in the timely delivery of Alaska gas to the market in a way that provides the maximum benefits to Alaska and Alaskans. ANGDA was created by public initiative and directed to pursue a gasline to Valdez, LNG export, and a spur line from Glennallen to the Cook Inlet area. Obviously this project has a number of common aspects to one of your proposed gasline route alternatives following the AICan highway and we would welcome the opportunity to work with you in a mutually beneficial way. Your Beaufort Sea alternative route might become possible if North Slope gas was available to Alaskans as provided for in our project and we would also welcome the opportunity to discuss your co-operation towards that objective.

Additionally, ANGDA has undertaken several work projects (i.e., a "benefits analysis" model) that may be of interest in your project definition and discussions with the State. We also are currently defining our business structure to assure that the leverage of being an Alaskan public agency contributes to the lowest cost-of-service possible in North Slope gas transportation.

In all of these areas we are anxious to contribute positively towards your determination of an economic project and we would welcome the earliest opportunity to interact directly at a Board level.

Harold Heinze  
 CEO, Alaska Natural Gas Development Authority



# Alaska Business Segments in Marketing North Slope gas

Gas Treatment  
& CO2 Removal

North  
Slope

Community  
Gas Supply

Delta

HUB

To U S via  
Canada

Glennallen

Spur Line

Cook Inlet

LNG Plant

Valdez

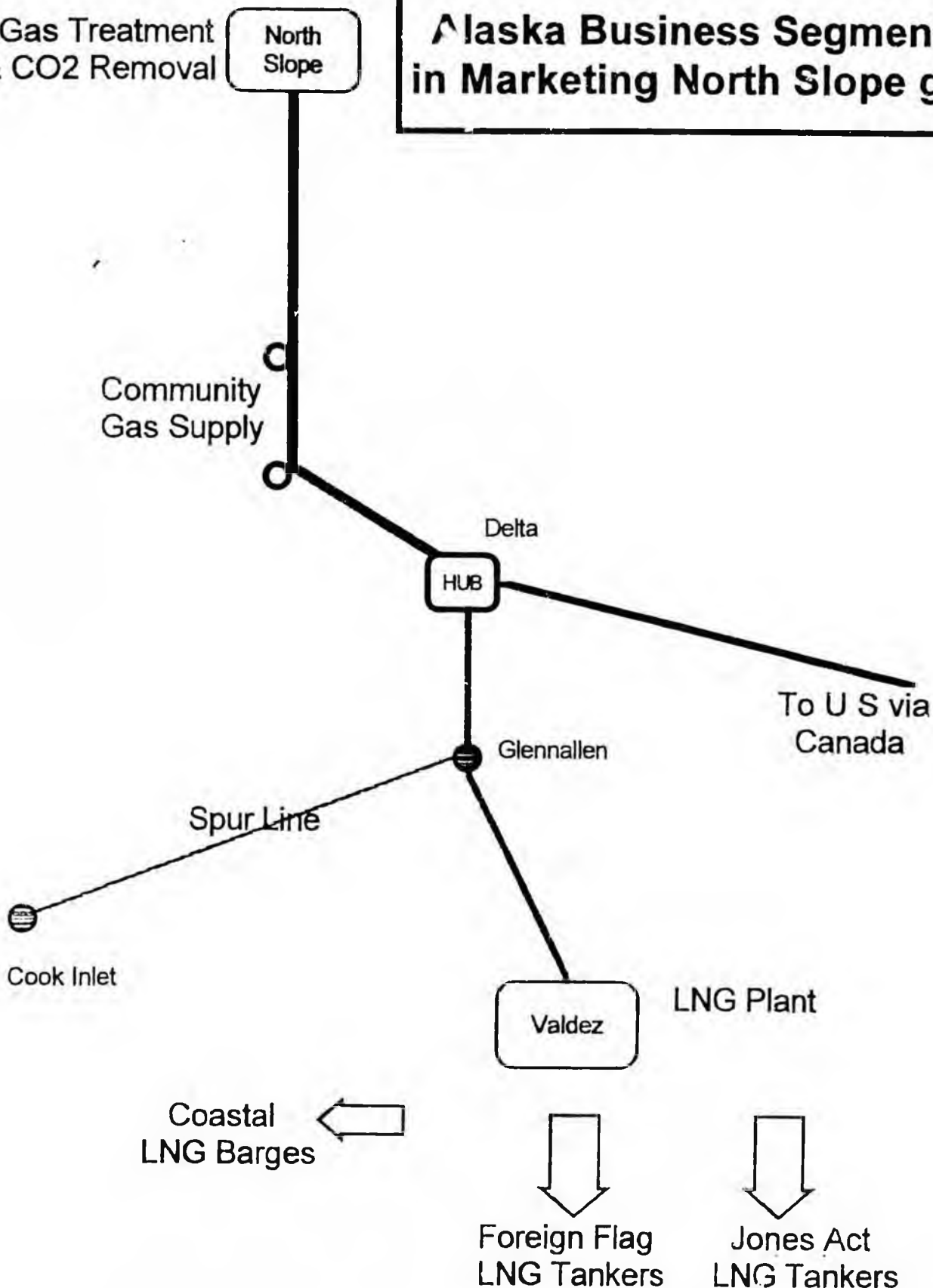
Coastal  
LNG Barges

Foreign Flag  
LNG Tankers

Jones Act  
LNG Tankers

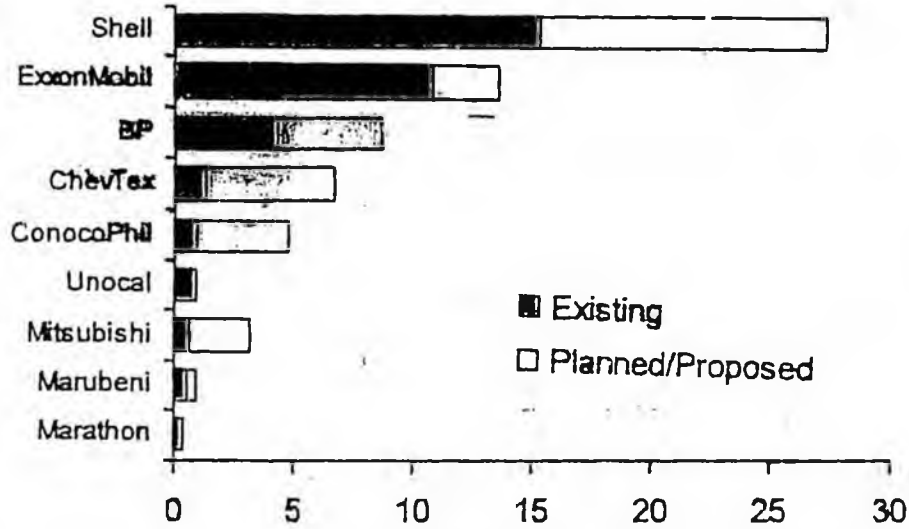
Prepared 12/8/03 by the

**Alaska Natural Gas Development Authority**

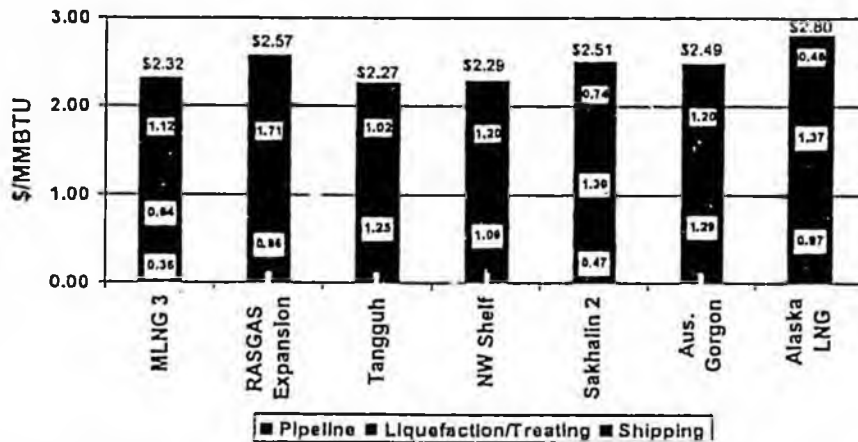




### Asia-Pacific Key LNG Suppliers (Estimated working interest, mmtpa)



### ESTIMATED COST OF SERVICE COMPARISON TO WCNA<sup>(1)</sup>

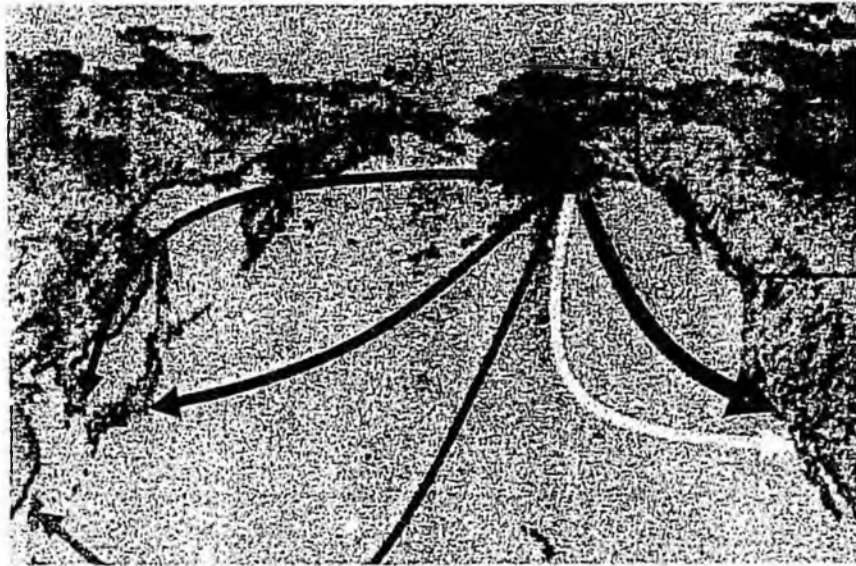


Numbers estimated from external sources  
Excludes upstream and cost for regas

(1) West Coast North America

ConocoPhillips

## Potential Markets for Alaskan LNG



## MC's Involvement in LNG Business

Project	Up-stream	LNG Plant	Finance	Shipping	Services to Buyers	Receiving Terminal
'69 Alaska					→	
'72 Brunei		→	→	→	→	
'83 Malaysia Satu		→	→	→	→	
'84 Indonesia (Arun2)			→	→	→	
'89 Australia (NWS)	→	→	→	→	→	
'95 Malaysia Dua		→	→	→	→	
'00 Oman		→				
'03 Malaysia Tiga	→	→	→		→	
'07 Tangguh	→		→	→	→	
'07 Sakhalin II	→	→	→	→	→	
'07 Venezuela (VLNG)	→	→	→	→	→	
'07-08 LB (SES)			→	→	→	→

Mitsubishi Corporation

September, 2003

## ANGDA Project Concept & Cost

<u>Project Elements</u>	<u>Size</u>	<u>Cost</u>
Treatment	2 BCFPD plant	\$ 2 B
Pipelines	800 miles of 36"	\$ 4 B
Liquefaction	4 trains @ 4 M tn/yr	\$ 4 B
LNG Tankers	3@\$300M & 7@\$150 M	\$ 2 B
<b>Total Export</b>	<b>16 M tn/yr</b>	<b>\$ 12 B</b>

