

HB

267

ALASKA STATE LEGISLATURE

Interim:
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Session:
State Capitol Building
Juneau, Alaska 99801-1182
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REPRESENTATIVE VIC KOHRING DISTRICT 14

SPONSOR STATEMENT

HB 267

RAILROAD BONDS FOR NATURAL GAS TRANSPORT

This legislation would be a significant step toward the construction of a natural gas pipeline to commercialize North Slope gas reserves.

HB 267 authorizes the Alaska Railroad Corporation to issue bonds for the pipeline project, leveraging the ability of the corporation to issue tax-exempt bonds for industrial development. This financing plan can push pipeline construction that much closer to reality, resulting in jobs for Alaskans and revenue to the state while delivering natural gas to a waiting public and market.

The Alaska Railroad's ability to issue tax-exempt bonds to finance industrial development was approved in 1983 by the U.S. Congress with the transfer of the Alaska Railroad from federal to state ownership. Congress reaffirmed Alaska Railroad's authority to issue tax-exempt bonds in the Tax Reform Act in 1986.

Estimates prepared by Goldman Sachs and the Department of Revenue suggest the financing plan presented in this bill will increase the economic viability of the natural gas line construction project by saving the facility owners more than \$1 billion over the life of the project.

The bill allows Alaska Railroad to provide financing for the acquisition, construction, improvement, maintenance, equipping and operation of facilities for the transportation of natural gas resources within and outside the state. It specifically authorizes Alaska Railroad to negotiate issue up to \$17 billion in bonds for construction of a natural gas pipeline.

While Alaska Railroad would issue the bonds, neither Alaska Railroad nor the State would own the gas line nor be liable for the debt. That responsibility would fall on the private companies that build, own, and operate the gas line. The bill requires that prior to issuing bonds, Alaska Railroad must determine that any contract or lease is sufficient to pay back the bonds as scheduled, maintain reserves for the payments, and pay all costs necessary to secure the bonds.

The railroad is a vital link in Alaska's economy. Many towns have sprouted up because of the role of Alaska Railroad, which supported construction of the Alaska Highway during World War II and the subsequent military buildup in our state. It also helped in building the Trans-Alaska Pipeline System; and along its more than 600 miles of track, it carries seven million tons of freight and a half-million passengers each year. Alaska Railroad also provides jobs for 700 Alaskans.

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Subject: LNG Meeting with Korea Gas Corp.

Date: Tue, 25 Feb 2003 18:37:09 -0900

From: Bill Noll <bill_noll@dced.state.ak.us>

To: Edgar Blatchford <edgar_blatchford@dced.state.ak.us>, Frank_Homan@gov.state.ak.us

Edgar and Frank:

Per Jim Clark's request I took part in the Feb. 21st natural gas discussions with Mr. Kim, Jong-Sool of Korea Gas Corporation.

As I reported telephonically on Feb. 22nd, the discussions went well. Following are some pertinent facts.

1. There were two meetings on Feb. 21st, one at 10:00 a.m. in the offices of Jeff Lowenfels and Wayne Lewis, and then at 6:30 p.m. for dinner at the Captain Cook Hotel.
2. Attending the 10:00 a.m. meeting: Noll, Kim, Rep. Fate, Rep. Harris, Rep. Whittaker, Paul Funs, Scott Heyworth, John Urbina (Baum & Co.), Geoff Urbina, John Bitney (Anch. rep for Baum), and Craig Richards (from Wohlforth's firm, on contract to Alaska Railroad for bonding matters).
3. Attending the 6:30 p.m. dinner: Noll, Kim, Rep. Whittaker, Funs, Heyworth, both Urbina's, Bitney, Brad Whitmore (Yukon Pacific), and Bill Walker. Dinner was hosted by the Urbina's (Baum & Co.).
4. Mr. Kim is Senior Executive Vice President and a Member of the Board of Korea Gas Corporation (Kogas). During the course of the meetings he said that he would be the point of contact for discussions about Alaska gas. All parties had a lively and positive exchange. Mr. Kim has a degree from the United States in electrical engineering, and he speaks English very well. He is 56 years of age.
5. Kogas now sources gas from Oman, Qatar, Indonesia, Malaysia and Brunei. Mr. Kim sees a need for an added 17mm tons of LNG in Korea in the 2010 - 2015 timeframe. Kogas is looking at possible sources to fill that need, including renewing existing contracts, new pipeline sources, and mid-contract adjustments. By the conclusion of the morning meeting Mr. Kim said he would now consider Alaska as a possible source for a portion of that need, citing the united presence of Alaska's Executive and Legislative Branches along with the private sector in pushing for the project.
6. I noted to Mr. Kim that our Governor has considerable international and energy experience and that he will no doubt make a visit to Korea with a strong delegation but not until after the end of the Legislative session. I told Mr. Kim that the Governor will soon appoint the members of an authority to work on the question of our gas. While I made no commitments on the outcome of the authority's work, I assured Mr. Kim that the commercialization of our gas is of high interest.
7. Funs and Urbina presented a very brief overview of the proposed LNG project, citing a price of \$3.50 per mmbtu delivered to Korea (CIF). Mr. Kim's comment: "Good price." Mr. Kim said that Kogas is now paying from \$4.00 to \$5.70 per mmbtu CIF.
8. Kogas LNG is currently delivered by a fleet of 17 tankers (price \$160 - \$175 million each), all built in one of three Korean yards and operated by four Korean shipping companies under long term contracts with Kogas. Yukon Pacific figures that their export project will need 12 tankers.

9. Mr. Kim stated in both meetings that Kogas would discuss a 5% - 10% equity interest in the Alaska project. I assume that this could be offered in the form of capital goods (such as the ships). Mr. Kim repeated to me that Kogas could discuss a long term commitment contract with Alaska, so long as the price point risk was equally shared by the State. No details, of course, but his point was repeated by him and by me to be sure of the words, and his meaning was clear. (FYI, the price point per mmbtu for international LNG is often pegged to a basket of crudes known as the Tokyo Crude Cocktail or TCC. The LNG price point fluctuates with the price of those crudes. Higher crude prices equate to lower risk for LNG sellers and higher prices for LNG consumers. Lower crude prices equate to the opposite, and herein is the need for risk analysis on the seller side -- such as Alaska.)

10. There were many other items discussed, the details of which could be summarized by the technical people at the meetings. I can report that the atmosphere was quite positive. The House members seemed very encouraged by the meeting.

11. Frankly, I was also pleasantly surprised by Mr. Kim's forthcoming nature and comments. There are many more things to be done, but this was an encouraging meeting with one of the major LNG end-users. Again, Mr. Kim asked that he be the point of contact at Kogas for future discussions. I departed the dinner along with Rep. Whittaker, telling Mr. Kim that I would see him in Seoul.

12. I spoke with Paul Fuhs today (Feb. 25th). He is now in Juneau. I asked him to look into inviting Tokyo Gas to Alaska for a similar meeting.

Best regards, Bill

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 267
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
 Title Ak Railroad Bonds For Nat. Gas Transport BRU _____
 Component Alaska Railroad Corporation
 Sponsor Representative Kohring
 Requester House Oil & Gas Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual			163,000.0			
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	163,000.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Bond Proceeds			163,000.0			
TOTAL	0.0	0.0	163,000.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Please see analysis continuation.

Prepared by: Wendy Lindskoog, Director of External Affairs Phone 265-2516
 Division Alaska Railroad Corporation Date/Time 4/23/03 2:51 PM
 Approved by: Edgar Blatchford, Commissioner Date 4/23/2003
 Agency Department of Community & Economic Development

FISCAL NOTE

**STATE OF ALASKA
2003 LEGISLATIVE SESSION**

BILL NO. HB 267

ANALYSIS CONTINUATION

The bill authorizes the issuance of up to \$17 billion in revenue bonds by the Alaska Railroad Corporation (ARRC) to pay for 70% of the construction of a natural gas pipeline. Based upon current estimates, ARRC could issue \$14,265,000,000 in bonds as early as state Fiscal Year 2006. ARRC will act as a conduit for the issuance of these bonds to allow the debt to be issued as tax exempt. Through modeling, the tax exemption has been shown to reduce the cost of financing the project by over one billion dollars. The Bonds would be solely secured by revenues generated by the pipeline. The Alaska Railroad will bear no liability and have no responsibility for repayment of the bonds.

The projected costs of issuing the bonds detailed here will be paid with bond proceeds at closing. Anticipated professional services include those related to financial advisors, attorney's fees (bond counsel, underwriter's counsel, tax counsel, negotiating with producers), rating agencies, underwriters, printing, travel, public notices, and the feasibility consultant. ARRC will front certain minor necessary reimbursable costs from corporation revenues.

For purposes of this fiscal note, it is assumed that bonds with a face value of \$14.265 billion will be issued in FY 2006. The bonds are expected to be issued with a 25 year term and for modeling purposes carry an interest rate of 6.5%. As the project will not generate revenue while under construction, the first two years of interest payments will be made with bond proceeds. Following construction, annual debt service will begin at approximately \$1.3 billion, growing to \$1.4 billion in year 6 and then gradually lowering to \$800 million in the final year. However, ultimately, issuance amounts, dates, term, interest rate, and other significant variables will be dependent upon the financing structure determined by market conditions at the time of sale of the bonds.

LEGAL SERVICES

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MEMORANDUM

May 6, 2003

SUBJECT: Sectional summary - HB 267

TO: Representative Vic Kohring
Attn: Ben Gretn

FROM: Tamara Brandt Cook
Director *TBC*

Sec. 1. Findings, intent and purpose dealing with the power of the Alaska Railroad Corporation to provide financing for transportation for natural gas resources.

Sec. 2. Adds a power of the Alaska Railroad Corporation to provide financing for the acquisition, construction, improvement, maintenance, equipping, and operation of facilities for the transportation of natural gas without regard to whether the facilities are or will be owned by the corporation or located on land owned by the corporation.

Sec. 3. Requires the Alaska Railroad Corporation to enter into an agreement with certain terms to protect its bonds if the corporation issues bonds to provide financing for a facility to be owned in whole or part by an entity other than the corporation.

Sec. 4. States that bonds of the corporation issued to finance natural gas transportation facilities are issued by an instrumentality of the state for a public purpose.

Sec. 5. The legislature authorizes the corporation to issue bonds in an amount not to exceed \$17,000,000,000 to finance the construction of a natural gas pipeline and facilities for the transportation of natural gas recovered from the North Slope.

Sec. 6. Immediate effective date.

TBC:med
03-492.med

Alaska State Legislature
House Finance Committee

REPRESENTATIVE
BILL WILLIAMS

Co-Chair

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REPRESENTATIVE
JOHN HARRIS

Co-Chair

(907) 465-4859

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INTERIM ADDRESS

State Capitol, Room 507

Juneau, AK 99801-1182

January 21, 2003

John Urbina, Executive Vice President & Manager
Alaska and Northwest Public Finance
George K. Baum & Company
731 N Street
Anchorage, Alaska 99501

Dear Mr. Urbina,

I am aware of your expertise based on your involvement with financing of various Valdez projects, including the Alyeska marine terminal for the Trans Alaska oil pipeline and the current proposal for the hospital. Based on your firm's experience in public financing in Alaska over the past twenty-eight years, I am writing to request your assistance in evaluating economic data concerning the proposed gas pipeline from Alaska's North Slope to Valdez.

As you know, Alaskan voters overwhelmingly created the Alaska Natural Gas Development Authority during the last general election. The approval of funding for the Authority must occur as part of the budget deliberations by the House Finance Committee. As Co-Chairman of the Committee, I anticipate there will be questions whether the project is sufficiently economic to warrant being pursued by the State of Alaska.

In responding to a request from me, Yukon Pacific Corporation has recently supplied the most current project description and economic data for a gasline to Valdez. I have enclosed this as an attachment to this letter.

I would appreciate it if you would analyze the financing and bonding implications of this data from both a private and public financing point of view. You may contact Yukon Pacific Corporation for any clarifications on their model if it is necessary.

It would be interesting to know your opinion on debt service coverage required to sell the bonds for this project, potential returns to the Authority and the State of Alaska from owning the project, rates of return on the pipeline, and whether or not you believe the bonds for this project could be sold if Yukon Pacific's project assumptions hold true.

Sincerely,

A handwritten signature in black ink, appearing to read "John Harris", written over a horizontal line.

