

HB

296



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.

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 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 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
\$2.80 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 gasoline 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(delete 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.

VISIT BackBone2.ORG TO ACCESS THE DOCUMENTS REFERENCED IN THIS PAPER. To comment contact paulfuhs@earthlink.net

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

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 AICan 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

*holding
up project
balance
scale*

*decision
on
route*

HB 296 (Sponsor is Rep. Croft)
ANGDA supplementary funding request (\$2.15 million)
(Heinze on 2/16/04)

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

Interactions with State's consideration of Stranded Gas applications:

- Help with the work (ie, benefits analysis, spur line)
- Provide a lower cost-of-service business alternative that help gas marketability
- Augment sponsors ability to provide gas and benefits to Alaskans
- Provides an alternative project for comparison (fall-back)

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. Timeline may slip depending on involvement with SGA applicants.

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."

currently in the works

Board Approval

SARDFA

Southeast Alaska Regional Dive Fisheries Association

Compiled by Julie Decker, Executive Director

February 16, 2004

Dive Fisheries Fact Sheet - Corrected

- 1) **SARDFA Supports HB 341:** SARDFA requested Rep. Williams introduce HB 341, which is basically a housekeeping measure to allow divers to tax themselves at 2, 4, or 6 % in addition to 1, 3, 5, or 7% already allowed.
- 2) **Creation of SARDFA:** SARDFA was created through legislation passed in 1997. This legislation allows for the creation of regional dive fishing organizations and their ability to vote to assess (tax) themselves to help fund the development and management of the dive fisheries. At that time, the agreement between the Legislature, ADF&G & SARDFA was to continue putting the same level of General Funds into the dive fisheries as in the past, and to pay for increased quotas and management through use of the assessment.
- 3) **Three Dive Fisheries in SE:** Currently, there are three commercial dive fisheries in Southeast Alaska – sea cucumbers, sea urchins and geoducks.
- 4) **Number of Participants:** The following are numbers of permit holders and active permits in each of the dive fisheries: sea cucumbers 367 (220), sea urchins 80 (20), geoducks 75 (45).
- 5) **Value of Fisheries:** The ex-vessel values for each of the fisheries for the past three years are listed below, with FY04 as a projection:

	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>
Sea Cucumbers	\$2,597,780	\$2,040,000	\$2,600,000
Sea Urchins	\$ 784,800	\$1,020,000	\$1,071,429
Geoducks	\$ 145,700	\$ 612,000	\$1,800,000
Total	\$3,528,280	\$3,672,000	\$5,471,429

- 6) **Value of Assessments:** The assessments for the past three years are listed below, with FY04 as a projection:

	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>
Sea Cucumbers	\$129,889	\$102,000	\$130,000
Sea Urchins	\$ 54,936	\$ 71,400	\$ 75,000
Geoducks	\$ 7,285	\$ 30,600	\$ 90,000
Total	\$192,110	\$204,000	\$295,000



**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

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 authorit

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 fall back what if ~~none~~ ^{middle} of the application follows then we become a fall back what is the ~~plan~~ ^{plan} fall back 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.

Petroleum News - Phone: 1-907 522-9469 - Fax: 1-907 522-9583
circulation@PetroleumNews.com --- <http://www.petroleumnews.com> --- **S U B S C**
R I B E