## NOTIONAL Cost of Service Comparison

Does NOT Include Wellhead Purchase Price

	High ROR Commercial	Not Taxable	Benefit Driven Infrastructure
Pipeline	1.40	1.00	0.75
LNG	1.50	1.20	0.90
<b>Total Cost of Service</b>	<b>\$2.90</b>	<b>\$2.20</b>	<b>\$1.65</b>

Pacific Rim LNG Projects to West Coast: \$2.20 to \$2.60

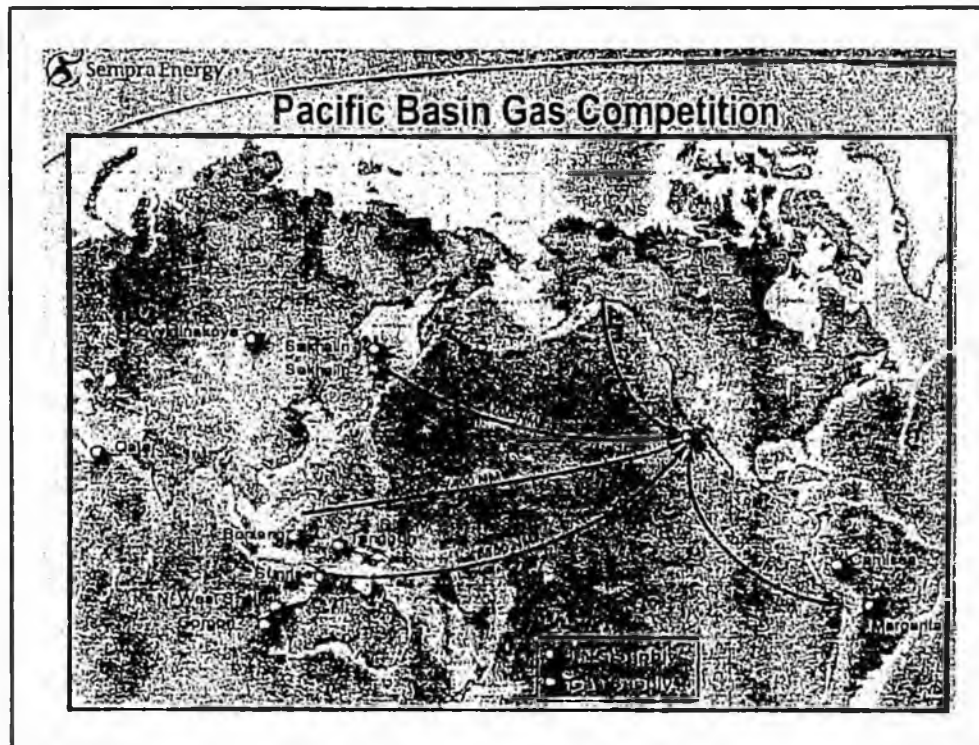
AlCan Highway Gasline to Market: \$2.39

### Pacific Rim LNG Supplies



### Delivery Volumes / year from Valdez

	Long Beach	Baja Mexico	Tokyo Japan	Inchon Korea	Taiwan
Distance (nm)	2,070	2,200	3,409	4,216	4,590
Volume/ship/yr	1.9 mt	1.8 mt	1.3 mt	1.0 mt	1.0 mt

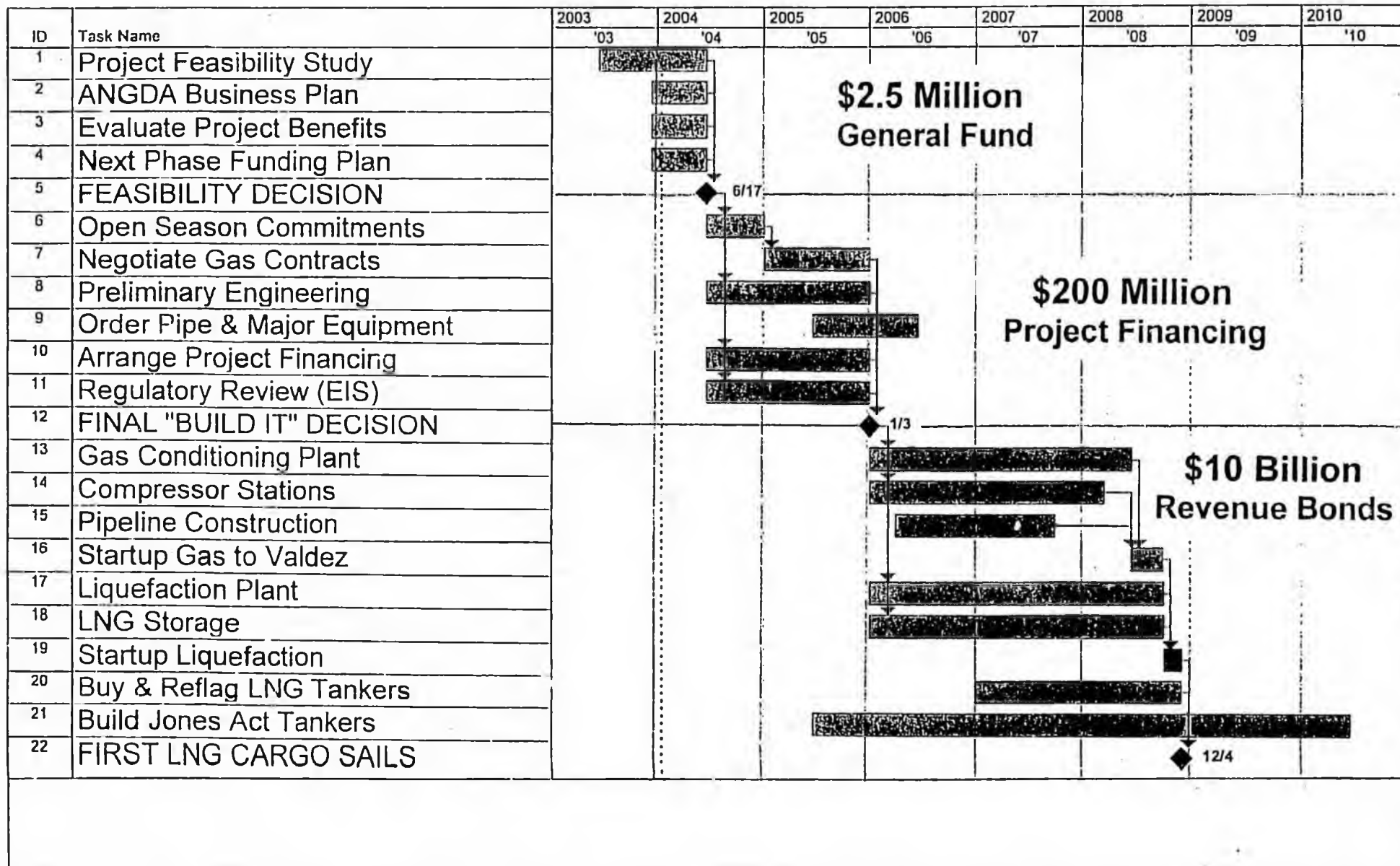


## **Alaska Natural Gas Development Authority**

Homepage is: <http://146.63.35.79/>

Harold Heinze  
411 W. 4<sup>th</sup> Ave, Anchorage 99508  
(907) 257 - 1347  
Fax: (907) 646 - 5005  
[hheinze@jpo.doi.gov](mailto:hheinze@jpo.doi.gov)

# ANGDA All-American LNG Project Conceptual Schedule





North America's Source for Oil and Gas News  
February 2004

Vol. 9, No. 7

Week of February 15, 2004

## Alaska gas authority work could shift

### Administration says it's time to stop planning stand-alone LNG project

Larry Persily

*Petroleum News Government Affairs Editor*

The Murkowski administration believes it's time the Alaska Natural Gas Development Authority stopped looking at building a state-owned pipeline from the North Slope to Valdez and instead shifted its focus to seeing what value it might add by building on to a proposed gas line to mid-America.

That could include spur lines from the main trunk to serve Interior communities, bringing gas to Southcentral Alaska to supplement declining Cook Inlet supplies, and a smaller line to tidewater at Valdez for a liquefied natural gas project.

And to accompany that change in direction, the administration is asking the

## Want to know more?

If you'd like to read more about the Alaska Natural Gas Development Authority, go to Petroleum News' web site and search for these articles published in the last few months. There are several more articles not listed that mention the gas authority or deal with LNG terminals in the continental United States and Mexico.

Web site: [www.PetroleumNews.com](http://www.PetroleumNews.com)

### 2004

- Feb. 8 Senate committee recommends state gas authority funding
- Feb. 1 Alaska's other gasline group may have buyer for LNG
- Feb. 1 Bill expands Alaska gas authority's options
- Feb. 1 Natural gas pipeline plans not the same
- Jan. 25 LNG bills get first hearing

Legislature to increase the state gas authority's \$2.15 million funding request to \$3 million, but to give the money to the Department of Revenue to allocate as needed for all of the state's efforts to promote construction of a privately built North Slope gas pipeline and in-state gas distribution.

"We're not talking about ANGDA (the gas authority) doing its own thing anymore," Steve Porter, deputy commissioner at Revenue, told the authority's board of directors Feb. 9. "We see the authority as part of a team."

#### Gas authority would share funding

That team would include the departments of Revenue, Law and Natural Resources, which have started negotiations with two applicants for a fiscal contract covering the proposed North Slope natural gas pipeline across Alaska, through Canada and into Lower 48 markets.

The negotiations, under the state's Stranded Gas Act, could lead to a contract for scheduled payments by either developer in lieu of all state and municipal taxes on the project. The intent is to gain a measure of fiscal certainty for the project developer and the state, while also allowing the state to negotiate other conditions into the contract — such as in-state access to the gas, resident hire and local contractor preferences.

Revenue, Law and Natural Resources may need more money for research and analysis work during contract negotiations, particularly pipeline tariff issues, financing and in-state benefits, Porter said. The \$3 million allocation would be shared by all of the agencies and the authority to collect whatever information could most help the state toward its goal of moving its gas to market, putting billions of dollars into the

- Jan. 18 Natural gas authority counts LNG votes

- Jan. 18 Gas authority drops lobbyist idea

- Jan. 18 State of Alaska investment in gas pipeline under discussion

- Jan. 18 State gas authority sees competition

- Jan. 18 Too much LNG a possibility

- Jan. 11 Bills address state natural gas authority

2003

- Dec. 28 Alaska natural gas board sees problems

- Dec. 28 Sempra Energy taps Indonesia LNG for U.S.

- Dec. 21 State natural gas authority thinks bigger

- Dec. 21 State gas authority wants lobbyist

- Dec. 14 Alaska gas authority delays funding request

- Dec. 7 Federal loan guarantee extended to LNG

- Nov. 30 Gas authority wants more money

- Nov. 30 Alaska LNG backers see hope in project

state treasury over the next several decades and making North Slope gas available to as many communities as possible.

#### **Administration calls it a partnership**

Pipeline operator MidAmerican Energy Holdings Co., of Des Moines, Iowa, and a consortium of the three major North Slope producers last month submitted Stranded Gas Act applications to the state, and Porter said that's where the gas authority could be most helpful.

