

**SB**

**151**

# SENATE COMMITTEE REPORT

DATE: 4/2/03

FURTHER:

DATE TURNED  
IN TO OFFICE: 4-17-03

Resources Committee considered      SENATE BILL NO. 151

## SB 151 GAS PIPELINE TRANSPORTATION TARIFFS

"An Act relating to the regulation of natural gas pipelines under the Pipeline Act."

and recommends:

be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)

adopt previous \_\_\_\_\_ CS SB151 (h+c)

attached amendment(s)

adopt Letter of Intent by \_\_\_\_\_ Committee

further referral to \_\_\_\_\_ Committee

**Senate Bill:**

same title

new title

**House Bill:**

same title

technical title

new: SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#
JCED	4/1/03		✓	2
DOR	4/1/03	✓		1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Joseph Secbin</i>	✓			
<i>Ben Stevens</i>	✓			
<i>Thomas H. Johnson</i>	✓			
<i>Frank [unclear]</i>	✓			
<i>[unclear]</i>				
<i>[unclear]</i>				
CHAIR: <i>[unclear]</i>				

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1 CORRECTED  
 Bill Version: SB 151  
 (S) Publish Date: 4/4/03

Revision Date/Time (Note if correction): 4/1/2003 Dept. Affected: Natural Resources  
 Title: Gas Pipeline Transportation Tariffs BRU: Resource Development  
 Component: Oil and Gas Development  
 Sponsor: Wagoner  
 Requester: Senate Labor and Commerce Component No.: 439

**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						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>
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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						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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)  
 SB 151 would modify the Alaska Pipeline Act (AS 42.06.055-.640) to allow for contract carriage on all natural gas pipelines over which the State has jurisdiction. At present, only a pipeline bringing North Slope gas to outside markets can clearly offer contract carriage service. All other gas pipelines under the Pipeline Act must provide service as common carriers.  
  
 \*\* It is difficult to predict the effects that this bill might have on revenues, because it is difficult to predict the effects of contract carriage pipelines on gas exploration and development.  
  
 Continued on next page.

Prepared by: Mark D. Myers Phone 269-8800  
 Division: Oil and Gas Date/Time 4/1/2003  
 Approved by: Tom Irwin, Commissioner Date 4/1/2003  
 Agency: Natural Resources

FISCAL NOTE #1 CORRECTED

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. SB 151

ANALYSIS CONTINUATION

For pipelines that are owned by non-affiliated pipeline companies, contract carriage could reduce uncertainty of future throughput. This would reduce capital costs, which in turn could encourage pipeline construction and facilitate gas exploration and development. However, for pipelines that are owned by affiliated producers, contract carriage may not provide greater assurance of throughput; the pipeline company may know the volumes that its affiliated producer wants to ship. Meanwhile, contract carriage on a pipeline owned by an affiliated producer could potentially be used to impede pipeline access for non-affiliated producers. This could hinder natural gas exploration and development and ultimately result in a negative fiscal impact for the State. For the Kenai-Kachemak pipeline, however, these dynamics are unlikely as only 63% of the line's total capacity has been contracted for.

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: SB 151  
 (S) Publish Date: 4/2/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
 Title Gas Pipeline Transportation Tariffs BRU Regulatory Commission of Alaska (399)  
 Component Regulatory Commission of Alaska  
 Sponsor Senator Wagoner  
 Requester Senate Labor & Commerce Component No. 2417

**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						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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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						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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: Dave Harbour, Chair Phone 907-276-6222  
 Division Regulatory Commission of Alaska Date/Time 4/1/03 10:17 AM  
 Approved by: Edgar Blatchford, Commissioner Date 4/1/2003  
 Agency Department of Community & Economic Development

FISCAL NOTE #2

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. SB 151  
Gas Pipeline  
Transportation Tariffs

ANALYSIS CONTINUATION

While not explicitly stated, the services allowed by this bill are typically regarded as contract carriage. The 2000 Legislature allowed it for transportation of natural gas from the North Slope, partially to bring State statutes into accord with FERC rules for interstate gas transport. This language expands the statutory recognition of contract carriage to all parts of the State. Because common carrier language is retained in AS 42.06, RCA retains the ability to provide any and all shippers access to transport service on intrastate pipelines through its regulatory processes.