Translate this story to your language: from

Alaska Natural Gas Authority Voter Approval by District

General Election Results by District				Ballot Proposition #3 Voter Statistics						
District	% Elected by: (General Election)	District	% Elected by: (General Election)	Registered Voters	Total Votes	Yes	No	Approval		
AK	Murkowski/Leman		55.85	460891	223035	138353	84682	62%		
1	Rep Bill Williams	A	94.08	Sen Robin Taylor	N/A	11007	5092	3237	1855	63.6%
2	Rep Peggy Wilson		58.98			12124	5839	3434	2405	58.8%
3	Rep Beth Kerttula	B	64.96	Sen Kim Elton	51.26	12483	7620	3834	3786	50.3%
4	Rep Bruce Weyhrauch		54.83			12044	7389	4171	3218	56.4%
5	Rep Al Kookesh	C	56.72	Sen Georgianna Lincoln	57.35	11703	5625	3659	1966	65.0%
6	Rep Carl Morgan		96.96			10582	4923	3202	1721	65.0%
7	Rep Hugh 'Bud' Fate	D	56.99	Sen Ralph Seekins	52.07	13262	7783	4617	3166	59.3%
8	Rep David Guttenberg		51.51			12894	7307	4244	3063	58.1%
9	Rep Jim Holm	E	52.16	Sen Gary Wilken	69.77	12077	5352	3517	1835	65.7%
10	Rep Jim Whitaker		94.54			13199	3933	2654	1279	67.5%
11	Rep John Coghill	F	96.34	Sen Gene Therriault	81.81	13162	6273	4339	1934	69.2%
12	Rep John Harris		94.19			13551	5300	3795	1505	71.6%
13	Rep Carl Gatto	G	56.42	Sen Lyda Green	76.35	12142	6614	4533	2081	68.5%
14	Rep Vic Kohring		64.01			12122	5943	4312	1631	72.6%
15	Rep Beverly Masek	H	59.81	Sen Scott Ogan	92.34	12023	5980	4170	1810	69.7%
16	Rep Bill Stoltze		73.73			12058	6777	4509	2268	66.5%
17	Rep Pete Kott	I	80.9	Sen Fred Dyson	76.27	12860	6482	4182	2300	64.5%
18	Rep Nancy Dahlstrom		N/A			12016	2865	1976	889	69.0%
19	Rep Tom Anderson	J	61.86	Sen Gretchen Guess	50.19	10986	4915	3194	1721	65.0%
20	Rep Max Gruenberg		48.21			9310	3137	2084	1053	66.4%
21	Rep Harry Crawford	K	48.42	Sen Bettye Davis	N/A	11928	6200	3794	2406	61.2%
22	Rep Sharon Cissna		54.19			10621	4559	2769	1790	60.7%
23	Rep Les Gara	L	94.03	Sen Johnny Ellis	52.43	11607	4961	2801	2160	56.5%
24	Rep Cheryl Heinze		48.83			11412	4990	3053	1937	61.2%
25	Rep Eric Croft	M	56.45	Sen Hollis French	57.03	11043	4755	2895	1860	60.9%
26	Rep Ethan Berkowitz		55.85			11992	6646	3569	3077	53.7%
27	Rep Norman Rokeberg	N	96.1	Sen Ben Stevens	96.4	10928	5769	3562	2207	61.7%
28	Rep Lesil McGuire		75.61			11737	6518	3750	2768	57.5%
29	Rep Ralph Samuels	O	61	Sen John Cowdery	59.34	10591	4595	3082	1513	67.1%
30	Rep Kevin Meyer		96.41			11343	6145	3725	2420	60.6%
31	Rep Bob Lynn	P	61.33	Sen Con Bunde	67.05	12590	7377	3959	3418	53.7%
32	Rep Mike Hawker		50.1			13292	8029	4267	3762	53.1%
33	Rep Kelly Wolf	Q	52.5	Sen Thomas Wagoner	46.07	12102	5935	3781	2154	63.7%
34	Rep Mike Chenault		71.12			12106	6208	3913	2295	63.0%
35	Rep Paul Seaton	R	94.37	Sen Gary Stevens	97.26	12681	6171	3887	2284	63.0%
36	Rep Dan Ogg		N/A			10862	4232	2601	1631	61.5%
37	Rep Carl Moses	S	96.2	Sen Lyman Hoffman	66.77	7843	3531	2493	1038	70.6%
38	Rep Mary Kapsner		97.28			7838	3593	2121	1472	59.0%
39	Rep Richard Foster	T	97.6	Sen Donny Olson	N/A	7994	4010	2640	1370	65.8%
40	Rep Reggie Joule		97.79			8776	3662	2028	1634	55.4%

Source: Alaska Division of Elections Website <http://www.gov.state.ak.us/ltgov/elections/02genr/index.shtml>
 Statewide Official Results
 District Level Official Results

Distributed by:
 Representative
 Jim Whitaker

FAX TO:

Rep Masek
465 - 4822

Rep Croft
465 - 4419

HB 296

Here is my testimony information for the House
Resources Today at 1:00 pm

Thanks Harold Heinze CEO, Alaska Natural Gas Deveiopment Authority

465 - 2293



REPRESENTATIVE ERIC CROFT

HB 296 Alaska Natural Gas Development Authority Proposed Budget

Component*	Amount
Office Salaries: Executive Director, Assistant Director, 2 Secretaries Rent Travel Misc.	\$500,000
Operations Research, Contracts, and Legal Services	\$800,000
Total	\$1,300,000

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

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 JDI, 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 JDI, 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%