"The state is offering you an opportunity to partner with us," he told the board. "We think that is consistent with what the people of Alaska voted for."

Voters created the authority when they approved a citizens' initiative in November 2002, giving the authority the job of planning a state owned-and-operated pipeline to Valdez where the gas would be chilled and shipped worldwide as LNG in search of buyers. The job also includes looking at bringing North Slope gas to Southcentral Alaska, where residents, businesses and industry worry they may run short of Cook Inlet gas within the next 10 years.

The administration's recommendation is not to spend any more money trying to build a stand-alone line from Prudhoe Bay that's probably not economic when the authority could instead negotiate to tap into the main line as it runs south, Porter said.

That assumes either MidAmerican or the producers build the main line, and that the gas authority could prove to the administration, the Legislature and investors that any spur lines would be economic.

#### **Board members unhappy at losing budget control**

Several gas authority board members were not happy with Porter's partnership message.

"Will this delay what we're supposed to do or will it lead down some rabbit trails?" asked John Kelsey of Valdez. He objected to "backing away from what 138,000 people told us we should do," referring to 3-to-2 victory margin for the ballot initiative.

"I want to know what our budget is, it has to be specific for me," said board member Dan Sullivan of Anchorage, asking Porter how much of the \$3 million the gas authority would get.

"I can't define the future," Porter said, later adding, "The Legislature will move with or without you."

After an executive session and further discussion in public, the board voted unanimously to support the \$3 million funding request, with Revenue to share the money between all of the state offices involved.

"This could be a very weak position for us to take," said board member David Cuddy of Anchorage. "Money is power and control."

The funding question came up the next day before the House Oil and Gas Committee, at which Rep. Cheryl Heinze, R-Anchorage, said to gas authority CEO Harold Heinze: "I'm trying to pin down what assurances you have that the money is going to go to the authority." Neither Porter nor Rep. Heinze's spouse provided any assurances that the authority would get all of the \$2.15 million it originally requested this session.

Funding request to go to Legislature

To tell us where the gas goes

"I can't define the future"

Who is it that we the legislature are supposed to trust - is it you - your boss - the governor? Who is asking us to do this & who is accountable to the 138,000 people who voted for the Gas Auth.

What is the timeline?

What is the fallback what if ~~none~~ <sup>nothing</sup> of the application follows then we become a fallback what is the ~~plan~~ <sup>plan</sup> fallback plan?

138,000 vote

Legislation to appropriate \$2.15 million directly to the gas authority is before the Senate Finance Committee (Senate Bill 241) and House Resources Committee (House Bill 296), and Porter said the administration will present the new \$3 million request to both chambers.

The funding, if approved, would be available immediately and would extend past the end of the fiscal year on June 30, Porter said, to ensure the money remains available even if the state cannot finish its Stranded Gas Act negotiations as it hopes this spring. The law allows the state to request reimbursement of up to \$1.5 million from each applicant for the cost of consultants to assist in the negotiations, but Porter said the state needs contingency money to avoid any delays in its work.

Also, the reimbursement provision is limited to work done specifically for the contracts and does not apply to other efforts the state might want to undertake outside of the negotiations.

The gas authority has its own deadline, too. It faces a mid-June deadline to submit its LNG project plan to the Legislature, but some legislators have talked of extending the date if necessary.

#### **Cancelled sales trip an issue, too**

Several board members Feb. 9 also discussed their displeasure that the governor's office cancelled an LNG marketing trip planned by CEO Heinze and board member Scott Heyworth to Japan earlier this month. Heinze said Jim Clark, chief of staff to Gov. Frank Murkowski, told him just a few days before the trip that he needed to stay in Alaska to help with the state's gas line efforts.

"What happens when we butt heads and we decide our priority is a trip to Japan," but

the governor's office says otherwise, asked board member Cuddy.

The governor's ultimate authority is to hire and fire board members, said Leonard Herzog, an assistant attorney general and adviser to the authority.

At some point the board may need to think about autonomy, Cuddy said.

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# Ballot Measure 3 - Initiative Petition

## Gas Pipeline Development Authority

### BALLOT LANGUAGE

This bill would create the Alaska Natural Gas Development Authority (Authority) as a public corporation of the State. The Authority would acquire and condition North Slope natural gas, and construct a pipeline to transport the gas. The Authority's powers would include buying property or taking it by eminent domain, and to issue state tax-exempt revenue bonds. The gasline route would be from Prudhoe Bay to tidewater on Prince William Sound and the spur line from Glennallen to the Southcentral gas distribution grid. The Authority would operate and maintain the gas pipeline, ship the gas, and market the gas.

### SHOULD THIS INITIATIVE BECOME LAW?

YES

NO

### BALLOT MEASURE SUMMARY

Prepared by the Legislative Affairs Agency

This measure proposes a new public corporation. It would be called the Alaska Natural Gas Development Authority. It would have a seven-member board of directors appointed by the governor. The board is required to design, construct, operate, and maintain a natural gas pipeline system. That system or project would transport North Slope natural gas. It would move the gas to Prince William Sound and to the Southcentral Alaska gas distribution system. The board could market and ship gas. It could acquire property by purchase or eminent domain. To meet project costs, the board could issue revenue bonds. To build the project, it would have to enter into project agreements with labor unions. It also must use Alaska contractors and suppliers to the greatest extent possible. The measure requires the board to prepare a development plan for the project within one year. It declares a goal of having the project operate by 2007.

### FULL TEXT OF PROPOSED LAW

"(The All-Alaskan Gasline Initiative) An Act Establishing the Alaska Natural Gas Development Authority, to maximize revenues for Alaska and jobs and Gas for Alaskans."

BE IT ENACTED BY THE PEOPLE OF THE STATE OF ALASKA:

\* Section 1. The uncodified law of the State of Alaska is amended by adding a new section to read:

### FINDINGS AND INTENT. (a) The people find that

(1) The Phillips-Marathon liquefaction facility at Nikiski has been supplying Cook Inlet natural gas to Japan and Southcentral Alaska at great profit and without interruption since 1969;

(2) Cook Inlet gas supplies are dwindling rapidly with shortfalls anticipated as early as the winter of 2003;

(3) Alaska's North Slope contains vast proven reserves of natural gas that have been known for at least 25 years but have never been developed;

(4) these gas resources have never been offered for sale, because there has been no way to transport them to market;

(5) multiple markets in North America and Asia have recently expressed an interest in receiving a proposal from Alaska for the purchase of Alaska gas;

(6) if developed, these natural gas resources could represent substantial economic benefits to Alaskans in jobs, state revenue, and gas for Alaska citizens and businesses;

(7) the major North slope leaseholders have competing gas reserves in other parts of the world vying for the same markets, creating a conflict of interest for them in advancing the sales of Alaska gas;

(8) the North slope Producers agreed in 1991 to strand North Slope gas until at least 2005;

(9) given the producer's conflicts of interest and their historic refusal to make North Slope natural gas available it may be necessary to take the gas back;

(10) the permits necessary for an Alaskan gasline project have been pledged to the Alaska Natural Gas Development Authority, operating as a port authority, to facilitate the development of the project;

(11) there is sufficient gas for an all-Alaskan gasline project;

(12) the Alaska Natural Gas Development Authority offers substantial tax benefits that improve the economics of a gasline project;

(13) state ownership of the pipeline and associated facilities has the potential to provide substantial revenues to the state and the Alaska Permanent Fund; and

(14) Alaska's constitution requires that Alaska's resources are developed, utilized, and conserved for the maximum benefit of Alaska's people.

(15) an all-Alaskan gasline maximizes jobs for Alaskans, revenues for the Alaskan treasury, and access to gas for Alaskans.

(b) It is the intent of this Act to create the All-Alaskan Natural Gas Development Authority for the purpose of developing, constructing, managing, and operating a gas pipeline from the North Slope of Alaska and a spur line to the Southcentral Alaska natural gas distribution grid.

\*Sec. 2. AS 41 is amended by adding a new chapter to read:

The text of this bill is presented as submitted by the petition sponsors.

# Ballot Measure 3 - Initiative Petition

## Gas Pipeline Development Authority

### Chapter 41. Alaskan Natural Gas Development Authority.

#### Article 1. Establishment of the Authority.

**Sec. 41.41.010. Establishment of the authority.** (a) There is established the Alaska Natural Gas Development Authority, the purpose of which is to provide one or more of the following services and functions in order to bring natural gas from the North Slope to market, including

- (1) the acquisition and conditioning of North Slope natural gas;
- (2) the design and construction of the pipeline system;
- (3) the operation and maintenance of the pipeline system;
- (4) the design, construction, operation, of other facilities necessary for delivering the gas to market and to Southcentral Alaska; and
- (5) the acquisition of natural gas market share sufficient to ensure the long-term feasibility of the pipeline system project.

(b) The authority is a public corporation and an instrumentality of the state within the Department of Revenue.

(c) The authority has a legal existence independent of and separate from the state.

(d) The acquisition of natural gas from the North Slope and its delivery to tidewater for shipment to market by the authority is an essential government function of the state.

(e) The authority may not be terminated as long as it has bonds, notes or other obligations outstanding.

**Sec. 41.41.020. Authority governing body.** (a) The authority shall be governed by a board of directors consisting of seven members from the general public appointed by the Governor and confirmed by the legislature.

(b) The board shall annually elect a chair, and may elect other officers, from among its members.

**Sec. 41.41.030. Term of office.** (a) The members of the board shall be appointed for terms of three years, and they may be reappointed.

(b) The terms of the members shall be staggered.

**Sec. 41.41.040. Removal and vacancies.** (a) The governor may remove a member of the board from office. A removal must be in writing and must state the reason for the removal. A member who is removed may not participate in board business and may not be counted for purposes of establishing a quorum after the member receives written notice of removal. A member who is removed is not entitled to honoraria, per diem, or travel expenses authorized under AS 41.41.060 for work performed after the member receives the written notice of removal.

(b) The governor shall promptly fill a vacancy on the board by appointment. An appointee to a vacancy shall hold office for the balance of the term for which the appointee's predecessor

on the board was appointed.

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

**Sec. 41.41.050. Quorum and voting.** Four members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board. Action may be taken only upon the affirmative vote of a majority of the full membership of the board.

**Sec. 41.41.060. Compensation of board members; per diem and travel expenses.** Members of the board are entitled to per diem and travel expenses authorized for boards and commissions under AS 39.20.180.

**Sec. 41.41.070. Authority staff.** (a) The board may employ and determine the salary of a chief executive officer.

(b) The chief executive officer may, with the approval of the board, select and employ additional staff as necessary.

(c) An employee of the authority, including the chief executive officer, may not be a member of the board. The chief executive officer and the other employees of the board are in the exempt service under AS 39.25.110.

(d) In addition to its employees, the authority may contract for and engage the services of bond counsel, consultants, experts, and financial advisors the corporation considers necessary for the purpose of developing information, furnishing advice, or conducting studies, investigations, hearings, or other proceedings.

**Sec. 41.41.080. Legal counsel.** The attorney general

(1) is the legal counsel for the authority;

(2) shall advise the authority in legal matters; and

(3) shall represent the authority in legal actions.

**Sec. 41.41.090. Conflicts of interest.** (a) Members of the board and the chief executive officer of the authority are subject to the provisions of AS 39.50.