Representative John Harris

CORRESPONDENCE
RE: AK/NW PUBLIC FINANCE

George K. Baum & Company
INVESTMENT BANKERS SINCE 1928

January 30, 2003

Representative John Harris
Co-Chair House Finance Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

Dear Representative Harris:

George K. Baum & Company is pleased to respond to your request to analyze economic data for a gasline to Valdez. In our analysis we have utilized information supplied to you by Yukon Pacific Corporation.

Yukon Pacific Corporation Information

Your office has furnished us with Yukon Pacific Corporation detail on projected revenue breakdown and expenditures including, capital outlays, expenses for gasline products, gas purchase expenses and other costs.

Yukon Pacific Corporation detail was supplied for two cases:

1) Base Case, which revenues include:

- LNG sold to North America & Asia
- LPG sold to Asia
- Ethane sold to Valdez
- Natural gas sold to TAPS
- Natural gas sold to Alaska residents
- Total Operating income over 39 years \$103.6 billion

2) Lean Case, which revenues include:

- LNG sold to North America & Asia
- LPG sold to Asia
- Natural Gas sold to Alaska Residents
- Total Operating income over 39 years \$103.8 billion

We make no statement as to the accuracy or validity of information supplied to us by your office or by the Yukon Pacific Corporation. Material supplied to us is attached as Exhibit A.

Analysis

Our analysis, in accordance with your request, entailed the examination of each Yukon Pacific Corporation scenario "base case" and "lean gas case" for three different financing options. The financing options analyzed were 70% tax-exempt debt and 30% equity; 70% taxable debt and 30% equity; and, 100% tax-exempt debt.

For each case we computed debt service coverage, potential revenues to the Authority and State of Alaska, and an internal rate of return for the gasline project where appropriate. Detail on our financial models is attached as Exhibit B.

Our results are summarized in the attached Chart A.

Viability of Project


The cornerstone of our analysis is the projected revenue derived from throughput "take-or-pay" and/or "ship-or-pay" contracts with end users. It is imperative that the contracts be in place for rating and bond marketing purposes. In addition, it is important to note, that our analysis assumes that tax-exempt debt for all or a portion of the gasline project can be issued through the Alaska Railroad Corporation (ARRC). Local bond counsel has opined favorably on the ARRC issue. If the ARRC option is not available only 25% to 30% of the project can be financed tax-exempt and a portion if not all of the tax-exempt debt would be subject to "private activity" bond cap allocation by the State Bond Committee. Furthermore, the tax-exempt portion of debt financed outside of the ARRC option would be limited to those purposes permitted by current tax law.

Based on the information and market assumptions supplied to us by Yukon Pacific Corporation for our analysis we believe the project can be financed in the bond market if the ARRC vehicle is available. We believe the best option would be to have some equity contribution from private sponsors. A State owned facility would entail some production and market risk the State of Alaska may not want to assume. Also, there are issues such as unrelated business income tax that the State may be subject to unless all revenues were utilized for public purposes.

According to projections provided by YPC and our analysis we are showing, depending on model assumptions, annual revenues to the State of between \$350 million to \$1.0 billion. This underscores the importance of this project to the State.

We hope this information is of interest and help to you. We are available for further consultation to you and your staff and assistance with any presentation before House Finance Committee meetings and/or hearings. Should you require any additional material or clarification on our analysis please let us know. Any questions regarding detail on "base case" or "lean gas case" assumptions should be directed to Yukon Pacific Corporation.

Sincerely,



John D. Urbina

Attachments

Chart A
Exhibit A
Exhibit B

Chart A

George K. Baum & Co. Summary of Corporate Finance & Public Finance Models						
	Corporate Finance Model				Public Finance Model	
	30% Equity / 70% Tax-Exempt		30% Equity / 70% Taxable		100% Tax-Exempt Debt	
	Base	Lean	Base	Lean	Base	Lean
Internal Rate of Return (ROB) ⁽¹⁾	13.11%	13.17%	11.64%	11.66%	N/A	N/A
Years Debt Amortized	17 years	17 years	24 years	24 years	39 years	39 years
Minimum DSCR	1.53x	1.53x	1.50x	1.50x	2.00x	2.00x
Average DSCR ⁽²⁾	2.15x	2.16x	2.47x	2.47x	2.52x	2.53x
Average Annual State Revenues in millions ⁽³⁾	350 - 400	350 - 400	350 - 400	350 - 400	500 - 1,000	500 - 1,000
Average Annual Local Municipality Revenues in millions ⁽⁴⁾	50 - 100	50 - 100	50 - 100	50 - 100	50 - 100	50 - 100

⁽¹⁾ Public Models: The IRR calculation does not apply to a project funded by 100% debt.

⁽²⁾ Corporate Models: The longer term amortization is due to the desire to have a minimum DSCR of 1.5x; hence, since the principal payment is lower for the 8% scenario versus the 5% scenario, the average DSCR for the 8% scenario is higher.

⁽³⁾ Corporate Models: Annual amounts are a function of royalty tax, severance tax and ELF levels.

⁽⁴⁾ Corporate Models: Annual amounts are a function of mill levy calculation on property or PILT.

1. 04

FAX NO. 206 388 0000

JAN-29-2003 WED 03:27 PM GKB



Alaska State Legislature

REPRESENTATIVE JOHN HARRIS

District 35 - Valdez, Cordova, Whittier, Clendon, Delta Junction, Tatitlek, Kory Lake, Paxson, Gakona, Chenega Bay

December 24, 2002

Ward Whitmore
Director of Project Development
Yukon Pacific Corporation
1400 West Benson, Suite 501
Anchorage, AK 99503

Dear Mr. Whitmore:

At the November election, the voters of Alaska overwhelmingly adopted Proposition 3, which establishes an Alaska Gasline Authority. As the incoming co-chairman of the House Finance Committee, I will be overseeing that committee's deliberations on a budget for the authority.

I would appreciate the opportunity to meet with you to receive any information you may be willing to share with legislators concerning potential project configurations, project economics, including construction costs, potential markets and revenues, and any other information you believe would help us in our deliberations.

I am also concerned about public statements made recently by others that infer that Yukon Pacific is expecting to be paid up front for your permits, even before we know whether the project will move forward. I would appreciate a letter from you explaining your outlook on negotiations concerning the use of your permits for this project.

As you know, this project is very important to my district, as well as the rest of the state, and I want to do all I can to give the issue fair consideration.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "John Harris".

Representative John Harris

Cc: Governor Frank Murkowski

Co-Chair Community and Regional Affairs Committee, Member: Resources, Labor and Commerce, Oil and Gas, Fisheries and Regulation Review
Session: State Capitol, Juneau, Alaska 99801-1182 • Phone: (907) 465-4859 Fax: (907) 465-3799
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**CORRESPONDENCE
RE; YUKON PACIFIC CORP.**



**YUKON
PACIFIC
CORPORATION**
TRANS-ALASKA GAS SYSTEM

January 2, 2003

Representative John Harris
Alaska State Legislature
PO Box 1245
Valdez, Alaska 99686

Dear Representative Harris:

Thank you for your letter dated December 24, 2002. We obviously share your view regarding the importance of a LNG project to the state and to Valdez.

You expressed concern about public statements made by others than infer that Yukon Pacific Corporation (YPC) is expecting upfront payment for its permits. You also requested that we explain our outlook on negotiations concerning use of our permits.

YPC is a subsidiary of CSX Corporation. Neither YPC nor CSX has authorized any person(s) to speak on behalf of either corporation regarding YPC's permits or other aspects of the Trans-Alaska Gas System (TAGS). As your letter has just done, please contact us directly to determine our position on any matter.

The staff at YPC will be happy to meet with you to address questions and particulars regarding the content of YPC's permits and technical aspects of TAGS. CSX will conduct any negotiations regarding access to YPC's permits and other assets. I can, however, address CSX's general approach regarding negotiations for YPC's permits.

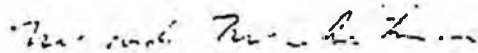
CSX is flexible regarding the terms used to value YPC's assets. CSX's general view is that the value of the permits is tied to the success of the project. CSX is not expecting an upfront buyout of YPC's permits

Representative John Harris
January 2, 2003

Page 2 of 2

YPC continues to work on the TAGS project and we are excited regarding the prospects for a LNG project to Valdez. There is an enormous amount of work ahead. YPC will work with any qualified sponsor wanting to advance a LNG project in a meaningful way, and will be responsive to requests from such a sponsor. We look forward to working with the State of Alaska regarding the project.

Regards,



Ward Whitmore
Director of Project Development

Cc: Andrew Fogarty (CSX)

Yukon Pacific Corporation

Trans-Alaska Gas System

Introduction

Yukon Pacific Corporation (YPC) is the sponsor of and holds major permits for the Trans-Alaska Gas System (TAGS). TAGS is a project that would transport Alaska's North Slope natural gas by pipeline to Valdez, Alaska, where the gas components would be separated into various products for sale to markets within Alaska, along the west coast of North America and in Asia.

TAGS was originally envisioned as a project to produce and sell LNG (liquefied natural gas) exclusively to Asian markets. A potentially large LNG market is developing along the west coast of North America. A recent publication of the American Gas Association identifies a LNG project from South Alaska as a principle option for moving North Alaska gas to markets in North America or North Asia.

A number of LNG receiving terminals are being proposed for the Baja Peninsula of Mexico and California to serve the natural gas and electrical power markets in the western United States. It is YPC's understanding that the LNG supply to these receiving terminals has not yet been secured. The opportunity exists for TAGS to be a major supplier of LNG to these facilities and/or other terminals located along the U.S. West Coast and possibly British Columbia.

Economies of scale required for the TAGS project may be achieved if TAGS can secure a significant portion of the LNG market along the west coast of North America. A TAGS project delivering natural gas to the lower-48 would benefit Alaska and the United States overall because this would reduce the dependency of the United States on foreign energy, any potential aid from state or U.S. federal governments would be applied to a project within the United States, and the United States would benefit economically from the construction and operation of a domestic project.

The Prudhoe Bay field is the largest reserve of natural gas on Alaska's North Slope. The Prudhoe Bay field will be over 30 years old by the start of TAGS. Hydrocarbons, specifically propane, currently used for enhanced oil recovery operations at Prudhoe Bay may be available for sale via TAGS as LPG (liquefied propane gas) to markets around the Pacific Rim. The sale of large quantities of propane via TAGS represents a potentially valuable market that could enhance the economic viability of TAGS.

YPC is investigating configurations of TAGS that accommodate both the emerging LNG market to the west coast of North America and the potential availability of large amounts of propane from Prudhoe Bay. YPC is considering two general configurations: one based upon various value added options such as supplying feedstock to an Alaskan petrochemical industry, and a second option based on LNG and LPG sales without value added options. Economic analyses show that this new configuration of TAGS may be economically viable with, or without the value added options.

YPC is presenting the results of our economic analyses with the goal of engaging other parties interested in commercializing natural gas from Alaska's North Slope.

In 1987, CSX Corporation acquired a direct majority interest in YPC and now holds approximately 88 percent of its shares. The remaining interest is held primarily by a charitable trust established by former Alaska Gov. Walter Hickel, one of the co-founders of YPC.

The project development activity at YPC includes field programs to gather data along the pipeline route from the North Slope of Alaska to Valdez. YPC continues to develop in-house analytical software for evaluation of pipeline designs and a geographical information system containing technical information for TAGS.

Project Economics

YPC is evaluating two stand-alone configurations of TAGS: a Base Case and a Lean Gas Case. In both cases, economic analyses have shown that the potential benefits are significant and warrant further consideration by entities interested in commercializing North Slope natural gas. Analyses show that the TAGS project economics are enhanced by, but not dependent upon the value added options available to the project.

Both the Base and the Lean Gas cases include the costs for a gas conditioning plant on the North Slope, a pipeline with compressor stations to deliver the gas to Valdez, a facility to separate the hydrocarbon components at Valdez, and a liquefaction plant with marine terminal at Valdez. The capital costs also include a fleet of LNG and LPG tankers, plus a LNG receiving facility on the west coast of North America.

In both cases, the average flow of natural gas entering the TAGS pipeline on the North Slope, including fuel, is estimated at 2.2 bscfd (billion standard cubic feet per day). YPC has selected a 36-inch diameter pipeline, with relatively small sized gas compressors located periodically along the route, to accommodate the 2.2 bscfd flow. The capacity of the 36-inch pipeline can be increased to 3 bscfd by the addition of gas compression.