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

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

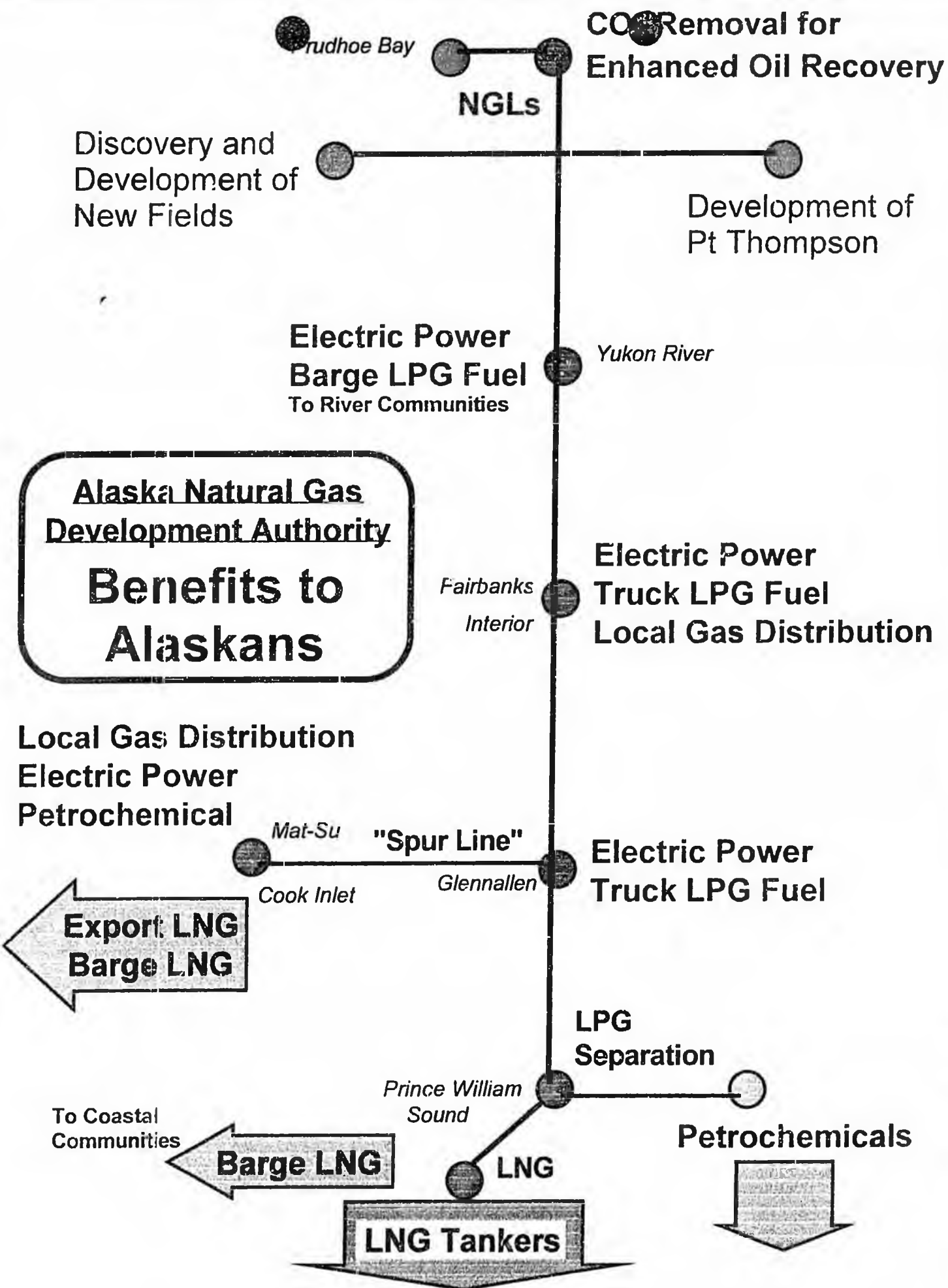
Alaskan LNG Project

- 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



Alaska Business Segments in Marketing North Slope gas

Gas Treatment
& CO2 Removal

North
Slope

Community
Gas Supply

HUB

Delta

To U S via
Canada

Glennallen