(b) If a member of the board or an employee of the authority acquires, owns, or controls an interest, direct or indirect, in an entity or project in which assets of the authority are invested, the member shall immediately disclose the interest to the board. This disclosure is a matter of public record and shall be included in the minutes of the first board meeting following the disclosure.

**Sec. 41.41.100. Budget.** The revenue earned by operations of the authority must be identified as the source of the operating budget of the authority in the state's operating budget under AS 37.07 (Executive Budget Act).

**Sec. 41.41.110 Audits.** The Legislative Budget and Audit

# Ballot Measure 3 - Initiative Petition

## Gas Pipeline Development Authority

Committee may provide for an annual post audit and annual operational and performance evaluations of the authority's operations and budget.

**Sec. 41.41.120. Reports and publications.** (a) By September 30 of each year, the board shall publish a report of the authority for distribution to the governor and the public. The board shall notify the legislature that the report is available.

(b) The report must include financial statements audited by independent outside auditors and a statement of the amount of money received by the authority from its operations during the period covered.

**Sec. 41.41.130. Tax exemption.** The security instruments issued by the authority, the transfer of the security instruments, and the income on the security instruments are exempt from all taxes and assessments in the state.

**Sec. 41.41.140 Political activities.** The resources of the authority may not be used to finance or influence political activities.

**Sec. 41.41.150. Public access to Information.**

(a) Information in the possession of the authority is a public record, except that information that discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record for purposes of AS 40.25.110 - 40.25.140. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding.

(b) The restrictions of (a) of this section do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

### Article 2. Powers of the Authority.

**Sec. 41.41.200. Powers of the authority.** In furtherance of its corporate purposes, in addition to its other powers, the authority may

- (1) sue and be sued;
- (2) adopt a seal;
- (3) adopt, amend, and repeal bylaws and regulations;
- (4) make and execute contracts and other instruments;
- (5) in its own name acquire property, lease, rent, convey, or acquire real and personal property; a project site or part of a project site may be acquired by eminent domain;
- (6) acquire natural gas supplies;
- (7) issue bonds and otherwise incur indebtedness in accordance with AS 41.41.300 - 41.41.410 in order to pay the cost of a project;

(8) accept gifts, grants, or loans from and enter into contracts or other transactions regarding gifts, grants, or loans with a federal agency or an agency or instrumentality of the state, a municipality, private organization, or other source;

(9) enter into contracts or agreements with a federal agency, agency or instrumentality of the state, municipality, or public or private individual or entity, with respect to the exercise of its powers;

(10) charge fees or other forms of remuneration for the use of authority properties and facilities;

(11) defend and indemnify a current or former member of the board or an employee or agent of the authority against the costs, expenses, judgments, and liabilities as a result of actions taken in good faith on behalf of the authority; and

(12) purchase insurance to protect its assets, services, and employees against liabilities that may arise from authority operations and activities.

### Article 3. Revenue Bonds and Notes.

**Sec. 41.41.300. Bonds and notes of the authority.** (a) The authority, by resolution, may issue revenue bonds and bond anticipation notes in order to provide funds to carry out the purposes set out in AS 41.41.010(a).

(b) The principal and interest on the revenue bonds or notes authorized and issued under (a) of this section are payable from authority funds. Bond anticipation notes may be payable from the proceeds of the sale of bonds or from the proceeds of the sale of other bond anticipation notes or, in the event bond or bond anticipation note proceeds are not available, the notes may be paid from other funds or assets of the authority.

(c) Bonds or notes may be additionally secured by a pledge of a grant or contribution from the federal government, or a corporation, association, institution, or person, or a pledge of money, income, or revenues of the authority from any source.

(d) Bonds or bond anticipation notes of the authority may be issued in one or more series and shall be dated, bear interest at the rate or rates per year or within the maximum rate, be in the denomination, be in the form, either coupon or registered, carry the conversion or registration provisions, have the rank or priority, be executed in the manner and form, be payable at the times, from the sources, and in the medium of payment and place or places within or outside the state, be subject to authentication by a trustee or fiscal agent, and be subject to the terms of redemption with or without premium, as the resolution of the authority may provide. Bond anticipation notes shall mature at the time or times that are determined by the authority. Bonds shall mature at a time not exceeding a number of years from their date that is determined by the authority. Before the preparation of definitive bonds or bond anticipation notes, the authority may issue interim receipts or temporary bonds or bond anticipation notes, with or without coupons, exchangeable for bonds or bond anticipation notes when

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## Gas Pipeline Development Authority

these definitive bonds or bond anticipation notes have been executed and are available for delivery.

(e) Bonds or bond anticipation notes may be sold in the manner and on the terms the authority determines.

(f) If an officer whose signature or a facsimile of whose signature appears on a bond, note, or coupon attached to them ceases to be an officer before the delivery of the bond, note, or coupon, the signature or facsimile is valid to the same extent as if the officer had remained in office until delivery.

**Sec. 41.41.310. Covenants.** In a resolution of the authority authorizing or relating to the issuance of bonds or bond anticipation notes, the authority has power by provisions in the resolution that will constitute covenants of the authority and contracts with the holders of the bonds or bond anticipation notes to

(1) pledge to a payment or purpose all or a part of its revenues to which its right then exists or may thereafter come into existence, and the money derived from the revenues, and the proceeds of bonds or notes;

(2) covenant as to the use and disposition of payments of principal or interest received by the authority on loans or other investments held by the authority;

(3) covenant as to establishment of reserves or sinking funds and the making of provision for and the regulation and disposition of the reserves or sinking funds;

(4) covenant with respect to or against limitations on a right to sell or otherwise dispose of property of any kind;

(5) covenant as to bonds and notes to be issued, and their limitations, terms, and conditions, and as to the custody, application, and disposition of the proceeds of the bonds and notes;

(6) covenant as to the issuance of additional bonds or notes, or as to limitations on the issuance of additional bonds or notes and the incurring of other debts;

(7) covenant as to the payment of the principal of or interest on the bonds or notes, as to the sources and methods of the payment, as to the rank or priority of the bonds or notes with respect to a lien or security, or as to the acceleration of the maturity of the bonds or notes;

(8) for the replacement of lost, stolen, destroyed, or mutilated bonds or notes;

(9) covenant as to the redemption of bonds or notes and privileges of their exchange for other bonds or notes of the authority;

(10) covenant to create or authorize the creation of special funds of money to be held in pledge or otherwise for operating expenses, payment or redemption of bonds or notes, reserves, or other purposes;

(11) establish the procedure, if any, by which the terms of a contract or covenant with or for the benefit of the holders of bonds or notes may be amended or abrogated, the amount of bonds or notes the holders of which must consent to amendment or abrogation, and the manner in which the consent may

be given;

(12) covenant as to the custody of property or investments, their safekeeping and insurance, and the use and disposition of insurance money;

(13) agree with a corporate trustee that may be a trust company or bank having the powers of a trust company within or outside the state as to the pledging or assigning of revenue or funds to which or in which the authority has rights or an interest; the agreement may further provide for other rights and remedies exercisable by the trustee as may be proper for the protection of the holders of a bond or note of the authority and not otherwise in violation of law and may provide for the restriction of the rights of an individual holder of bonds or notes of the authority;

(14) appoint and provide for the duties and obligations of a paying agent or paying agents or other fiduciaries as the resolution may provide within or outside the state;

(15) limit the rights of the holders of a bond or note to enforce a pledge or covenant securing the bonds or notes;

(16) make covenants other than and in addition to the covenants expressly authorized in this section of like or different character, and to make covenants to do or refrain from

doing acts and things as may be necessary or convenient and desirable in order to better secure bonds or notes or that, in the absolute discretion of the authority, will tend to make bonds or notes more marketable, notwithstanding that the covenants, acts, or things may not be enumerated in this section.

**Sec. 41.41.320 Limitations of issuance of bonds.** (a) The authority may not issue bonds in an amount that exceeds the amount of bonds authorized to be issued by the legislature. (b) This section does not apply to the issuance by the authority of refunding bonds or to the issuance by the authority of bonds the proceeds of which are intended to be used to refinance the loans held by the authority.

**Sec. 41.41.330. Independent financial advisor.** In negotiating the private sale of bonds or bond anticipation notes to an underwriter, the authority may retain a financial advisor. A financial advisor retained under this section must be independent from the underwriter.

**Sec. 41.41.340 Validity of pledge.** (a) The pledge of assets or revenue of the authority to the payment of the principal or interest on an obligation of the authority is valid and binding from the time the pledge is made, and the assets or revenue become immediately subject to the lien of the pledge without physical delivery or further act. The lien of a pledge is valid and binding against all parties having claims in tort, contract, or otherwise against the authority, irrespective of whether those parties have notice of the lien of the pledge.

(b) This section does not prohibit the authority from selling

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assets subject to a pledge, except that a sale may be restricted by the trust agreement or resolution providing for the issuance of the obligations.

**Sec. 41.41.350. Capital reserve funds.** (a) For the purpose of securing one or more issues of its obligations, the authority may establish one or more special funds, called "capital reserve funds," and shall pay into those capital reserve funds (1) money appropriated and made available by the state for the purpose of those funds, (2) proceeds of the sale of its obligations, to the extent provided in the resolution or resolutions of the authority authorizing their issuance, and (3) other money that may be made available to the authority for the purposes of those funds from another source. All money held in a capital reserve fund, except as provided in this section, shall, subject to appropriation, be used as required solely for the payment of the principal of obligations or of the sinking fund payments with respect to those obligations; the purchase or redemption of obligations; the payment of interest on obligations; or the payment of a redemption premium required to be paid when those obligations are redeemed before maturity. However, money in a fund may not be withdrawn from that fund at any time in an amount that would reduce the amount of that fund to less than the capital reserve requirement set out in (b) of this section, except for the purpose of making, with respect to those obligations, payment, when due, of principal, interest, redemption premiums, and the sinking fund payments for the payment of which other money of the authority is not available. Income or interest earned by, or increment to, a capital reserve fund due to the investment of the fund or other amounts in it may be transferred by the authority to other funds or accounts of the authority to the extent that the transfer does not reduce the amount of the capital reserve fund below the capital reserve fund requirement.

(b) If the authority decides to issue obligations secured by a capital reserve fund, the obligations may not be issued if the amount in the capital reserve fund is less than a percent, not exceeding 10 percent, of the principal amount of all of those obligations secured by that capital reserve fund then to be issued and then outstanding in accordance with their terms, as may be established by resolution of the authority, called the "capital reserve fund requirement," unless the authority, at the time of issuance of the obligations, deposits in the capital reserve fund from the proceeds of the obligations to be issued or from other sources an amount that, together with the amount then in the fund, will not be less than the capital reserve fund requirement.

(c) In computing the amount of a capital reserve fund for the purpose of this section, securities in which all or a portion of the funds are invested shall be valued at par or, if purchased at less than par, at amortized cost as the term is defined by resolution of the authority authorizing the issue of the obligations or by some other reasonable method established by the

authority by resolution. Valuation on a particular date must include the amount of interest earned or accrued to that date. (d) To assure the continued operation and solvency of the authority for the carrying out of its corporate purposes, provision is made in (a) of this section for the accumulation in capital reserve funds of an amount equal to their capital reserve fund requirement.