YPC's economic model generates economic parameters from the perspective of the gas producers assuming that they own the project, and also from a prospective assuming that a group of investors would own the project and buy the gas from the gas producers. Both perspectives are based upon generation of after tax cash flows that are used to determine a rate of return on equity for the project. The model calculates a separate cash flow for the value of the gas purchased from the gas producers after consideration of royalty, severance taxes, state taxes and federal taxes. Economics for the overall project including gas purchase revenue are based upon the sum of the cash flows for the project and the gas purchase value.

YPC has completed economic analyses for the stand-alone projects according to a methodology used by the Alaska Legislature Joint Committee on Natural Gas Pipelines. This methodology employs adjustment of the gas purchase price until the return on equity for the downstream infrastructure equals 12 percent. Per this methodology, the 12 percent value reflects the value that would be allowed by the U.S. Federal Energy Regulatory Commission (FERC) for a typical pipeline project.

The project economics are calculated for two scenarios. The first scenario is based upon the assumption that the North Slope gas producers would own and operate the entire project. The economics for this scenario include the value of the natural gas on the North Slope. The second scenario is based upon the assumption that the North Slope gas producers would not participate in the project and that other investors would build the project and purchase the gas from the gas producers. This second scenario reflects the project for which the Joint Committee on Natural Gas Pipelines has assumed FERC would allow a 12 percent return on equity.

According to this methodology, the economics for the new stand-alone configurations of TAGS are:

	<u>Base</u>	<u>Lean Gas</u>
Economic summary		
Overall project including gas purchase revenue		
Return on equity (%)	17.5	16.6
Return on investment (%)	12.6	12.1
Gas purchase price		
Thermal basis – per million btu (\$/mmbtu)	0.94	0.84
Volume basis – per 1000 standard cubic feet (\$/mscf)	1.15	0.96
Percent of gross project revenues	32	28
Project excluding gas purchase revenue		
Return on equity (% , typical FERC)	12.0	12.0
Project volume		
LNG (MTA – million metric tons per annum)	12.5	13.5
Propane (1000 bpd - barrels per day)	100	76
Ethane to petrochemical feed (1000 bpd)	47	none
NGL blended into TAPS (1000 bpd)	17	none

Hydrocarbons are desired for their energy content and thus gas purchase and sale contracts are ultimately based on a thermal, or btu, basis. Recent discussions of Alaskan gas projects have referred to gas prices on a volumetric, or mscf, basis. The above table expresses gas purchase prices on both a thermal and volumetric basis determined according to the hydrocarbon content of the conditioned natural gas at the inlet of the pipeline.

The results of the economic models are, of course, dependent on the assumptions used for the various economic parameters and prices. YPC believes that its capital cost assumptions are generally conservative. YPC estimates the capital costs, expressed in year 2000 dollars, for the Base Case to be:

	\$ billion
Gas conditioning plant	2.1
Pipeline with compressor stations	4.0
LNG plant and marine terminal	3.9
12 LNG tankers	2.1
4 LPG tankers	0.5
1 bscfd LNG receiving terminal on the west coast of North America	0.4
TOTAL	13.0

The capital costs for the gas conditioning plant are based upon those published by the PBU for their proposed LNG project from South-central Alaska. The capital costs for the pipeline, compressor stations and liquefaction plant with marine terminal were prepared for YPC by Willbros Inc., Michael Baker, Jr. Inc., and Kellogg Brown & Root.

The following product prices, expressed in year 2002 dollars, were used in the economic analyses of the Base and Lean Gas cases:

	\$/mmbtu
Natural gas delivered within Alaska	2.50
LNG delivered to North America	3.25
LNG delivered to Asia	3.50
Propane delivered to Asia as LPG	4.38
Ethane to petrochemical feed	2.00
Natural gas liquids to TAPS	3.00*
* Equivalent to \$13.87/barrel	

The above prices are considered as representative of the various markets. The actual prices and market quantities required to support the project will be determined through negotiations among the various stakeholders in the project.

The price assumed for natural gas delivered within Alaska is at or below gas prices reported for recent gas contracts for in-state utility grade gas. The price for LNG to North America is within the range of price estimates offered by the Alaska Department of Revenue for LNG delivered to this market. LNG and LPG prices to Asia, and ethane delivered for petrochemical feedstock are based upon historical trends. The price of natural gas liquids to TAPS is an estimate reflecting the value after transport to Valdez, but prior to loading onto the oil tankers.

The project economics were based upon the following general economic assumptions:

Debt to equity ratio	70/30
Interest during construction and for debt financing	8 %
Debt service duration	15 years
Yearly inflation for nominal dollars	2.5 %

TAGS project size

Various projects have been proposed to commercialize North Slope natural gas by construction of large capacity pipelines from Alaska through Canada to the Lower-48. Some of these proposals include an option to install a secondary, or spur, pipeline to an LNG facility at tidewater in South-central Alaska. The TAGS project can be configured as a spur project from a Canadian pipeline and YPC does not dismiss this as a possibility. The configuration discussed in this document, however, consists of a stand-alone project that does not rely upon the installation of a pipeline through Canada.

PBU (Prudhoe Bay Unit) member companies recently presented information for a pipeline project through Canada to Chicago with an initial volume of 4.5 bscfd expandable to 5.6 bscfd. YPC offers no comment on this proposal other than to adopt it as the PBU gas pipeline project.

PBU member companies presented information to the Alaska Legislature in 2001 regarding a LNG project from tidewater in South-central Alaska to Asia. The PBU referred to this 7-8 MTA project as the "market entry project" and provided capital costs for this configuration. Again, YPC offers no comment on this proposal other than to adopt it as the PBU LNG project.

YPC's new configuration of TAGS is based upon a volume of 2.2 bscfd of conditioned gas entering the pipeline on the North Slope of Alaska. The preferred scenario, or Base Case, for TAGS is based upon delivery of 7.6 MTA of LNG (1 bscfd natural gas equivalent) to the west coast of North America and 5.0 MTA of LNG (0.66 bscfd) to Asia. The remainder of the pipeline gas consists of propane for ultimate sale as LPG, ethane for extraction and sale to a petrochemical plant, natural gas for sale within Alaska, natural gas liquids for extraction and sale to the Trans-Alaska Pipeline System, and project fuel.

TAGS is based upon delivery of approximately one fifth the amount of natural gas to the Lower-48 market proposed for the PBU gas pipeline project. The difference is that this smaller volume of gas is targeted to the U.S. west coast instead of the U.S. mid-west. Although small relative to the PBU gas pipeline project, delivery of 1 bscfd of natural gas (7.6 MTA of LNG) to the US west coast represents a large LNG project.

The TAGS Base Case is based upon delivery of approximately 60% of the volume of LNG specified by the PBU as the "market entry" project from Alaska to Asia.

The new configuration of TAGS targets market volumes to the Lower-48 and Asia that are less than those specified by the pipeline and LNG projects recently evaluated by the North Slope gas producers to serve these respective markets. The new configuration of TAGS differs from these projects in that both markets will be served simultaneously thereby providing a collective volume large enough to achieve the economies of scale necessary to support the overall project.

Propane sale via TAGS

The existing production facilities at Prudhoe Bay concentrate propane and other hydrocarbons from approximately 8.5 bscfd of natural gas produced from the field into a single stream of approximately 0.45 bscfd. This stream is reinjected back into the reservoir as part of the enhanced oil recovery (EOR) project at Prudhoe Bay. The new configurations of TAGS are based upon extraction of propane contained in this stream with subsequent sale of the propane as LPG to Asia.

The PBU has projected that the enhanced oil recovery project may be completed by around the year 2010 which is the earliest date now projected for the start-up of TAGS. YPC has assumed that the life of the enhanced oil project may extend past 2010 and has configured TAGS to mitigate the impact on the EOR project due to the removal of the propane.

Historically, LPG (propane) has commanded a higher price in Asia than LNG. The price differential has been increasing over the last ten years thus indicating a strengthening LPG market. Articles in trade journals (example: "Trade recovery pushes world LPG demand past 200 million tonnes", Oil & Gas Journal, June 24, 2002) also indicate a strengthening LPG market. Existing and recently announced LNG projects around the Pacific Rim include LPG sales to the Asian market.

The sale of LPG to Asia will add significant revenue to TAGS thereby supplementing LNG revenue and enhancing project economics. The propane will be extracted upstream of the liquefaction plant in Valdez thereby minimizing the size of the capital-intensive liquefaction facilities.

Value added options and Lean Gas Case

The option exists to extract ethane and/or butane along with the propane upstream of the liquefaction facilities in Valdez. The ethane and butane can be used as feedstock to a petrochemical industry at tidewater in South-central Alaska. A petrochemical industry would provide new employment and a tax base within Alaska and as such represents a true "value added" use of Alaska's natural resources. Similar

to propane, extraction and sale of ethane and/or butane adds value to TAGS by supplementing LNG revenues.

TAGS can accommodate either a raw gas from oil production facilities or a residue gas leaving the existing gas handling facilities at Prudhoe Bay. Use of a raw gas may provide for an increase in near term oil production by allowing oil wells that are currently shut-in to be put on-line. The gas from these wells would simply be sent to TAGS for subsequent disposition via the gas project. YPC has included no credit for this potential increase in oil production in the TAGS project economics.

A raw field gas contains hydrocarbon components that can be blended into the crude oil flowing through TAPS (the Trans-Alaska Pipeline System). Hydrocarbons extracted from natural gas and mixed into the TAPS oil pipeline are referred to as blendable natural gas liquids or generically as NGL. YPC has assumed that if a raw gas feed is used for TAGS the resulting NGL can be removed from the gas in Valdez and blended into TAPS immediately upstream of the Valdez Marine Terminal. As noted above, use of a raw gas will result in incremental crude oil production at Prudhoe Bay. The relative amounts of crude oil and NGL tendered to TAPS will be the same regardless of whether the NGL is blended into TAPS on the North Slope or blended in Valdez. YPC has included revenue from the sale of the NGL in the project economics since the investment for TAGS includes facilities to transport and separate the NGL for delivery to TAPS in Valdez.

The TAGS Base Case configuration is based upon successful implementation of all the value added options. YPC is also considering a fall back scenario based upon the assumption that for some reason a petrochemical industry is not viable in Alaska and a raw field gas cannot be used as feed to TAGS. The benefits of increased crude oil production and the associated NGL will not be achieved without use of a raw gas feed to TAGS. The fall back scenario is referred to as the Lean Gas Case since it is assumed that residue gas leaving the processing facilities at Prudhoe Bay will be used as feed to TAGS. Some of the ethane and propane, and most of the butane and NGL, are removed from the gas in the processing facilities thus the residue gas is "lean" with respect to the amount of these components remaining in the gas.

Impact on oil production

Oil loss attributed to a major gas sale appears to be tied to the amount of gas removed from the reservoir and the corresponding drop in reservoir pressure. One would expect relatively less adverse impact on oil with a gas sale of 2.2 bscfd to TAGS since this is the smallest of the Alaskan gas projects currently being proposed. The TAGS project would thus represent a gain in oil production compared to a reference case of the PBU pipeline project through Canada.

A finite volume of hydrocarbons must be reinjected to recover a prescribed amount of oil targeted by the Prudhoe Bay enhanced oil recovery project. A reduction in the volume of injectant would defer, not preclude, recovery of the oil target. A material balance around the conditioning plant proposed for TAGS shows that use of the CO₂ and butane byproducts can be used to keep the injectant volume approximately 60 percent whole on the rate. The adverse impact on the EOR project is expected to be negligible because this project will be near or at the end of its life by the time of TAGS start-up, and the byproducts from the gas conditioning plant can be used to mitigate the reduction of injectant volume.

Availability of energy for use within Alaska

Utility grade natural gas can be made available anywhere along the gas pipeline with the installation of minimal equipment. The gas flowing through the pipeline will be free of carbon dioxide and water

moisture. A utility grade natural gas can be obtained simply by dropping the pressure of the gas from pipeline conditions with the advantageous use of heat exchangers, valves, separators and pumps.

LNG and LPG will be temporarily stored in Valdez. The opportunity exists for transport of these products to tidewater communities throughout Alaska.

YPC is focusing its resources on development of the basic TAGS infrastructure since without this infrastructure derivative energy projects within Alaska cannot occur. YPC does not underestimate the potential complexities involved with serving the diverse energy needs within Alaska. The successful implementation of an Alaskan energy distribution system based on the TAGS project will likely depend more on transportation issues rather than the price of the commodity itself. YPC does not see its role as usurping the function of local energy utilities or the marine transportation industry within Alaska.

YPC fully expects that TAGS will allow various energy projects to occur within Alaska and remains willing to work with parties interested in developing these projects.