Spur Line

Cook Inlet

Valdez

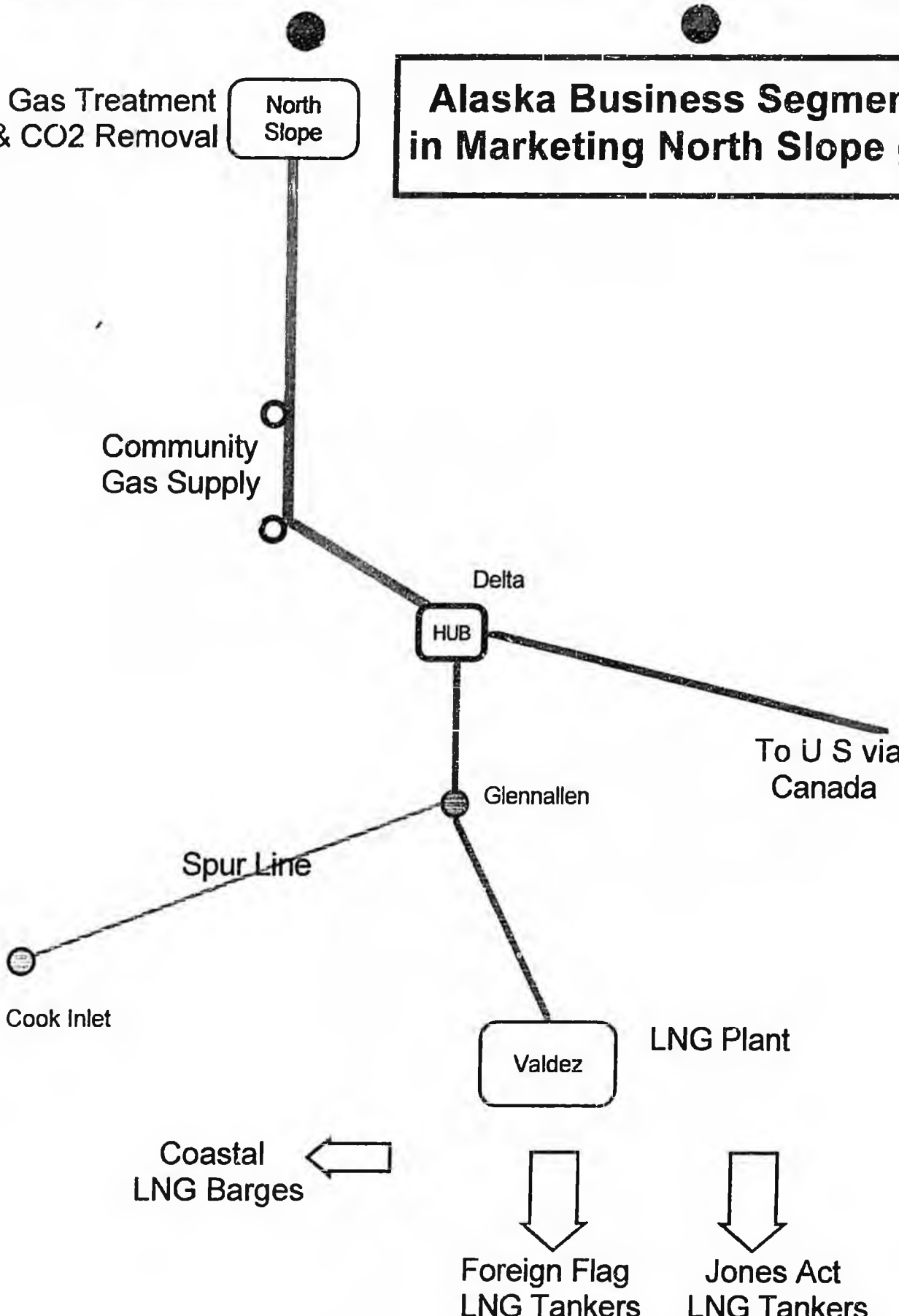
LNG Plant

Coastal
LNG Barges

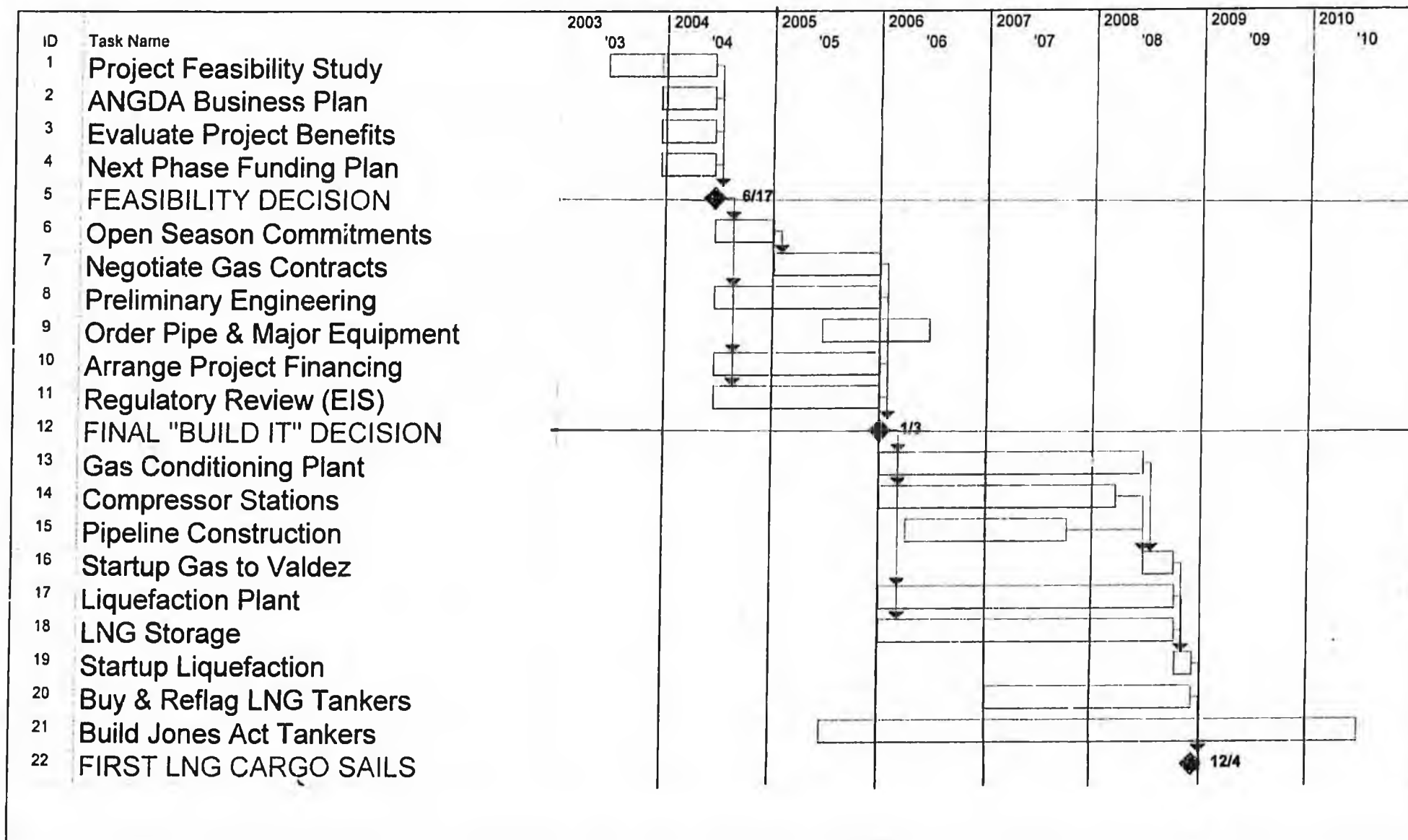
Foreign Flag
LNG Tankers

Jones Act
LNG Tankers

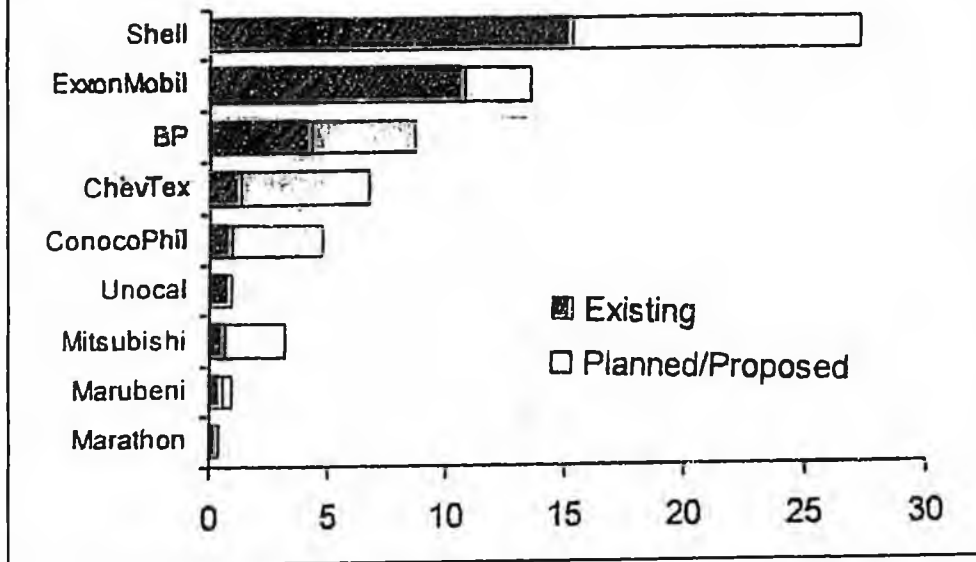
Prepared 12/8/03 by the
Alaska Natural Gas Development Authority



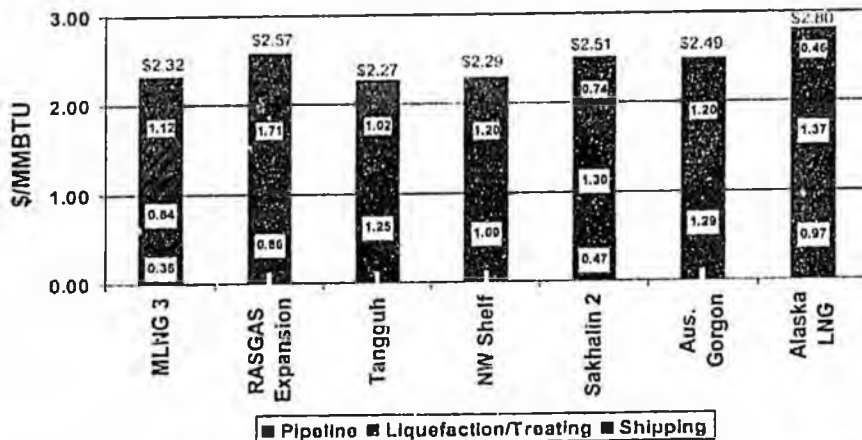
ANGDA All-American LNG Project Conceptual Schedule