(e) The chair of the authority shall annually, not later than January 2, make and deliver to the governor and chairs of the house and senate finance committees a certificate stating the sum, if any, required to restore a capital reserve fund to the capital reserve fund requirement. The legislature may appropriate that sum, and all sums appropriated during the current fiscal year by the legislature for the restoration shall be deposited by the authority in the appropriate capital reserve fund.

(f) This section does not create a debt or liability of the state.

**Sec. 41.41.360. Remedies.** A holder of obligations or coupons attached to them issued under the provisions of this chapter, and a trustee under a trust agreement or resolution authorizing the issuance of the obligations, except as restricted by a trust agreement or resolution, either at law or in equity, may enforce all rights granted hereunder or under the trust agreement or resolution, or under another contract executed by the authority under this chapter, and may enforce and compel the performance of all duties required by this chapter or by the trust agreement or resolution to be performed by the authority or by an officer of it.

**Sec. 41.41.370 Negotiable instruments.** All obligations and interest coupons attached to them are negotiable instruments under the laws of this state, subject only to applicable provisions for registration.

**Sec. 41.41.380 Obligations eligible for investment.** Obligations issued under the provisions of this chapter are securities in which all public officers and public bodies of the state and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees, and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. These obligations may be deposited with a state or municipal officer of an agency or political subdivision of the state for a purpose for which the deposit of bonds, notes, or obligations of the state is authorized by law.

**Sec. 41.41.390. Refunding bonds.** (a) The authority may provide for the issuance of refunding bonds for the purpose of refunding an obligation then outstanding that has been issued under the provisions of this chapter, including the payment of redemption premium on them and interest accrued or to

# Ballot Measure 3 - Initiative Petition

## Gas Pipeline Development Authority

accrue to the date of redemption of the obligations. The issuance of the bonds, the maturities and other details of them, the rights of the holders of them, and the rights, duties, and obligations of the authority in respect of them are governed by the provisions of this chapter that relate to the issuance of obligations insofar as those provisions may be appropriate.

(b) Refunding bonds may be sold or exchanged for outstanding bonds issued under this chapter, and, if sold, the proceeds may be applied, subject to appropriation and in addition to another authorized purpose, to the purchase, redemption, or payment of the outstanding obligations. Pending the application of the proceeds of refunding bonds, with any other available funds, to the payment of the principal, accrued interest, and redemption premium on the obligations being refunded, and, if so provided or permitted in the resolution authorizing the issuance of the refunding bonds or in the trust agreement securing them, to the payment of any interest on the refunding bonds and expenses in connection with the refunding, the proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States that mature or that will be subject to redemption, at the option of the holders of them, not later than the respective dates when the proceeds, together with the interest accruing on them, will be required for the purposes intended.

**Sec. 41.41.300. Credit of state not pledged.** (a) Obligations issued under the provisions of this chapter do not constitute a debt, liability, or obligation of the state or of a political subdivision of the state or a pledge of the faith and credit of the state or of a political subdivision of the state but are payable solely from the revenue or assets of the authority. Each obligation issued under this chapter must contain on its face a statement that the authority is not obligated to pay it or the interest on it except from the revenue or assets of the authority and that neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of the principal of or the interest on the obligation.

(b) Expenses incurred by the authority in carrying out the provisions of this chapter are payable from funds provided under this chapter, and liability may not be incurred by the authority in excess of these funds.

**Sec. 41.41.410. Officers not liable.** A member or other officer of the authority is not subject to personal liability or accountability by reason of having executed or issued an obligation.

### Article 4. Property of the Authority.

**Sec. 41.41.450. Property of the authority.** The authority may acquire, by purchase, lease, or gift, upon terms that it

considers proper, land, structures, real or personal property rights, rights-of-way, franchises, easements, and other interests in land it considers necessary or convenient for the financing of the project or a part of the project.

### Article 5. Project Construction.

**Sec. 41.41.500. Contract terms relating to use of Alaska resources.** (a) The authority shall enter into one or more pre-hire project term agreements with labor organizations that (1) contain no-strike clauses; and (2) secure timely completion of the project and maximum employment opportunities for state residents.

(b) To maximize the economic benefits of the project to Alaskan businesses, the authority shall use Alaska contractors and suppliers to the maximum extent possible to take advantage of the Alaska experience in Arctic engineering and construction.

### Article 6. General Provisions.

**Sec. 41.41.900. Tax exemption.** All obligations issued under this chapter are declared to be issued by a body corporate and public of the state and for an essential public and governmental purpose, and the obligations, and the interest and income on and from the obligations, and all fees, charges, funds, revenues, income, and other money pledged or available to pay or secure the payment of the obligations, or interest on the obligations, are exempt from state taxation except for transfer, inheritance, and estate taxes.

**Sec. 41.41.990. Definitions.** In this chapter,

(1) "authority" means the Alaska Natural Gas Development Authority;

(2) "board" means the board of directors of the Alaska Natural Gas Development Authority;

(3) "project" means the gas transmission pipeline, together with all related property and facilities, to extend from the Prudhoe Bay area on the North Slope of Alaska to tidewater at a point on Prince William Sound and the spur line from Glennallen to the Southcentral gas distribution grid, and includes planning, design, and construction of the pipeline and facilities as described in AS 41.41.010(a)(1) - (5).

\***Sec. 3.** AS 39.25.110(11) is amended by adding a new subparagraph to read:

(G) Alaska Natural Gas Development Authority;

\***Sec. 4.** AS 39.50.200(b) is amended by adding a new paragraph to read:

(57) the board of directors and chief executive officer of the Alaska Natural Gas Development Authority (AS 41.41.020).

# Ballot Measure 3 - Initiative Petition

## Gas Pipeline Development Authority

\*Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to read:

DEVELOPMENT OF PROJECT PLAN. Not later than one year after the first meeting of the board of directors of the Alaska Natural Gas Development Authority, the board shall produce a development plan. The development plan must include

- (1) estimates of construction costs and timelines;
- (2) gas procurement prices;
- (3) use of the state's royalty gas;
- (4) estimates of revenue to the general fund and the Alaska permanent fund;
- (5) a revenue sharing plan with municipal governments;
- (6) a plan for delivery and pricing of natural gas to communities along the pipeline route and to Southcentral Alaska through a spur line;
- (7) a plan for delivery and pricing of LNG to Yukon River and coastal communities;
- (8) a payment schedule to companies providing permits or other valuable assets;
- (9) a marketing plan to approach potential buyers;
- (10) a plan to maximize Alaskan hire, including project labor agreements; and
- (10) a plan to ensure meeting the highest environmental and safety standards, including a citizens advisory council.
- (11) The goal of the authority is to have the Alaskan gas line in full production by 2007.

\*Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to read:

INITIAL APPOINTMENTS OF MEMBERS OF ALASKA NATURAL GAS DEVELOPMENT AUTHORITY BOARD OF DIRECTORS. Of the members first appointed under AS 41.41.020(a), enacted by sec. 2 of this Act,

1. three members shall be appointed to three-year terms;
2. two members shall be appointed to two-year terms; and
3. two members shall be appointed to one-year terms.

### STATEMENT IN SUPPORT

Last year more than 40,000 Alaskans signed an initiative petition to place the choice to develop Alaska's gas in the hands of the owners of the gas: Alaska's people. If adopted, this would establish the Alaska Gas Development Authority supporting a project to build a natural gas pipeline from Prudhoe Bay to Valdez, keeping it completely in Alaska and not going through Canada. It only makes sense to keep the jobs and revenues within Alaska and within America. In addition, the potential for value added processing of Alaskan gas into petrochemicals should also be within Alaska, not in Canada or Chicago.

Building the gasline to Valdez gives us the option to diversify our markets into Asia and our own U.S. West Coast. Equally important, an All-Alaska gas project will make it feasible to bring cheap, clean energy to Alaskans in other parts of the state including Southcentral, which is projected to start having gas shortages within the next 10 years.

Alaska's gas has been stranded on the North Slope for almost 30 years now and the oil companies seem no closer to building a gasline than ever. They all seem to have different worldwide agendas and can't seem to work together to develop Alaska's North Slope gas. If the oil companies won't do it, this initiative at least gives us the option to do it ourselves with the spirit that built Alaska in the first place.

The Authority this initiative would establish would be similar to the Alaska Permanent Fund Corporation with a governing board to set policy, a small administrative structure and the actual work to design and build the project contracted out by bid to private companies who are experts in their field and who are held strictly accountable.

The initiative is not a guarantee that the project would be built. It requires that, within a year, the permits that already exist for the All-Alaskan route would be acquired, gas supply contracts would be secured from the North Slope producers, and an economic model would be completed to take to the market to seek sales contracts. At least our gas would be presented for sale to the market, which has never been done before.

The section of the initiative entitled "Credit of state not pledged" (Sec. 41.41.400) was carefully written so that the project would stand alone based on this project's revenues. This is not another Delta barley project. Nothing will be built until markets for the gas are secured.

Development of Alaska's gas represents a major stake in the future of all Alaskans. As Alaska now faces an impending fiscal crisis in coming years, the marketing of its gas in the most prudent and lucrative manner is paramount. Wouldn't it be better to solve our fiscal problems through an in-state project such as this rather than taxing Alaskans or taking your Permanent Fund dividend? We think so. Please vote YES on ballot measure # 3.

Scott Heyworth  
Mike Macy  
Tyrone Neel

# Ballot Measure 3 - Initiative Petition

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## Gas Pipeline Development Authority

### STATEMENT IN OPPOSITION

The All-Alaska Gasline Initiative will force the State of Alaska to create a new, inefficient government bureaucracy that will compete and interfere with private enterprise. By law, the state's first task would be to expend state funds restudying an expensive, risky project that has already been shown to not be feasible. Therefore, this initiative should be defeated.

A recent report commissioned by the Legislature and completed by the Administration states that The All-Alaska Gasline Initiative is not in the best interest of the State. The report found that - should the State undertake construction of such a project - the financial risks are substantial. Except for the Permanent Fund, there is no ready source of investment money. Given the scope of such a project the potential for permit and construction delays leading to cost overruns, Alaska's entire savings account could be jeopardized. The State's credit rating would be put at risk because of the reliance on debt, thus devaluing any bonds should they be issued to finance the project. In addition, it is unlikely that State ownership would automatically add value.

The argument that the State of Alaska should do more to discharge its constitutional obligation to develop natural resources for the benefit of all Alaskans rings hollow. The State has long discharged its obligations by regulating the extraction and use of gas consistent with its existing lease agreements. The State also realizes profits from ongoing production through taxes and royalties.

The Initiative is restricted to a pipeline and liquefied natural gas (LNG) project in Valdez. Industry studies show that this restriction proves less feasible in the foreseeable future due to inadequate markets and the financial demands of the project. The market for such a project will be oversupplied by almost a factor of 2 from cheaper sources through at least 2010. This oversupply recently resulted in the first downturn of LNG prices into Japan since the business began in the late 1960's. The All-Alaska Gasline Initiative specifies that the State can only consider the most expensive project. Current estimates indicate that capital costs of an Alaskan LNG project will be at least double that of competing new supplies.