There are no fiscal impacts on RCA for this bill, however it is expected that where producers elect to own and operate a pipeline, which is allowed under state statute, contract carriage with service under these statutory terms will be proposed to RCA in pipeline tariff filings. RCA will consider this under the statutory public interest standard.

RCA's budget is funded through the Regulatory Cost Charge (RCC) mechanism and direct charge mechanisms. No general funds are allocated for support of the agency. The RCC is recalculated each year and allows the agency to recover its operating costs through an assessment on the revenues of the utilities and pipeline carriers it regulates. The RCC is capped at 0.8 % of regulated utilities annual gross revenues.



# ALASKA STATE LEGISLATURE

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SENATOR THOMAS H. WAGONER

CHAIR, SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

VICE-CHAIR, SENATE RESOURCES COMMITTEE

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DATE: April 2, 2003

TO: Senator Scott Ogan, chair  
Senate Resources Committee

FROM: Senator Tom Wagoner

A handwritten signature in black ink, appearing to read "Tom", written over the printed name "Senator Tom Wagoner".

RE: SB 151 Hearing Request

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I respectfully request that you schedule this bill for hearing at your earliest convenience. This is an issue of importance to my district and it needs to pass this legislative session.

I am attaching information for your bill packet.

Thank you for your time and consideration.



# ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER

CHAIR, SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

VICE-CHAIR, SENATE RESOURCES COMMITTEE

## SPONSOR STATEMENT

### CSSB – 151: Gas Pipeline Transportation Tariffs

In 2000, the Alaska Legislature amended the Alaska Pipeline Act to make provisions for operation of a North Slope Gas Pipeline. One provision allowed for two classes of transportation service, "firm" and "interruptible."

Basically, some shippers require "firm" availability of pipeline capacity and thus are willing to pay a guaranteed "reservation charge" to reserve the capacity. This charge is paid whether or not the space is actually used. The pipeline in turn guarantees this capacity will be constructed and made available. Others, who do not require firm service, can opt for "interruptible" service, which does not require payment of a reservation charge. The cost of this service is instead based on shipments actually made. However, these gas shipments are subject to interruption if space becomes unavailable.

When the 2000 amendments were enacted, the North Slope Gas Pipeline was the only gas transportation pipeline in the state proposing to provide such service. There is now a pipeline project in the Cook Inlet, the Kenai Kachemak Pipeline (KKPL), which proposes to provide "firm" and "interruptible" transportation service.

KKPL recently requested the Regulatory Commission of Alaska (RCA) to authorize it to provide these "firm" and "interruptible" services. The RCA declined and posed the question of whether or not a contract carriage for gas pipelines elsewhere in the State was permissible, given the recent amendment that dealt exclusively with transportation of gas from the North Slope.

This legislation is necessary to clarify that the RCA has the authority to authorize "firm" and "interruptible" services for other Alaskan gas transmission pipelines.

The bill achieves this purpose by amending the provisions regarding "firm" and "interruptible" service to make them available to any natural gas pipeline carrier operating in the State. It also adds definitions of a "natural gas pipeline" and "natural gas pipeline carrier".

SS CSSB 151 S(RES) 4-02-03 mj



# ALASKA STATE LEGISLATURE

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SENATOR THOMAS H. WAGONER  
CHAIR, SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE  
VICE-CHAIR, SENATE RESOURCES COMMITTEE

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## **Sectional Analysis** **SB – 151: Gas Pipeline Transportation Tariffs**

**Section 1:** Amends 42.06.350(c) by deleting all reference to “north slope” as it refers to gas lines; the purpose is to broaden the legislation to include other pipelines.