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



ESTIMATED COST OF SERVICE COMPARISON TO WCNA⁽¹⁾

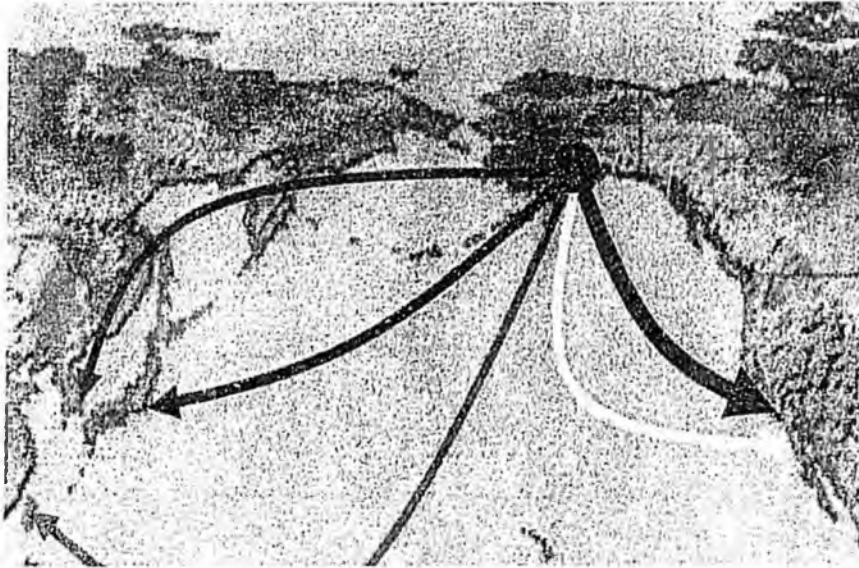


Numbers estimated from external sources
Excludes upstream and cost for regas

(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 Brunel		→	→	→	→	→
'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
Total Export	16 M tn/yr	\$ 12 B