The Government lacks the technical expertise and experience for this big, risky project, especially at a time when smaller, more efficient government is needed to strengthen Alaska's long-term economic health. Just the feasibility study of the project would cost the State \$200 million. Since there is no assurance that it will be built, such a cost is likely a waste of money that the State can ill afford. It makes more sense for the State to support private industry efforts to commercialize North Slope Gas rather than create a bloated State-Owned

project that could end up costing more to build and run than it would generate in revenue.

The Alaska Support Industry Alliance is a statewide non-profit trade association whose membership derives their livelihood from Alaska's Oil and Gas Industry.

Larry J. Houle  
General Manager  
Alaska Support Industry Alliance

*The statement printed on this page is the opinion of the author and is presented as submitted to the Division of Elections.*

# Ballot Measure 3 - Initiative Petition

## Gas Pipeline Development Authority

\*Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to read:

DEVELOPMENT OF PROJECT PLAN. Not later than one year after the first meeting of the board of directors of the Alaska Natural Gas Development Authority, the board shall produce a development plan. The development plan must include

- (1) estimates of construction costs and timelines;
- (2) gas procurement prices;
- (3) use of the State's royalty gas;
- (4) estimates of revenue to the general fund and the Alaska permanent fund;
- (5) a revenue sharing plan with municipal governments;
- (6) a plan for delivery and pricing of natural gas to communities along the pipeline route and to Southcentral Alaska through a spur line;
- (7) a plan for delivery and pricing of LNG to Yukon River and coastal communities;
- (8) a payment schedule to companies providing permits or other valuable assets;
- (9) a marketing plan to approach potential buyers;
- (10) a plan to maximize Alaskan hire, including project labor agreements; and
- (10) a plan to ensure meeting the highest environmental and safety standards, including a citizens advisory council.
- (11) The goal of the authority is to have the Alaskan gas line in full production by 2007.

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Scott Heyworth  
Mike Macy  
Tyrone Neel

STATE OF ALASKA  
 GENERAL ELECTION - NOVEMBER 5, 2002  
 OFFICIAL RESULTS  
 (INCLUDING HOUSE DISTRICT 32 RECOUNT)

Date:12/06/02  
 Time:17:42:31  
 Page:7 of 8

Registered Voters 460855

Num. Report Precinct 446 - Num. Reporting 446

HOUSE DISTRICT 40			
		Total	
Number of Precincts		22	
Precincts Reporting		22	100.00%
Times Counted	3679/8776		41.92%
Total Votes		3258	
JOULE, REGGIE	DEM	3186	97.79%
Write-in Votes		72	2.21%

MEASURE NO. 3 - GAS PIPELINE			
		Total	
Number of Precincts		446	
Precincts Reporting		446	100.00%
Times Counted	232852/460855		50.53%
Total Votes		223035	
YES		138353	62.03%
NO		84682	37.97%

BONDING PROPOSITION A - VETERAN BONDS			
		Total	
Number of Precincts		446	
Precincts Reporting		446	100.00%
Times Counted	232852/460855		50.53%
Total Votes		222994	
YES		156158	70.03%
NO		66836	29.97%

SUPREME CT, CARPENETI			
		Total	
Number of Precincts		446	
Precincts Reporting		446	100.00%
Times Counted	232852/460855		50.53%
Total Votes		195683	
YES		130566	66.72%
NO		65117	33.28%

BONDING PROPOSITION B - TRANSPORTATION BONDS			
		Total	
Number of Precincts		446	
Precincts Reporting		446	100.00%
Times Counted	232852/460855		50.53%
Total Votes		221984	
YES		150404	67.75%
NO		71580	32.25%

APPEALS CT, MANNHEIMER			
		Total	
Number of Precincts		446	
Precincts Reporting		446	100.00%
Times Counted	232852/460855		50.53%
Total Votes		192598	
YES		126205	65.53%
NO		66393	34.47%

BONDING PROPOSITION C - EDUCATION BONDS			
		Total	
Number of Precincts		446	
Precincts Reporting		446	100.00%
Times Counted	232852/460855		50.53%
Total Votes		223734	
YES		133348	59.60%
NO		90386	40.40%

SUPERIOR CT JD1, COLLINS			
		Total	
Number of Precincts		50	
Precincts Reporting		50	100.00%
Times Counted	32255/57237		56.35%
Total Votes		27191	
YES		20715	76.18%
NO		6476	23.82%

MEASURE NO. 1 - CONST. CONVENTION			
		Total	
Number of Precincts		446	
Precincts Reporting		446	100.00%
Times Counted	232852/460855		50.53%
Total Votes		212337	
YES		60217	28.36%
NO		152120	71.64%

SUPERIOR CT JD1, THOMPSON			
		Total	
Number of Precincts		50	
Precincts Reporting		50	100.00%
Times Counted	32255/57237		56.35%
Total Votes		25761	
YES		18607	72.23%
NO		7154	27.77%

MEASURE NO. 2 - LEGISLATIVE SESSION LOCATION			
		Total	
Number of Precincts		446	
Precincts Reporting		446	100.00%
Times Counted	232852/460855		50.53%
Total Votes		227777	
YES		74650	32.77%
NO		153127	67.23%

SUPERIOR CT JD3, CARD			
		Total	
Number of Precincts		228	
Precincts Reporting		228	100.00%
Times Counted	149234/298092		50.06%
Total Votes		122480	
YES		83912	68.51%
NO		38568	31.49%

# FOR BACKBONE2.ORG

POLL DATES: JANUARY 2-6-04

## PUBLIC OPINION SURVEY

IVAN MOORE RESEARCH

TEL: 278-4600

Hello, my name is \_\_\_\_\_ and I'm calling for Ivan Moore Research, an Alaska public opinion research firm. We're conducting a public opinion survey on a wide variety of topics today that should take just a few minutes. Your opinions are important to us, and we'd appreciate your participation if that's OK with you, and of course your responses will be completely confidential.

S1. Is this a residential telephone?

IF "YES", CONTINUE...

IF "NO", TERMINATE...

S2. Are you registered to vote in the state of Alaska?

IF "YES", CONTINUE...

IF "NO", ASK FOR REGISTERED VOTER...

1A. Which of the two main proposals for getting North Slope gas to market do you think is best? A gas line running from the North Slope, down the Alaska Highway to the Lower 48, or a gas line running along the pipeline route down to Valdez where it is converted to liquified natural gas and shipped out on tankers?

	FAVORED GAS PIPELINE ROUTE:	
	Count	%
Highway route	96	19.3%
LNG to Valdez	324	65.5%
Not sure	75	15.1%

1B. Which of these two proposals do you think is more economically viable?

	MOST ECONOMICALLY VIABLE GAS PIPELINE ROUTE:	
	Count	%
Highway route	86	17.4%
LNG to Valdez	291	59.2%
Not sure	115	23.4%

The following questions are for statistical purposes only.

2. What is your registered party affiliation?

	PARTY AFFILIATION:	
	Count	%
Democrat	81	16.3%
Republican	172	34.5%
Alaska Independent	22	4.4%
Green	5	.9%
No party	219	43.8%

## **ALASKA'S STRATEGIC INTERESTS IN NORTH SLOPE GAS DEVELOPMENT**

By Paul Fuhs for Backbone 2

### **WHO IS BACKBONE 2?**

Backbone 2 is an Alaskan citizen organization that supports the expeditious development of Alaska's North Slope gas reserves in a manner that provides maximum benefits to the people of Alaska. Backbone recognizes that there could be significant benefits from a publicly owned gas pipeline including jobs for Alaskans, state and municipal revenues and access to gas for Southcentral and coastal Alaska. And since the All-Alaskan LNG project is already permitted, it could be built years earlier than a pipeline through Canada.

In 2002 138,000 Alaskan voters (62%) voted to create the Alaska Natural Gas Development Authority (ANGDA) to build a publicly owned gasline paralleling the trans Alaska oil line to Valdez. Backbone 2 was established to demand that our elected and appointed officials respect the will of Alaska's citizens. We support adequate funding for ANGDA and call on the Governor to provide leadership in securing a gas supply for the project. We also call on our congressional delegation to treat the All-Alaskan project equally in federal energy legislation.

### **WHAT WAS THE PURPOSE OF BACKBONE 1?**

Backbone 1 was formed three years ago to fight the efforts of British Petroleum to take over all of ARCO's assets on Alaska's North Slope through a merger. The issues were monopolistic control of contracting on the North Slope, concentrated political influence in Alaska and continued stonewalling on development of Alaska's North Slope gas reserves. The efforts of Backbone 1 and others led to the Federal Trade Commission's rejection of their acquisition of ARCO's Alaska assets. A copy of the FTD order is available on Backbone 2's website: [Backbone2.org](http://Backbone2.org) ARCO's Alaska holdings were purchased by Conoco-Phillips and that is how they became one of Alaska's oil and gas producers. The reference to backbone was encouraging Alaska's political leaders to have one against the merger.

### **IS THE ALL-ALASKAN LNG PROJECT ECONOMIC?**

According to the base case LNG project adopted by ANGDA (available at [backbone2.org](http://backbone2.org) website) an LNG project which costs approximately \$12 billion to build including a gas conditioning plant, pipeline, liquefaction facilities, marine terminals and tankers, and which can produce 2.2 billion cubic feet per day (bcf/day), is economic if the gas can be sold for \$3.50 to \$3.70 per million BTU. That price is right in the middle range of long term LNG contracts currently being negotiated in Asia and the US West Coast.

While the major oil companies say the project is uneconomic, they studied it several years ago at a production rate of only 1 billion cubic feet per day because it was thought that you couldn't place more than that amount at one time into the Asian market. With the opening of US West Coast markets to LNG, that restriction is no longer the case.

When you produce over 2 billion cubic feet per day, you reach sufficient economies of scale to pay the debt service and make a reasonable rate of return to the owner of the project. At a 12% rate of return, the project owner (in this case ANGDA) would earn about \$1 billion per year. The oil companies have consistently state(d) that they need a much higher rate of return before they will do a project.

Well, a billion dollars a year might not be enough for the oil companies, but for Alaska it equals the budget deficit Alaska is facing which otherwise can only be made up by massive budget cuts, heavy taxes, losing your permanent fund dividend or all the above.

The bottom line is that ANGDA must perform its own analysis of this base case so that it can negotiate throughput agreements and gas purchase and sales agreements with confidence. This is why Backbone 2 strongly supports the proposed funding of \$2.15 million contained in SB241 by Senate President Gene Therriault.

#### CAN ALASKA COMPETE?

The oil companies have also intentionally misinformed people by repeating over and over that Alaska can't compete because all the other projects have gas right(s) at tidewater and Alaska requires an 800 mile pipeline. In fact, other projects do have pipelines and other development costs that Prudhoe bay does not have. For instance, many of the competing projects have field development costs that Alaska does not have. At Prudhoe Bay, we are producing 8.5 bcf/day as part of the oil development and all that would have to be done to provide gas there is to turn a valve on.

Here are some of the pipeline distances associated with other LNG projects: Malaysia Tiga pipeline 300 miles, Yemen pipeline 200 miles, Darwin LNG pipeline 310 miles, Sakhalin II pipeline 390 miles of 48 inch pipe and 110 miles of gathering pipe, Bolivia 280 miles plus expansion of (a) 1100 mile pipeline.