**Section 2:** Amends 42.06.630(6) by deleting all reference to “north slope” as it refers to gas lines; the purpose is to broaden the legislation to include other pipelines.

**Section 3:** Amends 42.06.630(8) by deleting all reference to “north slope” as it refers to gas lines; the purpose is to broaden the legislation to include other pipelines.

**Section 4:** Amends 42.06.630 by adding new paragraphs that define “natural gas pipeline”, “natural gas pipeline facility” and “natural gas carrier”.

**Section 5:** Immediate effective date of the bill.

**Subject:** [Fwd: SB 151 and HB 204]  
**Date:** Wed, 16 Apr 2003 14:52:29 -0800  
**From:** Mary Jackson <Mary\_Jackson@Legis.state.ak.us>  
**Organization:** Alaska State Legislature  
**To:** Linda Hay <Linda\_Hay@legis.state.ak.us>

fyi

mary j

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**Subject:** SB 151 and HB 204

**Date:** Wed, 16 Apr 2003 16:19:10 -0600

**From:** Jack Ekstrom <JackE@EvergreenGas.com>

**To:** "Mary\_Jackson@legis.state.ak.us" <Mary\_Jackson@legis.state.ak.us>,  
"Representative\_Mike\_Chenault@legis.state.ak.us" <Representative\_Mike\_Chenault@legis.sta

**CC:** "mdm@dnr.state.ak.us" <mdm@dnr.state.ak.us>,  
John Tanigawa <JohnT@EvergreenGas.com>

Evergreen Resources supports provisions of the two above named bills now under consideration in the Alaska Legislature. These bills provide for both firm and interruptible service on natural gas pipelines in the state as well as facilitating investment in such projects in Alaska. The bills provide flexibility in service options while maintaining open access. We believe enactment of this legislation would be a positive for the natural gas transportation industry, producers, consumers and will ultimately increase revenues to the state treasury.

Jack R. Ekstrom  
Director, Government Affairs  
Evergreen Resources, Inc.



KENAI-KACHEMAK  
PIPELINE PROJECT

**Kenai Kachemak Pipeline LLC**

**HB 204 / SB 151**  
**“An Act Relating  
to the Regulation of  
Natural Gas Pipelines  
under the Pipeline Act.”**

A. Ben Schoffmann  
Vice-President, KKPL

April, 2003

*Testimony of A Ben Schoffmann to Alaska State  
Senate and House Resource Committees*



KENAI-KACHEMAK  
PIPELINE PROJECT

## Kenai Kachemak Pipeline LLC

### HB 204 / SB 151

## What Does It Do?

- Permits all natural gas transportation pipelines within the State to file a tariff with the RCA offering both “firm” and “interruptible” service (“contract carriage”) under the Alaska Pipeline Act, AS 42.06.
  - Amendments on this concept were made for a North Slope Gas Line in the 2000 Session.
  - This bill clarifies that other regulated gas pipelines elsewhere in the State also may offer these two classes of service.



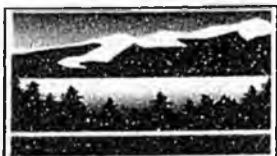
KENAI-KACHEMAK  
PIPELINE PROJECT

# Kenai Kachemak Pipeline LLC

## HB 204 / SB 151

### What is Firm and Interruptible Service?

- Firm Service:
  - The Shipper commits to pay a monthly “reservation charge” for a set level of capacity, whether or not it is actually used.
  - The Pipeline guarantees the reserved capacity will be made available as and when needed.
- Interruptible Service:
  - The Shipper only pays for the capacity it actually uses at any given time.
  - The Pipeline makes best efforts to provide capacity, but if the desired capacity is not available for whatever reason (mechanical, over-supply, etc.), these shipments are subject to curtailment or interruption.