NOTIONAL Cost of Service Comparison

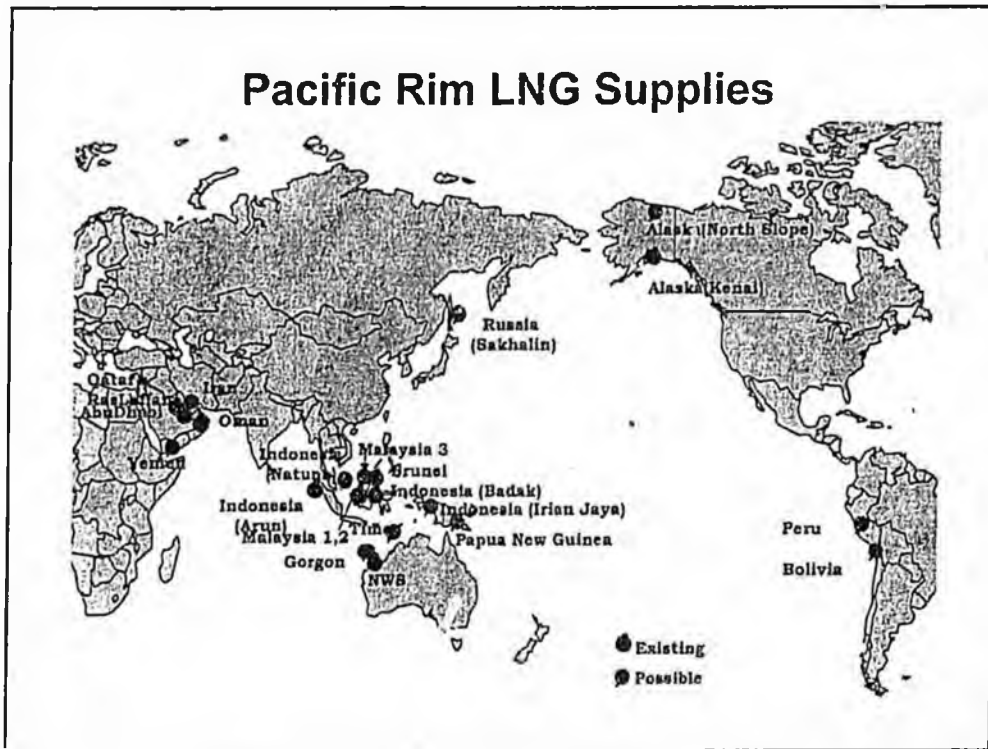
Does NOT Include Wellhead Purchase Price