Alaskan LNG has a number of other advantages. Alaska is much closer to US west coast markets which represents far lower shipping costs. For example, Alaska is 2245 miles from LA, Sakhalin is 4964 miles away, Darwin, Australia is 7916 miles, Natuna is 8951 miles away, Abu Dhabi is 11,565 miles away and Yemen is 12,050 miles away. LNG tankers constitute a substantial expense of an LNG project, up to \$200 million apiece. If the shipping distance is twice as far, you need twice as many tankers. The tankers required to ship LNG from Qatar to the US West Coast is equal to the costs of the Alaskan pipeline.

The real bottom line on comparing projects to each other is contained in the term 'Cost of Service'. This term is used in the industry to identify all the costs associated with shipping the gas and is usually stated in terms of dollars per million btu (\$/mmbtu). Listed below are comparative cost of service numbers for representative projects around the world. The source of these numbers is Conoco Phillips:

\$/mmbtu cost of service to US West Coast

\$2.32 Malaysia LNG 3  
\$2.57 Rasgas expansion  
\$2.27 Tangguh, Indonesia  
\$2.29 Northwest Shelf  
\$2.51 Sakhalin 2  
\$2.49 Australia Gorgon  
\$2. Alaska LNG

\$2.20 Alaska LNG tax exempt (estimate by ANGDA)

While the cost of service numbers for Alaska are higher, they are based on a private commercial pipeline structure rather than a publicly owned pipeline as represented by ANGDA. *When you apply ANGDA's income tax exemption to these numbers, Alaska's cost of service is \$2.20 per mmbtu, lower than any other source of supply in the pacific rim.* Conoco Phillips also notes that additional field development costs (which Alaska does not have) are not included in their numbers.

## IS THE PROJECT FINANCABLE?

Two investment banking firms have analyzed the data in the base case for the All-Alaskan LNG project and have found that the project is financable if the estimated project costs are correct and long term sales contracts can be obtained. These companies are George K. Baum and Taylor DeYoung. An executive summary of George K. Baum's analysis is accessible under the facts and reports section of Backbone 2's website.

The loan guarantee provisions put into the omnibus bill by Senator Lisa Murkowski would also help in the financing of the project. Although the omnibus bill recently passed, the energy bill would also have to pass to make the provisions active. The future of the energy bill is uncertain.

Pipeline projects are typically financed primarily through debt. Even the Trans Alaska oil pipeline was financed with only 25% equity. The remaining 75% was financed through the sale of taxable bonds, with the exception of the marine terminal which was financed by the municipality of Valdez. If long term contracts for LNG can be obtained, the project could be financed with 100% debt.

## WHAT ARE THE MARKETS FOR ALASKA'S LNG?

Asia has always been seen as a market for Alaskan LNG. They have purchased LNG from the LNG plant in Nikiski for the past 30 years and see Alaska as a more stable source of supply than Indonesia, Russia or the Middle East. Development of West coast markets for LNG would provide the economies of scale needed to make Alaska's LNG project economic. The states that have expressed an interest in Alaskan LNG are California, Oregon and Hawaii.

Japan, Korea and Taiwan have all expressed an interest in Alaskan LNG. They have also stated that they prefer Alaskan LNG due to security of supply compared to less stable sources in the world. Buying American gas from Alaska will also help reduce the balance of payments deficit with our Asian trading partners.

It should also be noted that North Slope gas is a rich gas that contains more than methane. North Slope gas contains propane which commands a premium price in the Asian market. It also contains ethane and butane which can be used as a feedstock for value(-)added hydrocarbon products such as plastics and rubber.

Alaska communities are also an important market for North Slope gas. Although small in scale compared to West Coast or Asian markets, providing affordably priced gas to Alaskans is an important component of this project.

## WHY WON'T THE OIL COMPANIES BUILD THE LNG PROJECT?

In representing the interests of their shareholders, the oil companies look at their worldwide leases and operations, not just their Alaska holdings. Oil and gas consultant Pedro Van Meurs testified to the legislature 3 years ago that the companies were pursuing projects overseas that had worse economics than the Alaska project because those leases contained requirements that the companies develop them within a certain time period, often as little as five years or they would lose the leases.

Alaska's leases lump oil and gas together so as long as the oil is being produced, the lease terms are being met. Alaska gas is like a gallon of milk on the shelf with no pull date on it. That milk will never make it to the front of the shelf. The field the oil companies have not developed at all and which is probably in default is Point Thomson which has not been developed for 20 years. The State of Alaska needs to take a strong position regarding this field and to take it back if necessary. It could provide a valuable source of gas for the gasline project.

Another problem with the 3 oil companies on the North Slope building an LNG project or any gas project is that they all have different agendas and in many cases are dysfunctional as a unit. Part of this was caused by the fact that because of the way the Prudhoe Bay oil reservoir and gas cap are situated, the companies owned different percentages of oil and gas. When the Oil and Gas Conservation Commission threatened to unitize the field, which is standard practice for almost any field in the world, Attorney Bruce Botelho, at

the request of Governor Tony Knowles, wrote them a letter and told them that they had no jurisdiction over economic matters on the slope. The response disagreeing with that letter from Commission member Tuckerman Babcock is available in the fact and reports section of Backbone 2's website.

A fascinating insight into the dysfunction and different agendas between the companies on the North Slope is contained in the Module 880 ruling by the Department of Natural Resources which is also available on the website.

When ARCO was bought by Cononco-Phillips as part of the BP merger, the companies finally realigned their oil and gas interests so they are equal so this should no longer be an impediment to the project going forward.

However, it does raise one more concern. Since the companies own roughly one third of the gas each, if any of the Alaska projects go forward, they will get to market their one third but they will be giving up two thirds of their market share to their competitors. This causes them to favor their overseas projects which they do not have to share with other companies.

#### WHAT ARE THE COMPARATIVE BENEFITS OF THE ALL-ALASKAN AND CANADIAN HIGHWAY PROJECT?

It is difficult to compare the projects because the oil companies won't release any of their numbers and the Murkowski administration hasn't presented any of their own analysis. However, some things are clear:

**JOBS:** Alaskan employment on the All-Alaskan LNG project will be at least double the Canadian Highway project. Building a pipeline to the Canadian border will take only 2 years compared to at least 4 years of construction employment on the LNG project due to the construction of the liquefaction plant and marine terminal in Valdez. There will be many more jobs building the pipeline through Canada, but that will all be done with Canadian workers. Why would we surrender our future to a foreign country and lose our Alaskan jobs?

**REVENUES:** State revenues would be higher with the All-Alaskan LNG project because we would own all or a significant part of it. It has been estimated that the state owned pipeline would generate up to \$1 billion per year to the State of Alaska. (George K. Baum analysis) This could minimize the need for taxes on Alaskan citizens and protect the permanent fund dividend. For a privately owned Canadian Highway project, Alaska would only receive severance, production and property taxes which would be far lower than a publicly owned project. The law that established ANGDA also requires them to negotiate revenue sharing with local governments. This could provide tax relief on a local level. Part of the state revenues would also go into the permanent fund and will increase dividends in the future.

## GAS TO ALASKANS:

Shortages of gas in Cook Inlet are already causing price increases for consumers and businesses in Southcentral Alaska. Within 5 years the price of gas could double. This is causing extreme problems for the Agrium plant in Kenai and will also affect other businesses. The most efficient way to get North Slope gas to Southcentral Alaska is through a spurline from Glenallen to Palmer off the LNG project mainline. The North Slope to Valdez pipeline can be expanded from 2.2 bcf/day to 3.0 bcf/day by adding more compressor stations at a minimal cost. It is 137 miles from Glenallen to Palmer where it is possible to tie into Enstar's 20" distribution line which connects all the way from West Cook Inlet, through Anchorage and down to Kenai. A spurline off the Canadian Highway project from Fairbanks or Delta would be more than twice as long and require higher prices to gas consumers.

Gas can be delivered easily anywhere along the line since methane is the lightest gas in the mix and will separate out with the application of heat. The remaining heavier gases are just pumped back into the pipeline. A major advantage of the All-Alaskan LNG project is that when you have gas at tidewater, it can be delivered by barge to coastal communities and provide stable priced, affordable energy to coastal Alaskans. The Alaska Intrastate Gas Company has certificates to provide gas to 17 Alaska coastal communities. Their plan is to obtain their gas from Canada by rail barge initially and then switch over to Alaskan gas when it is available at tidewater.

## WHICH PROJECT CAN BE BUILT SOONER?

The All-Alaska project has already been permitted by Yukon Pacific Corporation which is currently negotiating with ANGDA to provide the permits for the project. On the other hand, the Canadian Highway project will require major permitting, settlement of their native land claims, modification of the Alaska Natural Gas Treaty by both the United States and Canada, etc. Pedro Van Meurs, an oil and gas consultant for Alaska has estimated that the Canadian Highway project would not come on line before 2015.

## WHICH PROJECT IS BETTER FOR THE ENVIRONMENT?

The All-Alaska LNG project is permitted within the existing congressionally designated pipeline corridor. A new industrial corridor would be required for the Canadian Highway project. If a spurline was built from Fairbanks to Cook inlet, it would have to go through Denali Park, the Minto Flats wildlife preserve and subsistence area, and would also have to cross the Susitna Flat Wildlife preserve.

## WHICH PROJECT HAS THE GREATEST POTENTIAL FOR VALUE ADDED PROCESSING?

A project to tidewater which connects with international shipping vessels is clearly superior to an inland pipeline project. Ethane and butane can be used as feedstock for

manufacturing of plastics, etc. The province of Alberta has stated that the price they will exact for the Canadian Highway project is that they will strip out all the hydrocarbons for value added manufacturing in Alberta. Alberta has a \$6 billion per year industry based on processing these hydrocarbons and they directly employ 3400 people. Those jobs should be in Alaska since it is our gas.

#### WHICH PROJECT CREATES THE MOST OIL LOSS?

When gas is removed from an oil field a certain amount of oil production is lost. This has not yet been calculated for the Prudhoe Bay field. In ANGDA's base case, 60% of the miscible injectant is maintained on the slope for enhanced oil recovery. The base case for the All-Alaska LNG project is 2.2 bcf/day. The Canadian Highway project is 4.5 bcf/day which is removing more than twice as much gas as the LNG project and would result in much higher oil loss. The Alaska Oil and Gas Conservation Commission should investigate this issue and make an estimate for both projects of oil loss and subsequent revenue loss to the State of Alaska.

#### WHICH PROJECT IS BEST FOR ENCOURAGING INDEPENDENT OIL COMPANIES TO EXPLORE AND PRODUCE GAS IN ALASKA?

To answer this question, it is very instructive to look at the current situation with the Alaska oil line. It is privately owned by the major producers on the North Slope. It is in their best interest to charge the highest price possible for shipping oil through the line. This allows them to write off the charge against the wellhead price and reduce their taxes to Alaska. The higher tariffs also make it difficult for independent oil companies to bid against the majors on oil leases. The oil companies don't mind paying the higher tariffs because they own the pipeline and the money just goes from the left pocket to the right pocket.

In a recent ruling, the Regulatory Commission of Alaska (RCA) ruled the ~~the~~ second "the") oil companies were overcharging on the pipeline by 53%. A copy of their ruling is available on the Backbone 2 website.

ANGDA would have no similar incentive to overcharge for their pipeline tariffs. Quite the opposite, as an Alaskan organization they would have a stake in maximizing oil exploration and development in Alaska.