KENAI-KACHEMAK  
PIPELINE PROJECT

# Kenai Kachemak Pipeline LLC

## HB 204 / SB 151

### Why is This Important?

- It is important to both Pipeline Investors and Potential Shippers.
- **Pipeline Investors:** Provides them with the ability to obtain firm contracts from potential shippers, which help to:
  - economically justify construction and operation of new gas pipelines
  - reduce risk

April, 2003

*Testimony of A Ben Schoffmann to Alaska State  
Senate and House Resource Committees*

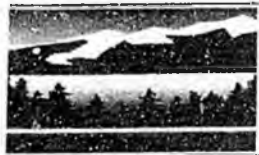


KENAI-KACHEMAK  
PIPELINE PROJECT

## Kenai Kachemak Pipeline LLC

### Why is This Important? – Cont.

- **Prospective Shippers:** Enables them to choose the type of gas transportation service which best aligns with their customer contracts and gas supplies.
  - Firm Transportation (FT)
    - Firm sales contracts need the accompanying assurance of firm transportation (interruptible transportation and potential curtailment is not compatible with firm sales commitments).
  - Interruptible Transportation (IT)
    - Compatible with interruptible sales contracts and/or uncertain supplies
    - Potential Shippers with undiscovered/poorly defined potential gas supplies need not make financial commitments in advance of proving up gas supplies.



KENAI-KACHEMAK  
PIPELINE PROJECT

## Kenai Kachemak Pipeline LLC

# HB 204 / SB 151 What It Won't Do

- It will not change the “Open Access” status of pipelines under the State Pipeline Act.
- It will not have an adverse fiscal impact on the State.
- It will not have an adverse impact on “smaller shippers” or those without an ownership position in the pipeline.

April, 2003

*Testimony of A Ben Schoffmann to Alaska State  
Senate and House Resource Committees*



KENAI-KACHEMAK  
PIPELINE PROJECT

## Kenai Kachemak Pipeline LLC

### Is Producer-Affiliate Ownership an Issue?

- Pipeline Owners in Alaska are mostly Public Utilities & Producer Affiliates
  - These entities have the capital and incentives to construct new pipelines
  - Other PL developers have no incentives to invest in the current environment
- Producer Affiliates can't "Lock Out" Smaller Producers
  - Existing law provides remedies
    - Prohibits unreasonable discrimination (AS 42.06.320)
    - Permits RCA to reallocate usage to remedy discrimination (AS 42.06.330)
    - Authorizes RCA to require capacity expansions (AS 42.06.310(c))
  - RCA can take additional steps
    - As the FERC has done, require an Open Season as a condition of a determination that a proposed pipeline serves the public convenience and necessity
      - Under an Open Season a pipeline offers access on the same terms to all shippers (affiliated and non-affiliated) before it can be constructed
      - Does not require any additional statutory authority
      - FYI, KKPL held an Open Season
- Other statutes and agencies do not think producer-affiliation is an issue
  - 2000 Amendments providing for "firm" and "interruptible" service for North Slope Gas Pipeline did not prohibit or discriminate against ownership by producer affiliates
  - FERC has not prohibited or discriminated against producer-affiliate ownership

April, 2003

*Testimony of A Ben Schoffmann to Alaska State  
Senate and House Resource Committees*



KENAI-KACHEMAK  
PIPELINE PROJECT

## Kenai Kachemak Pipeline LLC

# Pipelines, Regardless of Ownership, Are Good for Business

- Gas Business Drivers:
  - 1) Gas Supply (or access to land & prospects)
  - 2) Gas Sales Contracts (demand & price)
  - 3) Costs (exploration, development, & production)
  - 4) Infrastructure (access to & cost of transportation)
- New pipeline projects will encourage investments by other potential producers:
  - As “Open Access” Infrastructure moves closer, business hurdles of stranded gas are overcome
- More pipeline throughput is good for everyone:
  - Shipper cost of service per unit is reduced
  - Owners’ revenue stream is more stable and predictable

April, 2003

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Senate and House Resource Committees*



KENAI-KACHEMAK  
PIPELINE PROJECT

## Kenai Kachemak Pipeline LLC

### HB 204 / SB 151

## Why is It Needed Now?

- RCA has raised a question in their December 24, 2002 Order to KKPL as to whether RCA has the authority to grant “firm” and “interruptible” service for other than a North Slope Gas Line.
- KKPL will file with the RCA to approve KKPL’s Tariff in the second quarter of 2003.
- After holding an extensively publicized Open Season, two Shippers require, and have committed to pay for, Firm Service on KKPL.