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

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

AlCan Highway Gasline to Market: \$2.39

Pacific Rim LNG Supplies

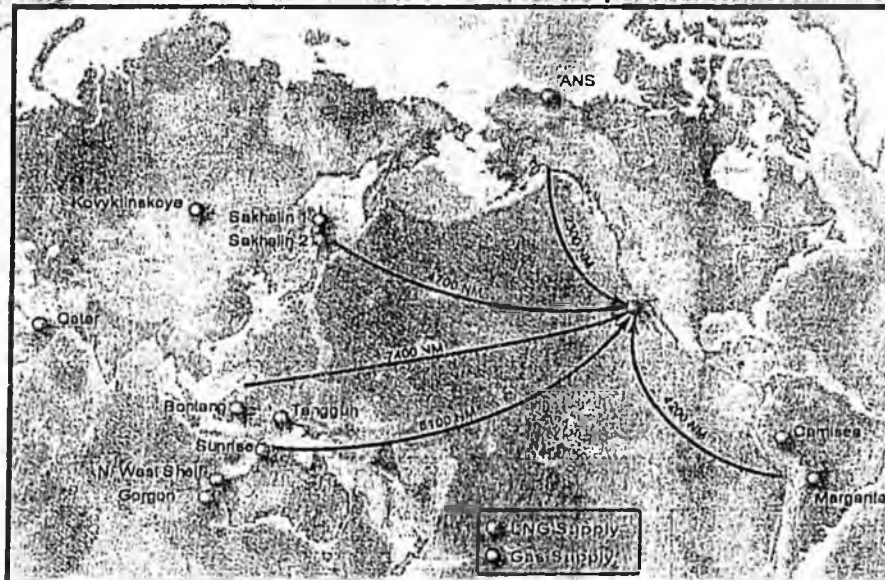


Delivery Volumes / year from Valdez

	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



Pacific Basin Gas Competition

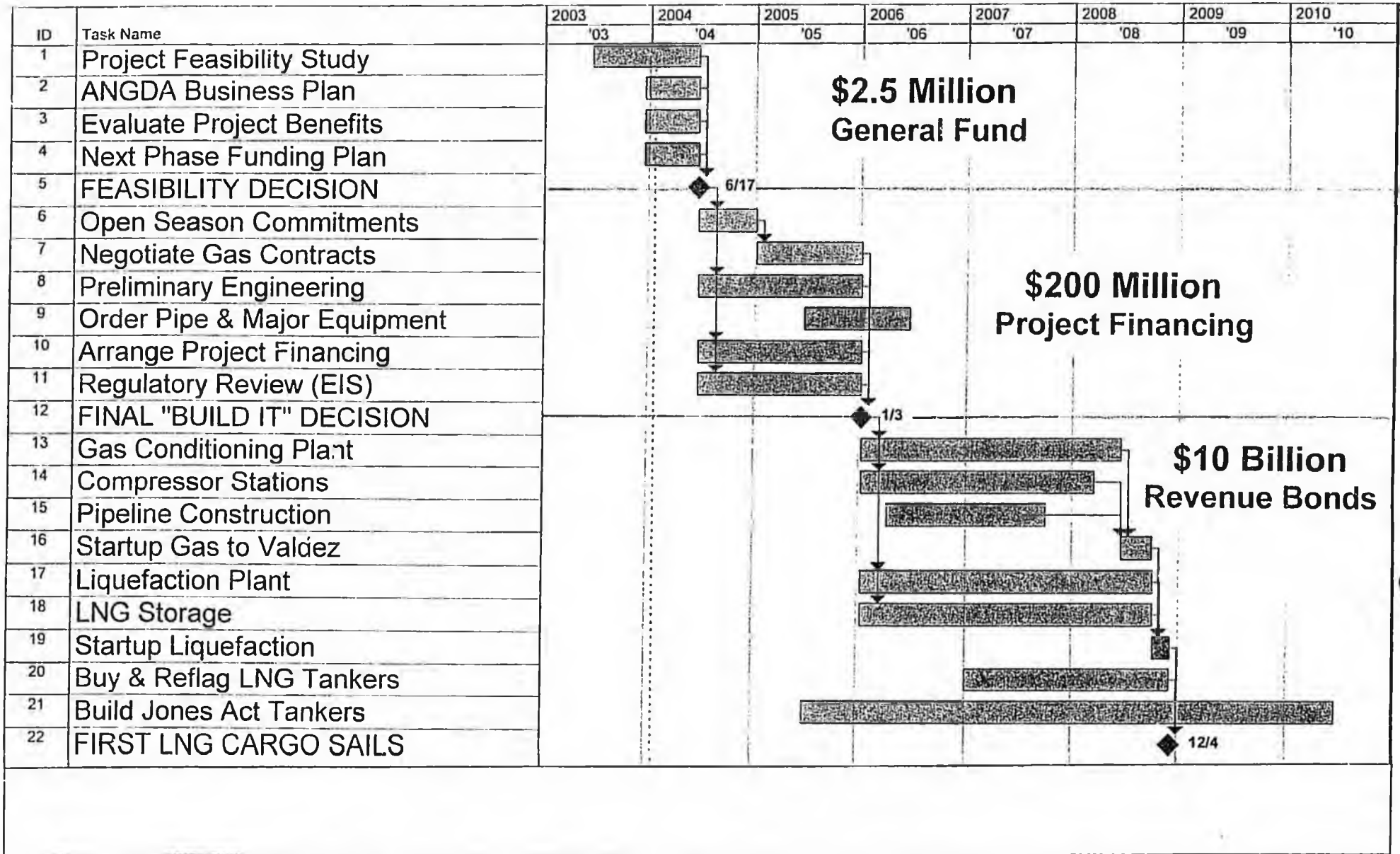


Alaska Natural Gas Development Authority

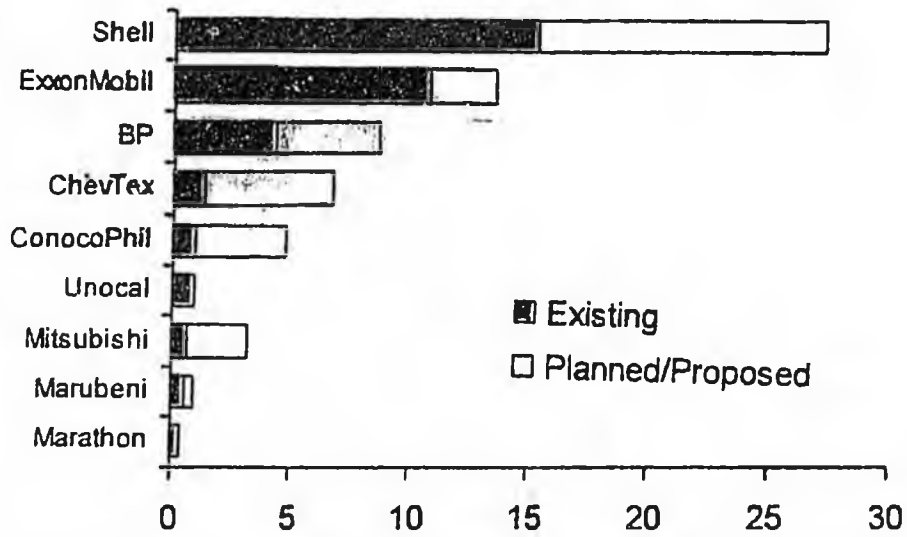
Homepage is: <http://146.63.35.79/>

Harold Heinze
411 W. 4th Ave, Anchorage 99508
(907) 257 - 1347
Fax: (907) 646 - 5005
hheinze@jpo.doi.gov

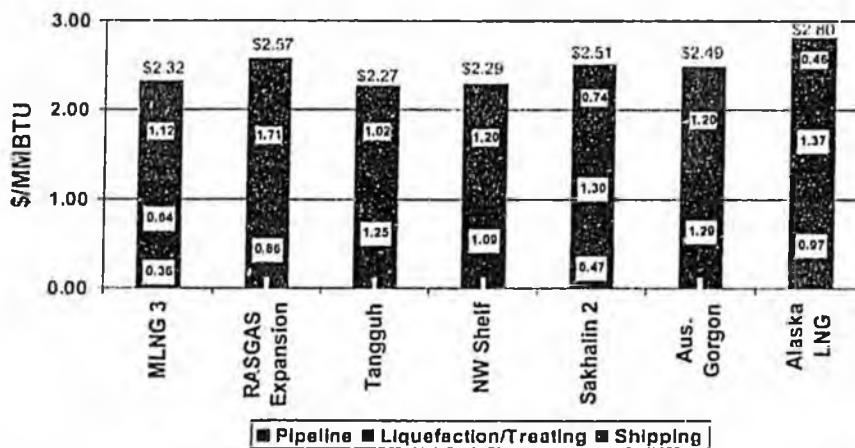
ANGDA All-American LNG Project Conceptual Schedule