#### WHICH PROJECT PROVIDES BENEFITS TO NON PROFIT ORGANIZATIONS IN ALASKA?

When Wally Hickel was Governor of Alaska, he divested himself of his holdings (10%) in Yukon Pacific and dedicated any proceeds Yukon Pacific may earn from the project to charities in Alaska. These proceeds will be distributed on an annual basis by a three member board which will decide who gets the money. There are no similar provisions for the Canadian Highway project.

## WHAT IS THE PROCESS THAT ANGDA WILL FOLLOW TO DEVELOP THE ALL-ALASKAN PROJECT?

LNG projects around the world follow a similar pattern in their development. ANGDA will be no different.

1. The first step is to identify the quantity of the resource available. For Alaska this is easy, We are producing 8.5 bcf/day on the North Slope as part of oil production.
2. The next step is to do preliminary engineering to show that the project is technically feasible and to identify approximate costs. Much of this work has already been done by Yukon Pacific Corporation and has been turned over to ANGDA. ANGDA must confirm these numbers for themselves and that is the purpose of the proposed \$2.15 million appropriation to the Authority.
3. Utilizing the preliminary numbers, ANGDA will seek letters of intent from gas producers and gas buyers. These letters typically state that if the preliminary numbers are verified by detailed engineering and the gas can be supplied at the prices quoted, that the purchase agreements will be formalized. ANGDA may also seek throughput agreements with the producers if they want to market their own gas. These agreements make commitment for capacity of the line at quoted cost of service fees.
4. Once letters of intent are in hand, detailed engineering and financing for the project must be completed. This will cost approximately \$200 million. Based on the letters of intent this money is often funded by bond anticipation notes.
5. Once detailed engineering and financing verify the economic and engineering models, the gas purchase and sales contracts are finalized, the bonds are sold for the project and construction proceeds.

## IS GOVERNMENT PARTICIPATION IN A PROJECT SUCH AS THIS UNUSUAL?

Around the world, it is actually the norm for governments to participate financially in oil and gas development projects when the resources are owned in common by the people. Substantial profits can be made in the transportation and sale of oil and gas products and ownership in transportation infrastructure is seen as a key method for insuring that the citizens receive a fair rate of return on their resources.

For instance, two deals recently announced by Conoco-Phillips and Exxon in Qatar have the Qatar government owning 70% of the project and the companies owning the rest. Although the oil companies are against Alaska owning any part of an Alaska gasline, it is interesting that they are willing to deal with middle eastern, African and Indonesian governments that own a majority of their projects, but are unwilling to deal with a state that is part of the United States.

It is not even unusual for states to own pipelines. Two states, Wyoming and Georgia have formed authorities to build their own gas pipelines because the private sector is unwilling to build them, just like they are in Alaska.

### IS THIS JUST ANOTHER DELTA BARLEY FARM OR ALASKA SEAFOOD INTERNATIONAL BOONDOGGLE?

If the delta barley project or the Seward grain terminal would have had to meet the same financing requirements of this project, they would never have been built.

The language in the proposition 3 initiative states that the faith and credit of the State of Alaska is not pledged to this project. Other than the initial funding for the Authority to complete the necessary due diligence on the project, all other funding will be provided by private equity partners or by non-recourse revenue bonds.

There are two important third party checks on this project which set it apart from previously state funded projects that were not very well thought through before they were funded. First, if the project is not feasible, the markets will not sign purchase agreements for the gas. Second, in order for the bond market to feel comfortable buying the bonds, they will have to see the sales or throughput contracts and have reviewed all the economic models. When they buy the bonds for this project, they are assuming the risk for the project. If congress passes the loan guarantee provisions for the All-Alaskan LNG project which were included in federal energy legislation by Senator Lisa Murkowski, it will make it easier to sell the bonds because the full faith and credit of the US Government will be behind (80% of )the bonds.

At no time can the assets of the permanent fund be put at risk by this financing. If the permanent fund chooses to consider investing in bonds for the project, they should compare it with other investment opportunities they have and only invest if the Alaska project provides superior returns to the fund.

### HOW CAN A GAS SUPPLY BE SECURED FOR THE ALL-ALASKAN LNG PROJECT?

There are voluntary and involuntary methods and all voluntary methods should be fully explored before taking stronger actions. Typically, the project sponsor would declare a cost of service figure for shipping gas through their pipeline. Then an open season is announced to seek contracts for throughput agreements with gas holders to ship their gas. The next step would be to offer to buy the gas from the producers for the project at a certain wellhead value. If the offer is reasonable and if the producers refuse to sell their gas for the project, it may be a breach of their lease requirements and may open the door for the State to take legal action to secure a gas supply.

The most extreme measure would be the use of eminent domain which the state uses regularly to secure properties and materials for other projects such as highways, airports, etc. It is required to pay fair market value for any properties or materials taken. The

companies would not be able to stop the state or ANGDA, which also independently has the powers of eminent domain, from taking the gas. However, state law would allow them to argue in the courts over what is fair market value. It would be interesting to see what value the courts would place on stranded gas on the North Slope which has very little value without a pipeline to move it to market.

Although eminent domain is a strong action, it would financially benefit the oil companies also. If they were paid the amount in ANGDA's base case model, (\$.94 per mmbtu) the oil companies would receive about \$720 million per year, after taxes, for doing nothing more than just turning on a valve and providing the gas.

The legislature has also considered gas reserves taxes in the past in which the companies would pay higher taxes the longer they leave the gas in the ground. These taxes have not passed in the past, but perhaps the legislature will look on them differently in the context of a proposed gasline and a spreading budget deficit.

#### HOW DOES THE JONES ACT AFFECT THE PROJECT?

For LNG entering the US West Coasts or Hawaiian gas markets, the Jones Act will apply requiring vessels with US built hulls and US crews. These vessels will be more expensive to build and operate. Does this make the All-Alaskan LNG project uncompetitive? It appears that the costs of the Jones Act requirements are small compared to other costs of this or any other LNG project.

The Jones Act requirements also raise the question of the ability of US shipyards to physically produce enough vessels in time for the All-Alaskan LNG project. In discussions with US shipyards, they point to a number of factors that could allow the All-Alaskan LNG project to go forward now while minimizing the economic impact.

In the 1970's 13 LNG tankers were built in US shipyards utilizing federal shipyard construction subsidies (CDS) to equalize the cost of construction with foreign shipyards. When the expected LNG terminals in the US were not built, these vessels went in to service transporting LNG from Indonesia to Korea and Japan. Because of the construction subsidies, they were required to maintain their US. With the same costs Alaska would have to pay to move its LNG, these tankers have been able to operate economically for over 20 years.

The typical life of these tankers is 40 years so they could be reflagged into the US fleet and used to transport Alaskan LNG to the US west coast. Even if you had to buy a new foreign built LNG tanker to replace them for their foreign work, the cost of acquiring these tankers would be equal to foreign built tankers.

In the long, term, US shipyards could replace these vessels with new US built vessels, built over time instead of all at once, which the shipyards also prefer. The Jones Act is not a major impediment to the All-Alaska LNG project.

## WHAT ABOUT A MAINLINE ROUTE TO KENAI?

Backbone 2 does not take a position between competing communities for LNG facilities. However, we are concerned about a potential several year delay for permitting a different project outside the already permitted route within the congressionally designated, Trans Alaska Pipeline corridor. As we noted earlier, there is a way to economically move North Slope gas to Southcentral Alaska by a spurline from Glenallen to Palmer where it would tie into the existing Enstar pipeline infrastructure.

## IS BACKBONE 2 AGAINST THE CANADIAN HIGHWAY PROJECT?

No. Backbone 2 believes that it will take several years for the Canadian Highway project to get permitted and financed. Even with the recent applications submitted to the state under the Stranded Gas Act, there is no reason for Alaska to wait on developing the All-Alaska LNG project. If the Canadian Highway project is built later, that would be great. At least Alaska would have the project that provides gas and other substantial benefits to the people of Alaska.

The worst possible outcome would be if these applications were used as a justification for slowing down the efforts to expeditiously develop the All-Alaska project.

After reviewing the stranded gas act applications recently submitted, (available in full text on backbone2.org website) it appears that the application from Mid America in conjunction with the Alaskan company Pacific Star Energy is a serious proposal. It is great to finally see Alaskan ownership in a North Slope development project.

Mid America is offering to move the gas of any North Slope producer for a fee. If they do not get contractual agreements to move the gas, it is doubtful they can receive the financing for the project.

In their application to the state they declare that "Of necessity, commercialization of the project will require concurrent contractual arrangements by shippers for transportation of gas involving both the Alaska pipeline and the downstream Canadian line." They also reference the need for "long term contracts for firm transportation service." "Mid America will not hold title to any of the gas supplies transported by the proposed pipeline."

So Mid America is dependent on the producers for their project. When Foothills Pipeline group made a similar proposal 3 years ago, they were told by the producers that they weren't interested. Given the fact the producers have proposed their own pipeline under the stranded gas act (including the over the top route) it is doubtful that they will agree to give up the profits of a gasline to someone else. The Mid America proposal says they will make a go/no go decision by 2007.

Even if we assume that Mid America can be successful, there is no reason for Alaska to slow down on development of its own project which was mandated by Alaskan voters. Perhaps there is a way for ANGDA to work with Mid America on a development which would move the Alaska project forward and also help them with their Canadian project.

The stranded gas application from the producers contains no timelines or commitments to actually build the project. It is more of a place holder and delay mechanism than anything else. They are asking the state to give them tax and royalty relief without making any real commitment to the project.

**They clearly state: "Nothing in this application or any communications between the parties should be construed as a commitment by the Sponsor Group to complete fiscal contract negotiations, or to initiate engineering design, permitting, procurement, or construction of a qualified project or are deemed to create any obligation or liability of the sponsor Group to proceed with a Qualified Project."**

They have also openly stated that without price subsidies from the Federal taxpayers, the project is uneconomic. It is clear now that those subsidies will not be available, even if an energy bill passes. The reason those subsidies are necessary for them is that they are demanding a high rate of return and the pipeline is just too long.

According to Bill Hauhe, manager of global liquefied natural gas (LNG) for Chevron Texaco, speaking at a recent LNG workshop at the second annual Africa Oil and Gas Conference sponsored by the Corporate Council on Africa in Houston, Texas, "For distances up to about 2,000 kilometers (approximately 1000 miles), pipelines are usually the most economical way to move gas to market. For longer distances, such as between West Africa and North America, special double-hulled LNG ships are the preferred option."

The Canadian Highway route is about 2200 miles to Alberta and 3600 miles to Chicago.

Again, the main point here is that regardless of the stranded gas act applications, Alaska should continue to move forward on its own project which can provide maximum benefits to Alaska in State revenues, municipal revenue sharing, and access to gas for Alaskans. Eventually, both projects could be built and that would be the best case scenario for Alaska.

The stranded gas act applications open the way for the Murkowski administration and the legislature to negotiate provisions that would allow the All-Alaska project to go forward. If the oil companies are asking for tax and royalty breaks, the state should demand either a gas supply for the All-Alaska project or some other commercial agreement that would help facilitate the project such as a joint venture agreement. To do any less would be to abandon the strategic interests of the people of Alaska in North Slope gas development.

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