Summary

Through the configurations presented, Yukon Pacific Corporation has demonstrated that there are significant benefits to be realized by developing a pipeline that utilizes the large, undeveloped gas resource in Alaska's North Slope. Yukon Pacific Corporation is ready to work with all parties interested, and we welcome any constructive input or participation to advance the project.

Questions regarding this document should be sent to:

Ward Whitmore
Director of Project Development
Yukon Pacific Corporation
1400 West Benson Blvd., Suite 525
Anchorage, Alaska 99503
Phone: 907-265-3108
e-mail: wwhitmore@ypc.com

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: April 15, 2003

FURTHER REFERRALS: Resources
Finance

Date of Committee Action: 4/24/03

The HOUSE SPECIAL COMMITTEE ON OIL AND GAS Committee considered: HB 267

HOUSE BILL NO. 267 **AK RAILROAD BONDS FOR NAT.GAS TRANSPORT**
 "An Act relating to the Alaska Railroad; authorizing the Alaska Railroad Corporation to provide financing for the acquisition, construction, improvement, maintenance, equipping, or operation of facilities for the transportation of natural gas resources within and outside the state by others; authorizing the Alaska Railroad Corporation to issue bonds to finance those facilities; and providing for an effective date."

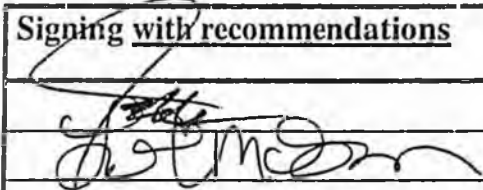
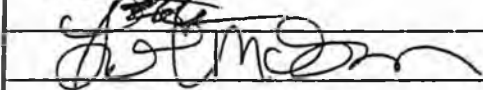
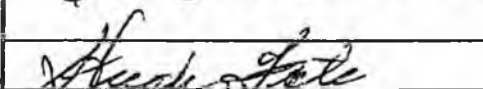
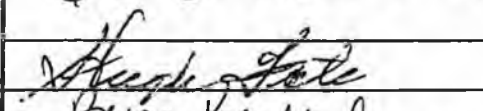
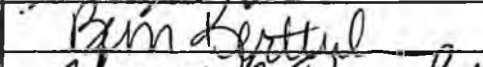
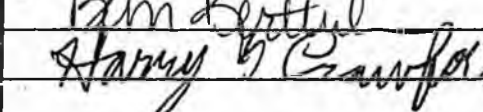
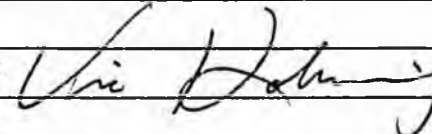
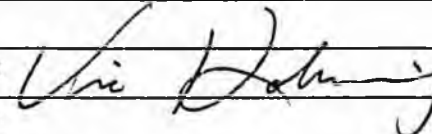
Recommends it be replaced with [] HCS or [] CS for _____ (_____)
 For Senate Bills with new title: [] Technical Title [] New Title: HCR _____ [] Same Title [] New Title

- [] attach amendments
- [] add new referral to _____ Committee
- [] Letter of Intent _____ Committee

- List of Abbrev for Depts.:
- ADM
 - CED
 - COR
 - CRT
 - EED
 - DEC
 - DFG
 - GOV
 - ISS
 - LEG
 - LAW
 - LWF
 - MVA
 - DNR
 - DPS
 - REV
 - DOT
 - UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
<u>CED</u>		✓		

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Holm	✓			
	Moore	✓			
	Fote	✓			
					
	Kerthila			✓	
	CRAWFORD	✓			
Chair: 	Habing	X			
Chair: 					

ConocoPhillips
Alaska, Inc.

Wendy D. King
Director, External Strategies

P.O. Box 100360 - Suite ATO 2038
Anchorage, Alaska 99510-0360
Phone (907) 265-6026
Fax (907) 265-6838

May 6, 2003

Rep. Vic Kohring
State Capitol
Juneau, Alaska 99801

Re: *ConocoPhillips Supports HB 267 (An Act authorizing the Alaska Railroad Corporation to provide financing for the transportation of natural gas resources.)*

Dear Representative Kohring,

ConocoPhillips supports passage of HB 267, which authorizes the Alaska Railroad Corporation to provide financing for a potential North Slope gas pipeline project. ConocoPhillips' three-pronged strategy to make a gas pipeline through Alaska and Canada a reality includes the following:

1. Federal legislation to streamline permitting;
2. Federal fiscal legislation—which provides insurance against the risk of extreme price volatility;
3. State fiscal certainty and clarity – which will be progressing with the recently passed HB 16, reauthorizing the Stranded Gas Development Act.

If ConocoPhillips is successful in securing these three items, we will continue to move forward on the project. Financing this potentially \$20 billion project will be a significant priority for any company that pursues the Alaska gas pipeline project, and we support the State providing as many tools as possible to choose from when the time comes. While it is too early to select specific financing vehicles, HB 267 will add a potentially valuable option.

Thank you for being supportive of efforts to commercialize Alaska North Slope Gas.

Regards,

Wendy D. King

Wendy King
Director, External Strategies
ANS Gas Development
ConocoPhillips Alaska



Alaska Gas Pipeline Financing Alternatives

Natural Gas Pipeline Policy Council



February 7, 2002

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Tab 1
***Tax-Exempt Approach
to Alaska Gas Pipeline
Financing***

Similar Alaska Development Projects Benefited From Tax-exempt Financing

- Valdez—Producers took advantage of tax exemption for “dock and wharf” related assets which support TAP oil exports. Bonds issued by City of Valdez. Proceeds loaned to producers.

- Fort Knox—AIDEA tax-exempt financed solid waste disposal facility at Fort Knox Gold Mine.

- Snettisham—Tax-exempt financing of Snettisham Dam by AIDEA, used by AEL&P.

Historical Tax-Exempt Precedent for TAPS

\$100,000 Exxon Valdez Terminal

OFFICIAL STATEMENT

\$250,000,000
City of Valdez, Alaska
5.50% Marine Terminal Revenue Bonds
(Exxon Pipeline Company Project)
Series A
due May 1, 2007

The Bonds will not constitute general obligations of the City or a charge against the general credit or taxing power of the City or the State of Alaska. The Bonds are payable from and secured by the revenues derived under a Sublease Agreement between the City and

EXXON PIPELINE COMPANY
Payment of the principal of, premium, if any, and interest on the Bonds is guaranteed by
EXXON CORPORATION

The Bonds are redeemable on or before 10 days' notice (a) at the discretion of Exxon Pipeline Company, as a whole or in part at any time, at 100% of the principal amount on and after May 1, 1993 to and including April 30, 1994 and at decreasing points thereafter; (b) pursuant to mandatory redemption provisions on May 1, 1998 and on 5 May 1 thereafter to and including May 1, 2006 at 100% of the principal amount; and (c) in the event of certain of the above events, at a call price at any time, at 100% of the principal amount, and interest for the amount hereof, in each case together with accrued interest to the date of redemption.

Interest on the Bonds will be payable on November 1, 1997 and thereafter semi-annually on May 1 and November 1 of each year. Principal and interest are payable at the corporate trust office of The Bank of New York, 110 Trust Building, New York, New York. The Bonds will be issued initially as coupon bonds, dated May 1, 1997, in the denomination of \$1,000, and may subsequently be registered as to principal only, or as both principal and interest in denominations of \$1,000 or any multiple thereof.

Successful bidders have agreed to purchase the Bonds at a price of 98 1/8%. Reference is made to "Description of the Bid Process" and "Terms of the Bidding" herein. Certain of such bidders may register bonds on the over-the-counter market, in negotiated transactions or otherwise, at less than par value. There is an agreement between the City, Exxon Pipeline Company or Exxon Corporation and any such bidder as to the price at which such resale of Bonds may be made and accordingly given to be paid by the public in those sales may vary between resulting bid price and change from time to time.

In the opinion of Messrs. Chapman and Cutler and Messrs. Wolford & PBN, Bond Counsel, interest on the Bonds is exempt from Federal income taxation to the extent, upon the conditions and subject to the restrictions stated in the "Tax Exemption" herein.

The Bonds are offered herein, as and if issued by the City, subject to the approval of legality by Bond Counsel, the approval of certain legal matters by Messrs. Deane Park & Woodward, which firm has been designated by Exxon Pipeline Company and Exxon Corporation as counsel for the Purchaser, and certain other conditions. It is expected that delivery of the Bonds will be made on or about May 12, 1997 at the office of Morgan Guaranty Trust Company of New York, 11 Broad Street, New York, N. Y., against payment therefor.

May 1, 1997

\$200,000 ARCO Valdez Terminal

NEW ISSUE

In the opinion of bond counsel, based upon existing statutes, regulations, court decisions and rulings, including a ruling from the Internal Revenue Service dated January 19, 1977, interest on the Series 1977 Bonds described herein is exempt from all present Federal income taxes except under certain conditions as explained under the caption "Tax Exemption" herein. Further, in the absence of bond counsel, under existing statutes, such interest is also exempt from all present Alaska taxes except for inheritance and estate (taxes and taxes on transfers by or in contemplation of death).

OFFICIAL STATEMENT

\$265,000,000
CITY OF VALDEZ, ALASKA
5.90% MARINE TERMINAL REVENUE BONDS
(ARCO Pipe Line Company Project)
Series 1977

Dated: February 3, 1977 Due: February 1, 2017

Price 99.5%
 (Plus accrued interest from February 3, 1977)

Payable, except to the extent payable from proceeds of the Series 1977 Bonds or from income from the temporary investment of such proceeds, solely from and secured solely by a pledge of payments derived from the operations of the Project by the City to

ARCO PIPE LINE COMPANY

The Series 1977 Bonds will not constitute general obligations of the City or a charge against the general credit or the taxing power of the City or the State of Alaska. The Trustee will receive an unconditional guaranty of the payment of the principal of, premium, if any, and interest on the Series 1977 Bonds from

ATLANTIC RICHFIELD COMPANY

The Series 1977 Bonds will be issuable as coupon bonds in the denomination of \$1,000 each, registrable as to principal only, and as fully registered bonds without coupons in the denomination of \$5,000 and any integral multiple thereof. Coupon bonds and fully registered bonds will be interchangeable as explained under the caption "The Bonds" herein. Principal, premium, if any, and semi-annual interest (February 1 and August 1, commencing August 1, 1977) on the coupon bonds will be payable at the principal office of Seattle First National Bank, 1977 on the coupon bonds will be payable at the principal office of the holder at the principal office of In Bank, Washington, as Trustee, or at the option of the holder at the principal office of Morgan Guaranty Trust Company of New York, 110 Broad Street, New York, New York, as Paying Agent. Principal and premium, if any, on fully registered bonds are payable at the principal office of the Trustee. Interest on fully registered Bonds will be paid by check or draft mailed by the Trustee.

The Series 1977 Bonds will be subject to redemption prior to maturity as described herein.

The Series 1977 Bonds are offered, subject to prior sale, when, so and if issued by the City of Valdez, Alaska and accepted by the Underwriters named below, subject to the approval of legality by Messrs. Chapman and Cutler and Messrs. Wolford & PBN, as bond counsel, and the approval of certain legal matters by Messrs. Hutch Rock Cohen Campbell Gortlieb & Woodward, as counsel for the Underwriters, and in certain other conditions. It is expected that delivery of the Series 1977 Bonds will be made on or about February 10, 1977, in New York, New York, against payment therefor.

BLUTH EASTMAN DILLON & CO.
 INCORPORATED
HACHE HALSEY STUART INC.
 INCORPORATED
MERRILL LYNCH, PIERCE, FENNER & SMITH
 INCORPORATED
DEAN WITTER & CO.
 INCORPORATED

Dated: February 8, 1977

Tax-exempt Financing for Alaska Gas Pipeline

- Alaska railroad statute permits tax-exempt bonds to be issued by the Railroad, and such bonds would not be “private activity bonds” requiring volume cap or being subject to AMT, despite the private use of the pipeline.

“Obligations issued by such entity shall be deemed to be obligations of the State...[means tax-exempt]...but not obligations within the meaning of section 103(b)(2) [means not private activity bonds]”

- The actual ownership of the assets may still be in the hands of private parties allowing them to use depreciation benefits.
- The credit would be “ship-or-pay” contracts, not the Railroad’s or the State’s general credit or assets.

Tab 2
Pipeline Precedent

Alliance Pipeline

CONFIDENTIAL



\$550,000,000

Alliance Pipeline L.P.