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



ESTIMATED COST OF SERVICE COMPARISON TO WCNA⁽¹⁾

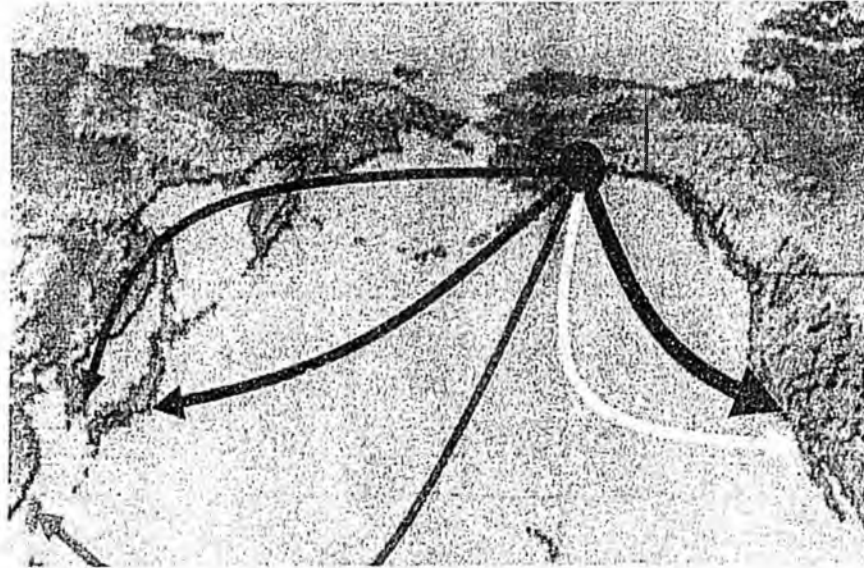


Numbers estimated from external sources
Excludes upstream and cost for regas

(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
Total Export	16 M tn/yr	\$ 12 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
Total Cost of Service	\$2.90	\$2.20	\$1.65

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

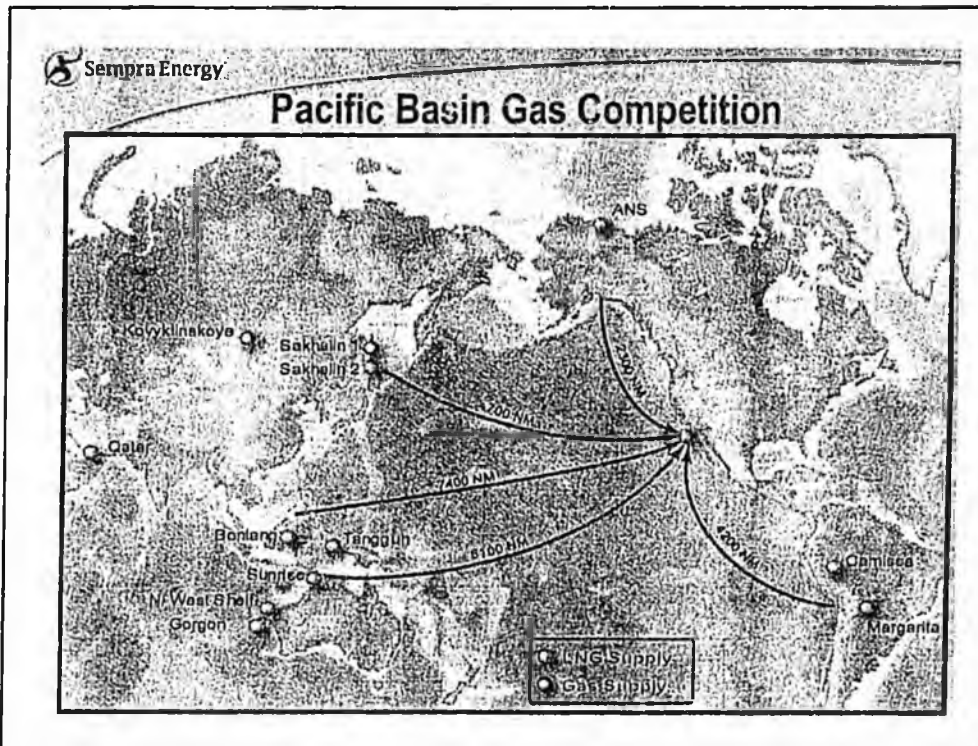
AICan Highway Gasline to Market: \$2.39

Pacific Rim LNG Supplies



Delivery Volumes / year from Valdez

	Long Beach	Baja Mexico	Tokyo Japan	Inchon Korea	Taiwan
Distance (nm)	2,070	2,200	3,400	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. 4th Ave, Anchorage 99508
 (907) 257 - 1347
 Fax: (907) 646 - 5005
hheinze@jpo.doi.gov

ANGDA All-American LNG Project Conceptual Schedule