\$350,000,000 6.996% Senior Notes due 2019

\$200,000,000 7.877% Senior Notes due 2025

The 6.996% senior notes due 2019 (the "2019 Notes") and the 7.877% senior notes due 2025 (the "2025 Notes") (collectively, the "Notes") are being issued by Alliance Pipeline L.P. ("Alliance USA" or the "Issuer"), a Delaware limited partnership, which owns and operates the Alliance USA Pipeline, the U.S. portion of the Alliance Pipeline System (the "System"). The System is comprised of the Alliance USA Pipeline and the Alliance Canada Pipeline, which is the Canadian portion of the System. The System consists of an approximately 1,875-mile integrated, high-pressure, natural gas mainline pipeline, a series of lateral pipelines located in Canada, and related infrastructure. The System transports natural gas from supply areas in the northwestern Alberta and northern British Columbia portions of the western Canadian sedimentary basin ("WCSB") to delivery points near Chicago, Illinois. Thirty-five shippers (the "Shippers") have entered into 15-year primary term transportation contracts (the "Transportation Contracts"), which include extension provisions, with respect to the transportation of 1.323 billion cubic feet ("bcf") of natural gas per day ("bsd") on the System. The System commenced commercial operations on December 1, 2000.

Alliance USA will pay interest on the Notes on June 30 and December 31 of each year beginning on June 30, 2001. The Notes will accrue in semi-annual installments at principal due on the dates stated herein. The Notes will mature on December 31 of their year of maturity. The Notes are being issued under an indenture dated as of June 25, 1999, amended and supplemented on March 8, 2001 (the "Indenture") between Alliance USA and The Bank of New York (the "U.S. Trustee"). The Initial Purchasers are offering the Notes inside the United States to qualified institutional buyers ("Qualified Institutional Buyers") in reliance on Rule 144A ("Rule 144A") under the Securities Act of 1933, as amended (the "Securities Act").

The Notes will be secured by the Transportation Contracts and certain additional collateral described herein, any of all of which may be released under certain circumstances. The Notes will rank equally in right of payment with all other Senior Debt of Alliance USA and senior to any Junior Subordinated Debt of Alliance USA. The Notes will be solely obligations of Alliance USA and holders of the Notes will have no recourse against the Partners of Alliance USA (other than the USA Managing Partner), or the Sponsors, or against any of the officers, directors, employees, shareholders or affiliates of the USA Managing Partner or any of Alliance USA's Partners or Sponsors, for any failure by Alliance USA to perform or comply with its obligations under the Notes. The Notes will be subject to redemption prior to maturity by Alliance USA, in whole or in part, in certain circumstances as described herein. See "Description of the Notes and the Indenture—Optional Redemption" and "—Mandatory Redemption."

Except as described herein, the Notes will be evidenced by one or more global notes ("Global Notes") in fully registered form without coupons, deposited with a custodian for, and registered in the name of, a nominee for The Depository Trust Company ("DTC"). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. The Notes will be issued only in registered form in denominations of \$1,000 and integral multiples thereof. See "Description of the Notes and the Indenture."

The Notes will not be listed on any national securities exchange.

See "Risk Factors" beginning on page 27 of this Offering Circular for a discussion of certain factors that should be considered in connection with an investment in the Notes.

Offering Prices

Senior Notes due 2019: 100%

Senior Notes due 2025: 100%

The offering prices set forth above do not include accrued interest, if any, in interest on the Notes will accrue from March 8, 2001, and must be paid by the purchasers if the Notes are delivered after March 8, 2001.

The Notes have not been registered under the Securities Act and are being offered and sold in the United States only to Qualified Institutional Buyers in reliance on Rule 144A. Prospective purchasers that are Qualified Institutional Buyers are hereby notified that the offer of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes are not transferable except in accordance with the restrictions described under "Notes to Investors."

The Initial Purchasers expect to deliver the Notes in book-entry form only through the facilities of DTC against payment in New York, New York on March 8, 2001.

Joint Lead Managers and Joint Lead Bookrunners

Goldman, Sachs & Co.

JPMorgan

ABN AMRO Incorporated

Banc of America Securities LLC

Scotia Capital (USA) Inc.

The Royal Bank of Scotland, Financial Markets

Offering Circular dated March 1, 2001.



CONFIDENTIAL



U.S. \$300,000,000

Alliance Pipeline L.P.

7.77% Senior Notes due 2015

The 7.77% senior notes due 2015 (the "Notes") are being issued by Alliance Pipeline L.P. ("Alliance USA" or the "Issuer"), a Delaware limited partnership, formed to develop, design, finance, construct, commission and operate the Alliance USA Pipeline, which is the U.S. portion of the Alliance Pipeline System. The Alliance Pipeline System will be comprised of the Alliance USA Pipeline and the Alliance Canada Pipeline, which is the Canadian portion of the Alliance Pipeline System. The Alliance Pipeline System will consist of an approximately 1,875-mile single integrated high-pressure natural gas mainline pipeline, a series of lateral pipelines located in Canada, and related infrastructure. The System has been designed to transport 1.323 billion cubic feet ("bcf") of natural gas per day ("bsd"), on a firm transportation basis, from supply areas in the northwestern Alberta and northwestern British Columbia portions of the western Canadian sedimentary basin ("WCSB") to delivery points near Chicago, Illinois. Currently, 37 shippers (the "Shippers") have entered into 15-year primary term transportation contracts (the "Transportation Contracts") for approximately 98% of the firm transportation capacity of the System. Preparatory construction work on the System began in February, 1999 and construction of the System commenced in May, 1999, with operations expected to commence on or about October 1, 2002.

The development of the Alliance Pipeline System is being sponsored by a group of Canadian and U.S. oil and natural gas pipeline and management companies (collectively, the "Sponsors"). The capital cost of the Alliance Pipeline System is currently estimated by Alliance USA to be approximately US\$3.494 billion (including an allowed return on equity during construction of US\$175.2 million). Alliance USA and the Alliance Pipeline Limited Partnership ("Alliance Canada"), an Alliance Canada limited partnership (together, "Alliance"), will each be capitalized with approximately 70% debt and 30% equity. Alliance has arranged a US\$2.810 billion credit facility (the "Credit Facility") and US\$155.7 million of equity commitments from the Sponsors (the "Aggregate Equity Commitments") to fund the currently estimated costs of the System, including a contingency for unanticipated cost overruns. Over the course of construction, Alliance anticipates completing one or more note offerings in the United States and Canada (including the offering of the Notes and a concurrent offering of notes by Alliance Canada) to (i) refinance a portion of the Credit Facility on terms more consistent with the amortization of the System's regulatory rate base and (ii) fund capital costs of constructing the Alliance Pipeline System. See "Estimated Sources and Uses of Funds."

Alliance USA will pay interest on the Notes on June 30 and December 31 of each year. Interest payments will begin on December 31, 1999. The Notes are being issued under an indenture dated as of June 25, 1999 (the "Indenture") between Alliance USA and Bank of Montreal Trust Company (the "U.S. Note Trustee"). The Initial Purchasers are offering the Notes inside the United States to qualified institutional buyers ("Qualified Institutional Buyers") in reliance on Rule 144A ("Rule 144A") under the Securities Act of 1933, as amended (the "Securities Act"). The Notes will be subject to redemption prior to maturity by Alliance USA, in whole or in part, in certain circumstances as described herein. See "Description of the Notes and the Indenture."

Payments of principal, premium, if any, and interest in respect of the Notes will be obligations of Alliance USA. Holders of the Notes (the "Holders") will not have any recourse against the partners of Alliance USA (other than the managing general partner of Alliance USA), the Sponsors or their guarantors, or against any of the officers, directors, employees, shareholders or affiliates of the managing general partner of Alliance USA or any of Alliance USA's partners or Sponsors, for any failure by Alliance USA to perform or comply with its obligations under the Notes, except pursuant to the Aggregate Equity Commitments.

Except as described herein, the Notes will be evidenced by one or more global notes ("Global Notes") in fully registered form without coupons, deposited with a custodian for, and registered in the name of, a nominee for The Depository Trust Company ("DTC"). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. The Notes will be issued only in registered form in denominations of US\$1,000 and integral multiples thereof. See "Description of the Notes and the Indenture."

See "Risk Factors" beginning on page 27 of this Offering Circular for a discussion of certain factors that should be considered in connection with an investment in the Notes.

Offering Price: 100%

Interest on the Notes will accrue from the date of issuance.

The Notes have not been registered under the Securities Act and are being offered and sold in the United States only to Qualified Institutional Buyers in reliance on Rule 144A. Prospective purchasers that are Qualified Institutional Buyers are hereby notified that the offer of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes are not transferable except in accordance with the restrictions described under "Notes to Investors."

Goldman, Sachs & Co., Scotia Capital Markets (USA) Inc., Chase Securities Inc. and Nesbitt Burns Securities Inc. (individually, an "Initial Purchaser" and, collectively, the "Initial Purchasers") expect to deliver the Notes in book-entry form only through the facilities of DTC against payment in New York, New York on June 25, 1999.

Goldman, Sachs & Co.

Scotia Capital Markets (USA) Inc.

Chase Securities Inc.

Nesbitt Burns Securities Inc.

Offering Circular dated June 18, 1999.

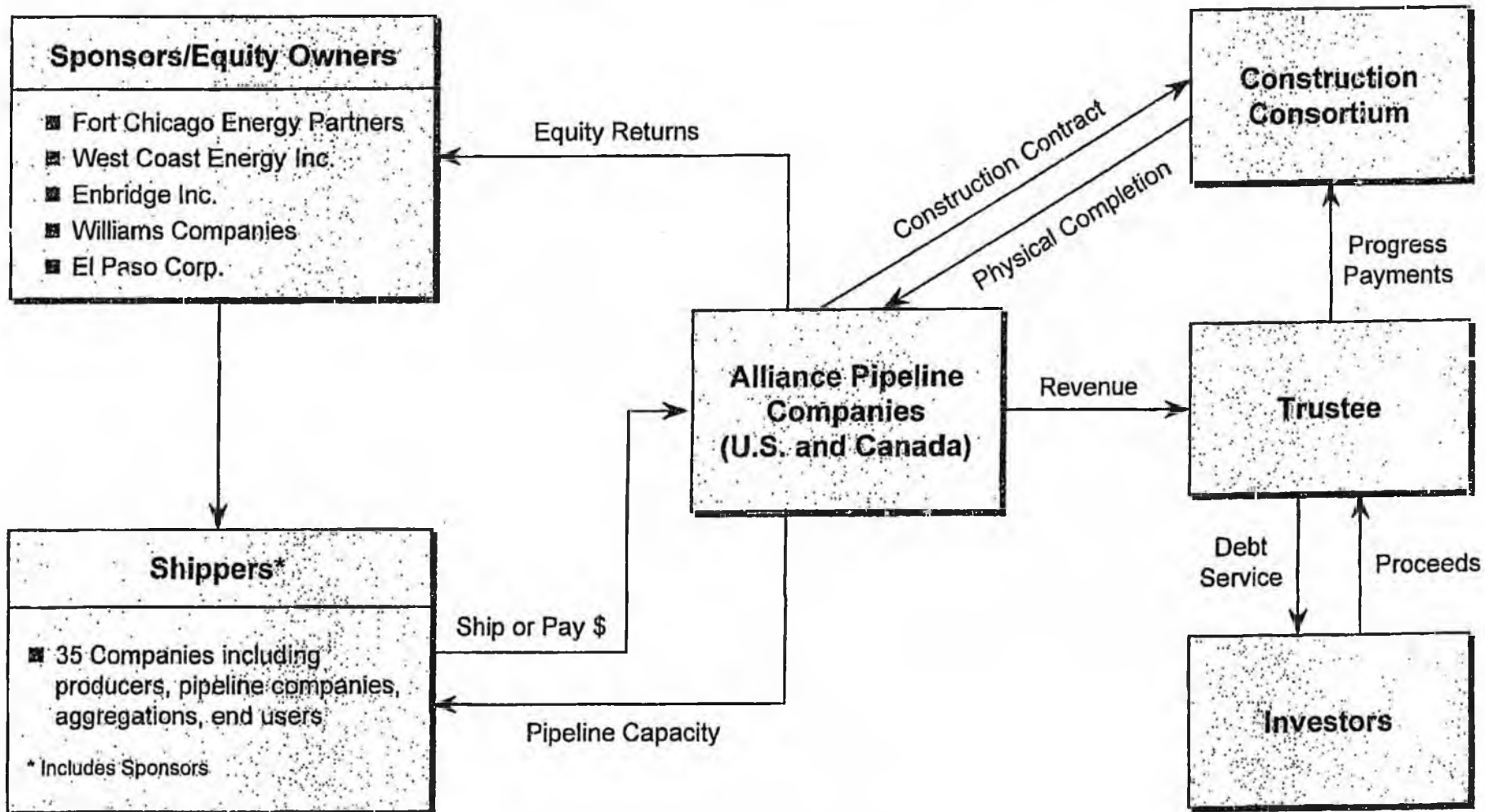
Ship-or-Pay contracts are the key credit item.

Example from Alliance Pipeline:

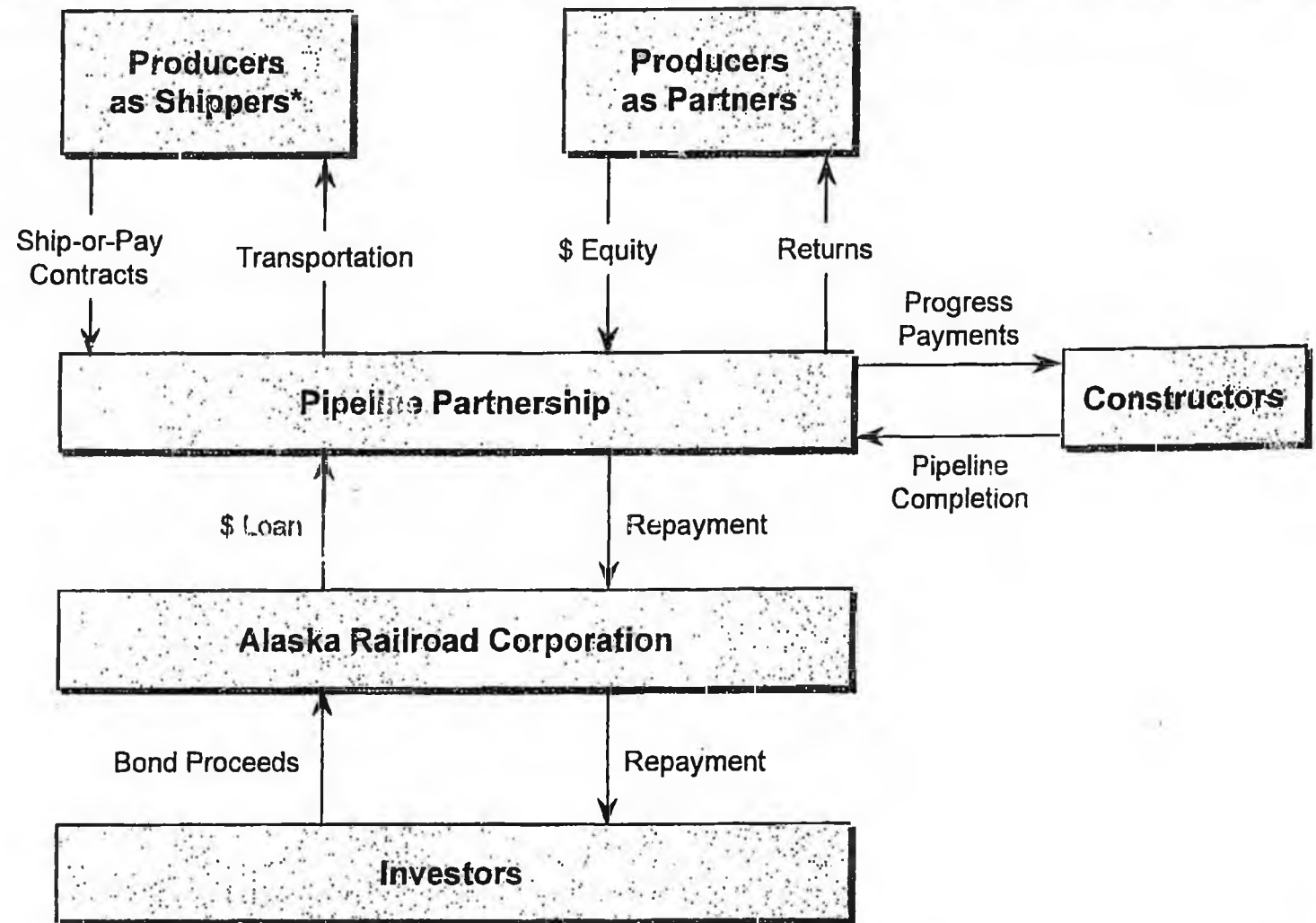
"All of the 1.325 b.c.f.d. of firm transportation capacity of the System has been contracted by the shippers. . ."

- Contracts require payment regardless of pipeline use
- 72.5% of shippers have investment grade rating
- 14.9% were not investment grade, but accepted by lenders
- 12.6% were required to post letters of credit
- Contracts were 15 years in length

Alliance Pipeline Structure



Schematic of Alaska Gas Pipeline Financing Arrangement



* Shippers would likely include users other than producers.

Tab 3
Analysis of Tax-Exempt
Financing Benefits

Present Value Analysis of Financing Alternatives—Taxable Debt

Taxable Analysis									
	Principal A	Interest B	CAR Corpus C	CAR Earnings D	Net Lease Payment E A+B-C-D	Depreciation F Total Project Cost x Dep. Schedule	Loss Tax Shield G (B+F) x Tax Rate	Net After-Tax Pmts H E-G	
1/1/02	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
1/1/03	—	1,264,748,575	925,822,580	338,928,015	—	—	—	—	—
1/1/04	—	1,284,748,575	1,008,189,744	258,558,831	—	—	—	—	—
1/1/05	—	1,284,748,575	1,093,533,303	171,215,272	—	—	—	—	—
1/1/06	—	1,284,748,575	1,188,458,828	76,289,747	—	—	—	—	—
1/1/07	315,820,000	1,284,748,575			1,580,368,575	988,869,750	828,124,513	852,244,062	852,244,062
1/1/08	620,495,000	1,237,920,875			1,858,416,875	1,808,042,526	1,285,744,894	572,870,881	520,930,059
1/1/09	604,615,000	1,185,173,800			1,780,793,800	1,708,238,273	1,188,301,000	603,492,800	510,937,571
1/1/10	583,025,000	1,133,788,525			1,728,811,525	1,538,413,415	1,095,601,975	831,208,550	491,719,214
1/1/11	587,305,000	1,083,379,400			1,670,884,400	1,392,563,832	1,015,136,726	655,547,875	469,889,534
1/1/12	578,830,000	1,033,468,475			1,613,888,475	1,244,716,309	934,051,681	678,038,814	447,850,108
1/1/13	598,430,000	984,188,925			1,580,819,925	1,178,784,305	886,819,434	693,800,491	421,038,528
1/1/14	634,835,000	933,403,375			1,568,128,375	1,178,784,305	866,033,649	702,094,528	382,040,286
1/1/15	875,020,000	879,540,400			1,554,569,400	1,178,784,305	843,918,819	710,652,681	385,123,949
1/1/16	717,890,000	822,172,700			1,539,882,700	1,178,784,305	820,392,372	719,470,328	340,129,063
1/1/17	782,735,000	761,189,050			1,523,804,050	1,178,784,305	795,360,876	728,523,174	318,899,887
1/1/18	810,260,000	696,336,575			1,508,598,575	1,178,784,305	768,789,561	737,787,014	295,300,031
1/1/19	860,345,000	627,404,475			1,487,809,475	1,178,784,305	740,582,000	747,247,475	275,193,980
1/1/20	913,090,000	554,335,160			1,487,425,160	1,178,784,305	710,578,977	758,848,173	258,488,098
1/1/21	988,585,000	478,722,600			1,445,307,500	1,178,784,305	678,757,900	786,548,710	238,006,860
1/1/22	838,625,000	394,392,775			1,234,017,775	589,382,153	403,351,820	830,665,855	238,311,228
1/1/23	687,865,000	323,024,860			1,020,689,860		132,440,107	888,249,644	234,477,382
1/1/24	728,715,000	263,723,125			892,438,125		108,128,481	884,311,844	214,792,533
1/1/25	760,010,000	201,782,350			881,782,350		82,730,784	878,081,587	186,463,108
1/1/26	781,360,000	137,161,500			828,541,500		56,244,416	872,287,085	178,379,993
1/1/27	822,540,000	89,915,800			892,455,800		28,685,519	869,790,381	163,442,809
	\$14,879,395,000	\$20,122,920,400	\$4,214,004,435	\$844,889,885	\$28,943,921,100	\$19,979,395,000	\$14,367,781,651	\$15,575,559,448	\$7,227,838,387

Present Value Analysis of Financing Alternatives—Tax-Exempt Debt

Tax-Exempt—Private Ownership Analysis										
Principal	Interest	CAPI Corpus	GAPI Earnings	Net Lease Payment	Depreciation	Less Tax Shield	Increased After	Net After Tax Pmts	PV of Net After Tax	
A	B	C	D	E	F	G	H	I	J	
				A+B-C-D	Total Project Cost X Dep. Schedule	(B+F) X Tax Rate		E+H-G		
1/1/02	\$		\$	\$	\$	\$	\$	\$	\$	\$
1/1/03	—	919,353,825	723,373,781	195,980,044	—	—	—	—	—	—
1/1/04	—	919,353,825	771,157,140	148,198,685	—	—	—	—	—	—
1/1/05	—	919,353,825	822,096,889	97,256,836	—	—	—	—	—	—
1/1/06	—	919,353,825	876,401,527	42,952,298	—	—	—	—	—	—
1/1/07	371,320,000	919,353,825		1,280,873,825	862,195,250	771,435,121	33,000,000	552,238,704	552,238,704	
1/1/08	674,480,000	895,218,025		1,569,678,025	1,828,170,975	1,116,589,480	33,000,000	498,088,535	447,263,286	
1/1/09	650,650,000	851,376,125		1,502,228,125	1,645,353,878	1,023,660,121	33,000,000	511,568,004	433,110,905	
1/1/10	631,590,000	809,072,876		1,440,662,875	1,481,780,685	939,249,980	33,000,000	534,412,915	418,313,566	
1/1/11	618,200,000	768,018,525		1,386,219,525	1,341,300,179	864,821,078	33,000,000	554,398,447	397,388,854	
1/1/12	602,780,000	727,836,525		1,330,616,525	1,198,895,282	789,860,041	33,000,000	573,656,484	378,347,850	
1/1/13	611,826,000	688,655,825		1,300,480,825	1,135,390,395	747,858,950	33,000,000	685,621,875	355,389,446	
1/1/14	641,820,000	648,887,200		1,290,707,200	1,135,390,395	731,553,814	33,000,000	592,153,388	330,660,608	
1/1/15	673,125,000	607,188,900		1,280,293,900	1,135,390,395	714,449,311	33,000,000	598,844,589	307,678,473	
1/1/16	705,790,000	563,415,775		1,269,205,775	1,135,390,395	696,510,530	33,000,000	609,695,245	286,341,977	
1/1/17	739,855,000	517,539,425		1,257,394,425	1,135,390,395	677,701,228	33,000,000	612,683,198	268,515,079	
1/1/18	775,385,000	469,448,850		1,244,813,850	1,135,390,395	657,984,090	33,000,000	619,829,780	248,084,153	
1/1/19	812,370,000	419,050,125		1,231,420,125	1,135,390,395	637,320,613	33,000,000	627,089,512	230,946,281	
1/1/20	850,905,000	366,248,076		1,217,151,076	1,135,390,395	615,670,953	33,000,000	634,480,122	215,000,944	
1/1/21	891,020,000	310,937,250		1,201,957,250	1,135,390,395	592,844,334	33,000,000	641,982,916	200,161,321	
1/1/22	745,455,000	253,020,950		998,475,950	567,895,188	336,493,620	33,000,000	684,882,330	189,384,711	
1/1/23	599,385,000	204,568,376		793,951,376		83,672,214	33,000,000	743,079,161	166,155,751	
1/1/24	609,345,000	186,256,350		775,601,350		68,165,104	33,000,000	740,436,247	179,846,300	
1/1/25	629,405,000	128,648,925		756,053,925		61,926,059	33,000,000	737,127,888	164,742,077	
1/1/26	649,495,000	85,737,600		735,232,600		35,152,416	33,000,000	733,080,184	150,751,299	
1/1/27	669,545,000	43,520,425		713,065,425		17,843,374	33,000,000	728,222,051	137,781,138	
	\$14,143,905,000	\$14,118,394,250	\$3,193,029,338	\$494,383,964	\$24,585,883,950	\$19,243,805,000	\$12,171,212,420	\$685,700,000	\$13,107,671,531	\$8,094,100,702

Present Value Analysis of Financing Alternatives

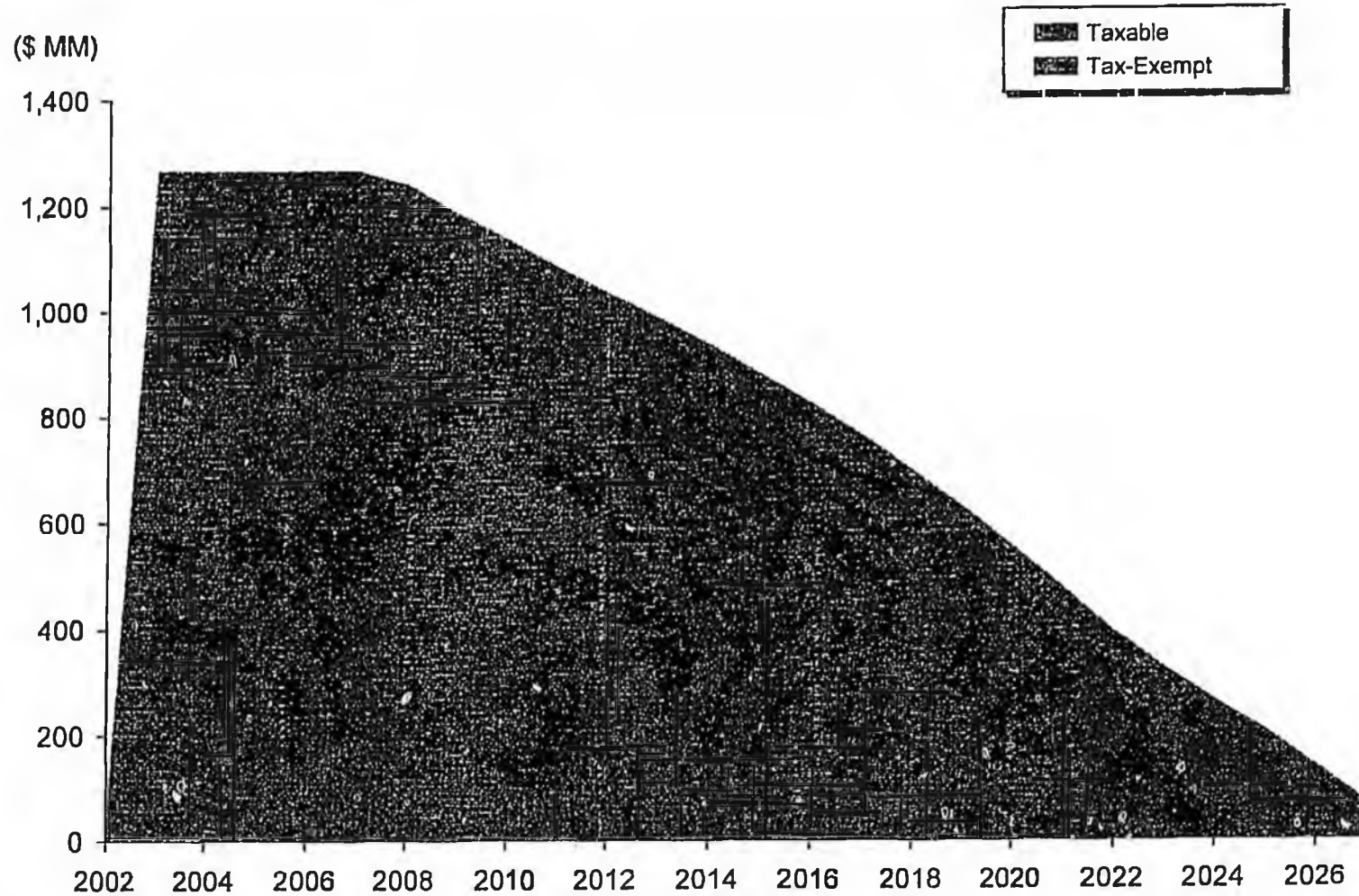
Taxable vs. Tax-Exempt—Private Ownership

Assumptions		
	Taxable Scenario	Tax-Exempt—Private Ownership Scenario
Par Amount	\$14,879,395,000	\$14,143,905,000
Rate	8.500%	6.500%
Discount Rate	8.500%	8.500%

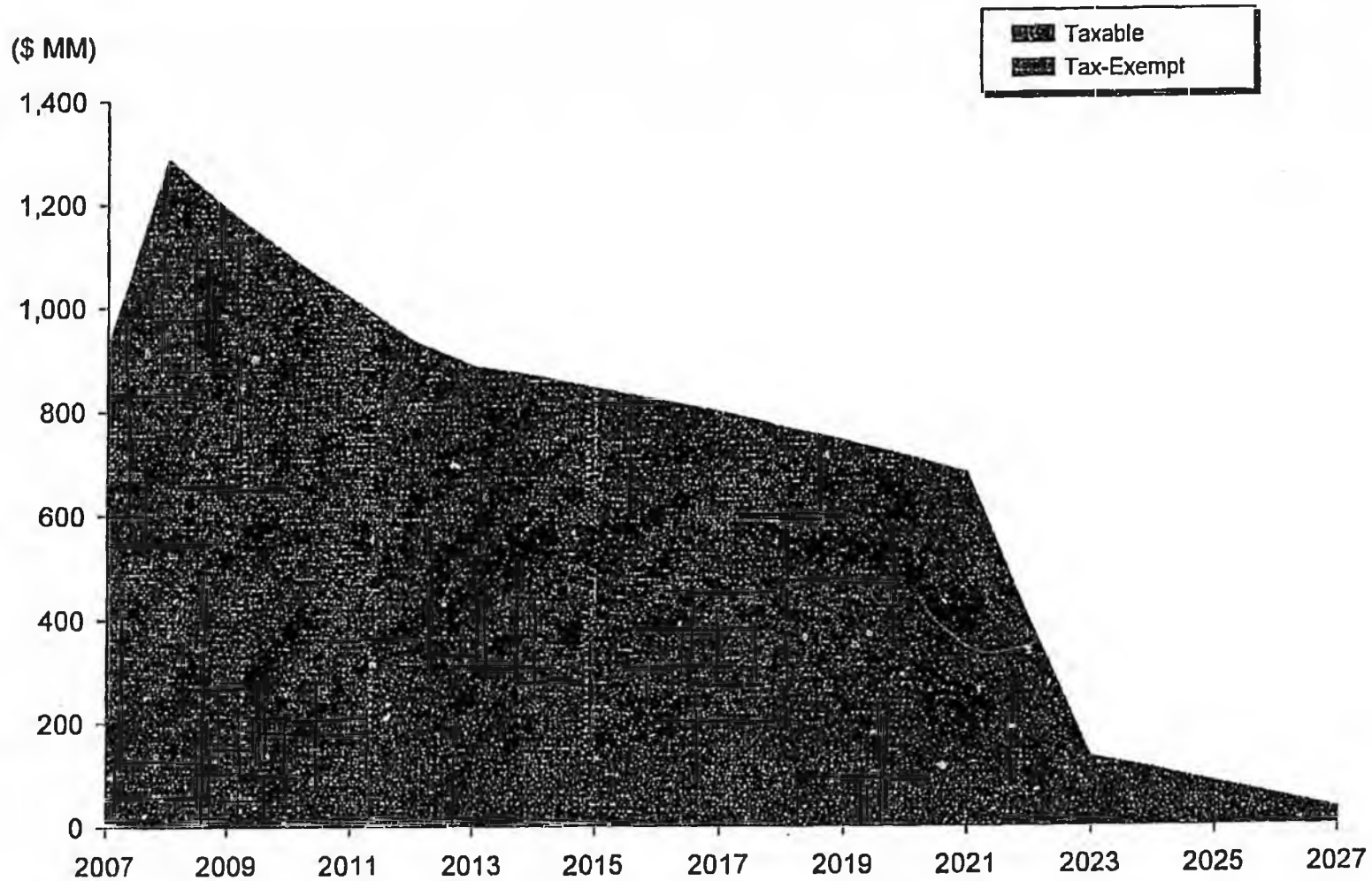
Analysis								
	Taxable Scenario		Tax-Exempt Private Ownership Scenario		Comparisons			
	Net After Tax Payments	PV of Net After Tax Payments	Net After Tax Payments	PV of Net After Tax Payments	Difference in After Tax Payments	Difference in PV	Difference in After Tax Payments/mcf	Cumulative Difference in PV
1/1/02	\$	\$	\$	\$	\$	\$		\$
1/1/03								
1/1/04								
1/1/05								
1/1/06								
1/1/07	852,244,082	852,244,082	562,238,704	552,238,704	100,005,358	100,005,358	0.07	100,005,357.60
1/1/08	572,670,881	526,930,059	486,088,535	447,263,288	86,682,348	79,666,772	0.08	179,672,129.76
1/1/09	603,482,800	510,837,571	511,688,004	433,110,905	91,824,798	77,828,665	0.08	257,498,794.02
1/1/10	631,208,550	491,719,214	534,111	418,313,588	86,788,634	75,405,648	0.07	332,804,442.59
1/1/11	655,547,675	489,889,534	554,388	397,388,854	101,149,229	72,602,681	0.07	405,407,123.46
1/1/12	679,038,814	447,850,108	573,858	378,347,850	105,380,329	69,502,258	0.07	474,908,381.07
1/1/13	693,800,491	421,038,528	585,621	355,389,446	108,178,618	65,849,082	0.07	540,558,463.55
1/1/14	702,084,620	392,040,285	592,153,500	330,650,808	109,941,140	61,389,677	0.08	601,948,140.14
1/1/15	710,652,581	385,123,949	608,844,589	307,878,473	111,807,092	57,445,478	0.08	659,393,615.72
1/1/16	719,470,328	340,129,063	605,895,245	288,341,977	113,775,083	53,787,088	0.08	713,180,701.43
1/1/17	728,523,174	318,899,897	612,893,199	268,515,079	115,828,876	50,384,816	0.08	763,565,519.20
1/1/18	737,787,014	295,300,031	619,829,780	248,084,153	117,907,255	47,215,878	0.08	810,781,307.46
1/1/19	747,247,475	275,193,880	627,099,512	230,949,261	120,147,983	44,247,719	0.08	865,029,118.32
1/1/20	756,846,173	256,466,098	634,480,122	215,000,944	122,388,051	41,465,165	0.08	896,494,271.05
1/1/21	766,549,710	230,008,958	641,982,916	200,181,321	124,688,794	38,845,635	0.09	935,339,906.40
1/1/22	830,695,955	238,311,228	694,882,330	189,384,711	185,083,025	39,928,515	0.09	974,268,421.91
1/1/23	888,249,544	234,477,382	743,078,161	186,155,751	145,170,382	38,821,831	0.10	1,012,588,052.82
1/1/24	884,311,844	214,782,533	740,436,247	179,848,300	143,875,397	34,846,233	0.10	1,047,534,289.11
1/1/25	878,081,587	186,483,108	737,127,886	164,742,077	141,933,721	31,721,031	0.10	1,078,255,317.27
1/1/26	872,297,085	179,378,693	733,080,184	150,761,299	139,216,901	28,628,694	0.10	1,107,884,011.73
1/1/27	883,790,381	163,442,809	728,222,051	137,791,136	135,568,330	25,851,873	0.09	1,133,535,685.08
Total	\$15,676,558,440	\$7,227,836,387	\$13,107,671,681	\$8,094,100,702	\$2,487,687,919	\$1,133,535,685		

* Debt service is net of the construction and CAPI funds' interest earnings.

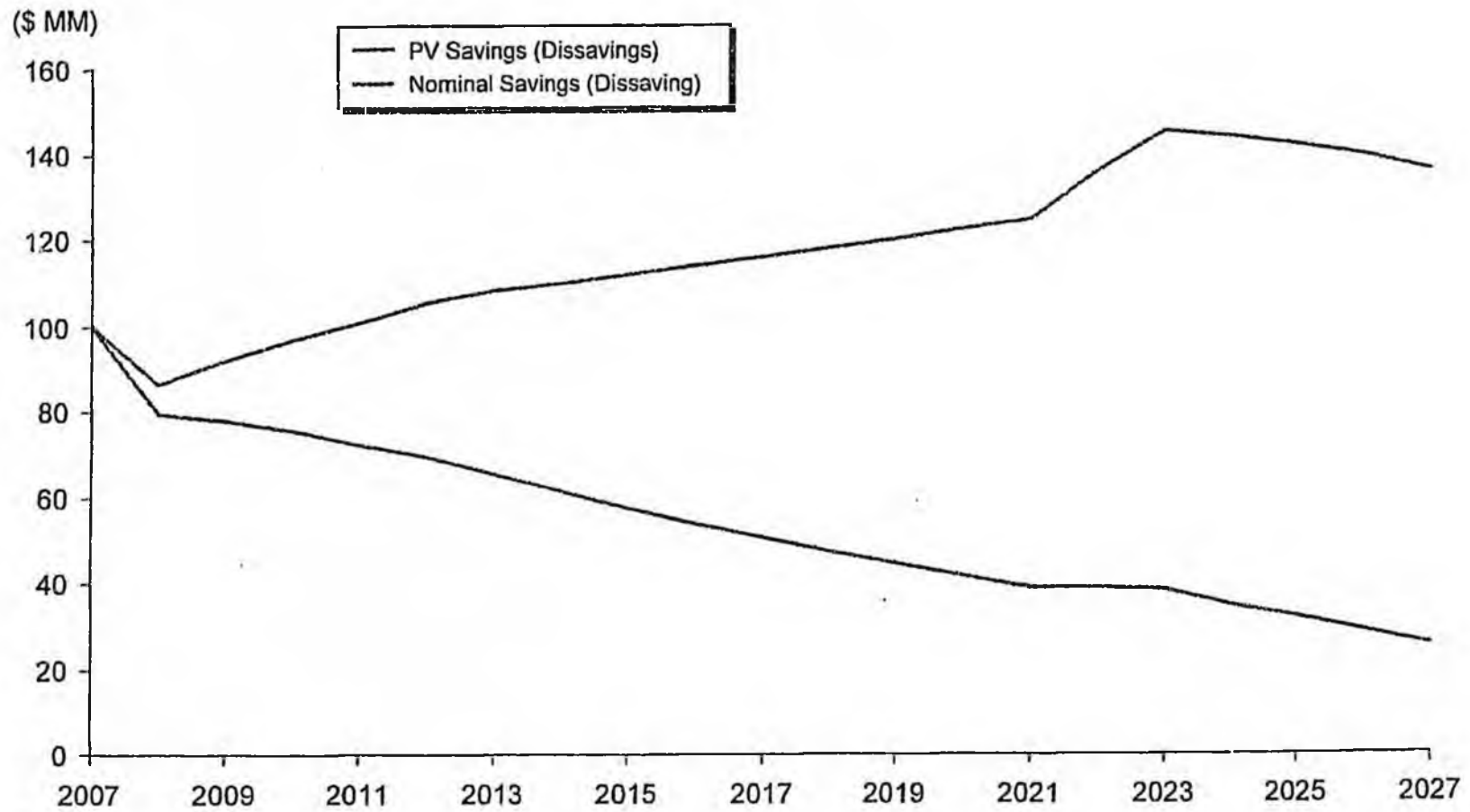
Taxable vs. Tax-Exempt—Private Ownership Gross Interest Cost



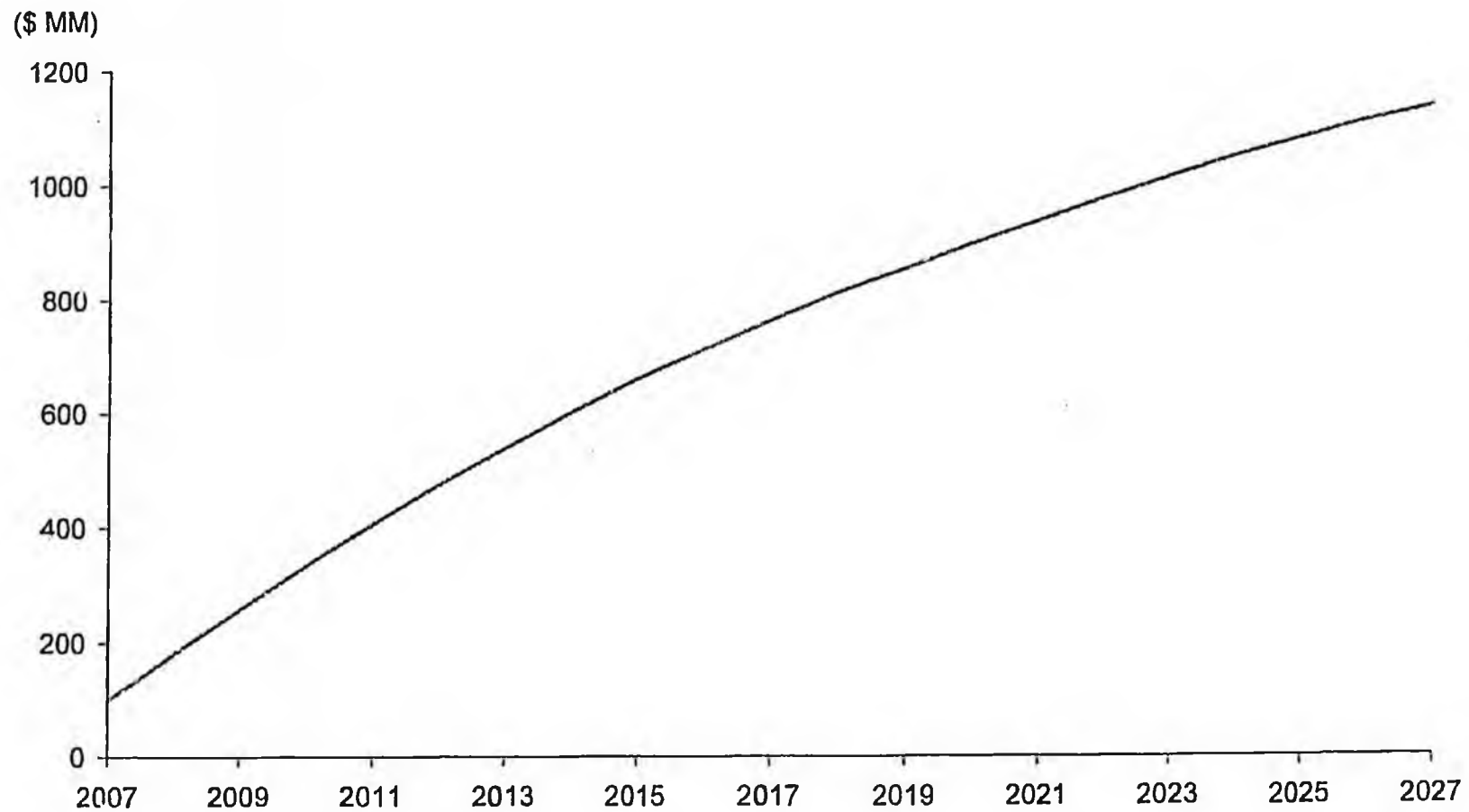
Taxable vs. Tax-Exempt—Private Ownership Tax Benefits to Producers or Pipeline Association with Lease Expense, Depreciation & Interest



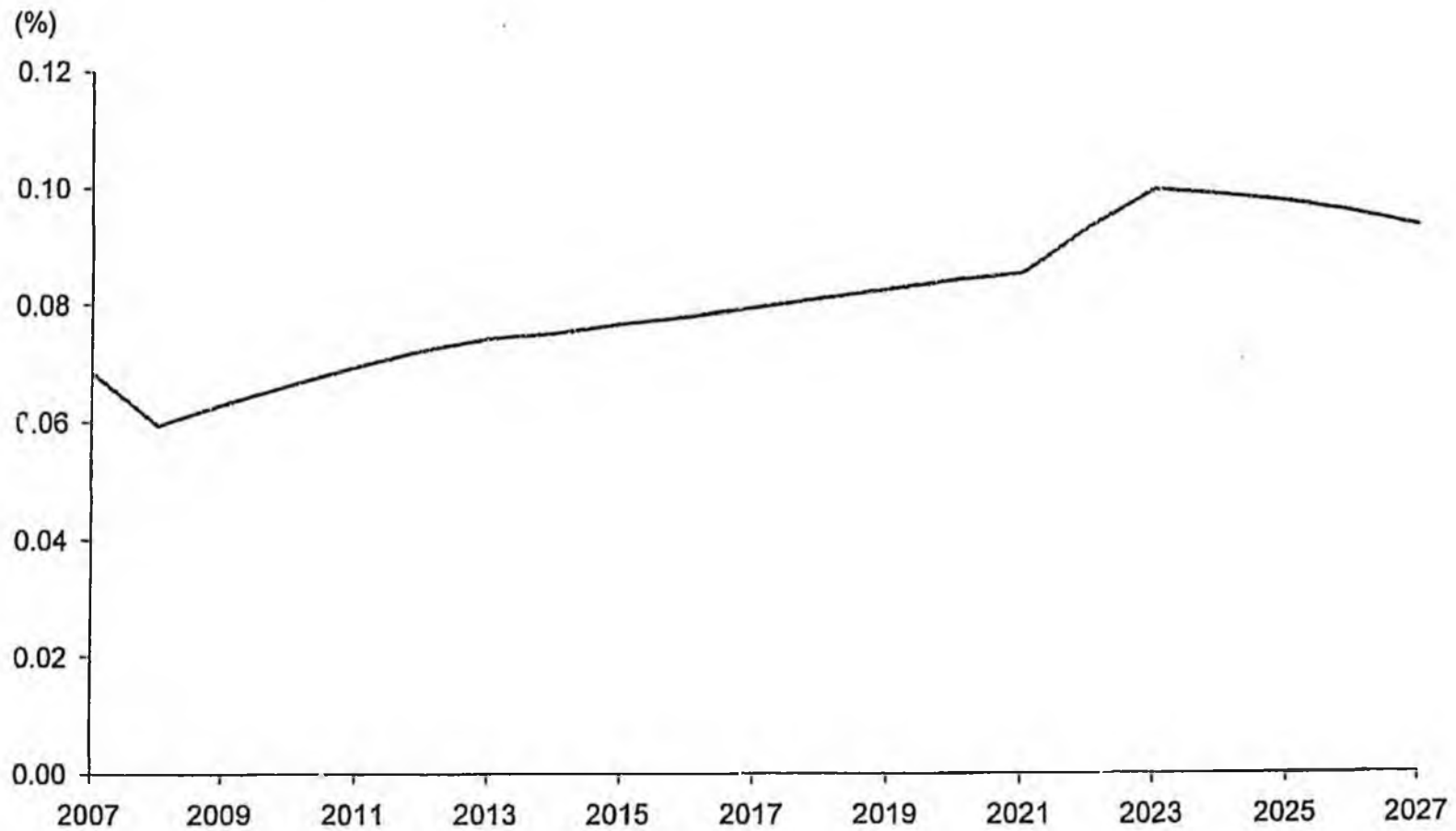
Taxable vs. Tax-Exempt Private Ownership Annual Present Value Savings From Using the Tax-Exempt Structure



Taxable vs. Tax-Exempt Private Ownership Cumulative Present Value Savings From Using the Tax-Exempt Structure



Taxable vs. Tax-Exempt—After-Tax Private Ownership Savings per MCF From Using the Tax-Exempt Structure



Tab 4
Assumptions

Assumptions

Financing Assumptions

- Dated/Delivered: 1/1/02
- Principal/Interest: January/July
- 30% Equity Contribution
- 41% Corporate Federal/State Tax Rate
- Multi Tranche Financing Over Construction
- 4-Year Level Construction Draw Schedule

Project Assumptions

- Total Project Cost: \$17 billion
- 4-Year Construction Schedule
- 1.46 Billion TCF/Yr (4 BCF/Day) into pipeline
- 10% line loss

Key Assumptions

Assumption	Rationale
6.5% tax-exempt cost of debt	100 bps above typical insured municipal revenue bonds today (allowing for size premium)
8.5% taxable cost of debt	Alliance Pipeline yielding 7.9% <ul style="list-style-type: none"> • Alaska Pipeline bigger (+) • Alaska Pipeline strong credits (-)
8.5% after tax WACC (weighted average cost of capital) for producers	External data <ul style="list-style-type: none"> • Ibbotson Assoc. Large Petroleum Median WACC 8.78% • Goldman Sachs research average WACC of BP/Exxon Mobil/Phillips 8.20%
Tax rate of 41%	Combined State/Federal marginal rate
Size of \$16 billion debt	Larger than, but comparable to <ul style="list-style-type: none"> • MTA re-cap \$14.5 billion* • LIPA municipalization \$9 billion • Cal Power Bonds \$12-\$13 billion*

* Pending