April, 2003

*Testimony of A Ben Schoffmann to Alaska State  
Senate and House Resource Committees*

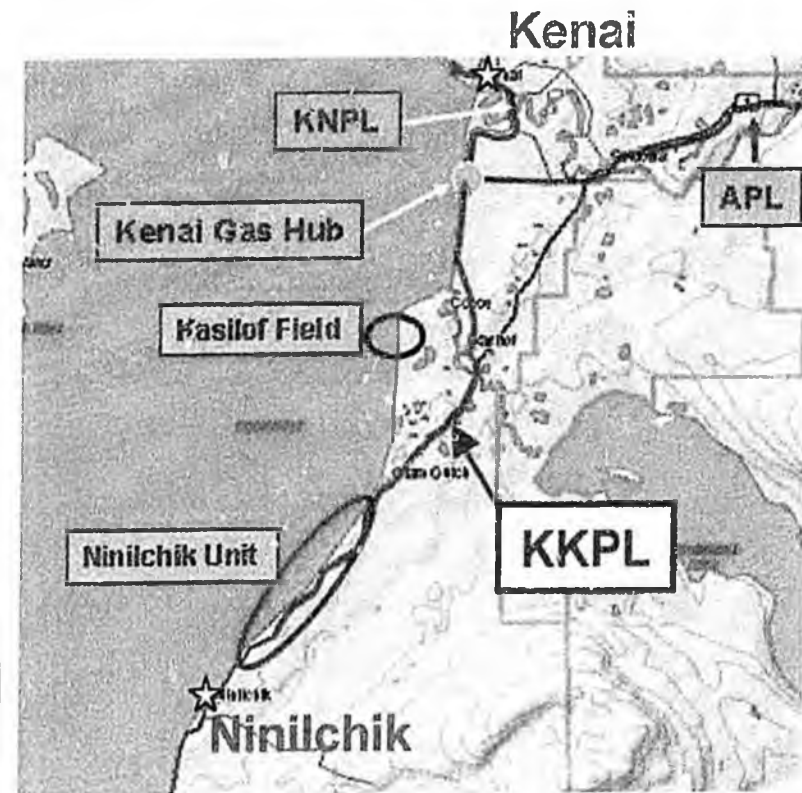


KENAI-KACHEMAK  
PIPELINE PROJECT

# Kenai Kachemak Pipeline LLC

## What is KKPL?

- Owned by an Alaska Limited Liability Company
  - Marathon (60%)
  - Unocal, through GUT (40%)
- New \$25 million, 33-mile, 12-inch diameter Gas Transmission Pipeline.
- Connects newly discovered gas to existing Cook Inlet gas pipeline and market infrastructure.



Kenai Peninsula

April, 2003

*Testimony of A Ben Schoffmann to Alaska State  
Senate and House Resource Committees*



KENAI-KACHEMAK  
PIPELINE PROJECT

# Kenai Kachemak Pipeline LLC

## KKPL Facts

- June 2002: Held extensively publicized “Open Season” for potential shippers
- Two Shippers made “firm” commitments
  - Total of 300 BCF of gas over 15-years
    - Marathon ~ 180 BCF
    - Unocal ~ 120 BCF
  - Total Peak Committed Rate is 90 MMCFPD (in year 4)
- Required a 12-inch diameter pipeline
  - If Inlet Pressure is 1050 psig & Outlet Pressure is 750 psig, Capacity would be 120 - 130 MMCFPD
  - Expansion is possible

April, 2003

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Senate and House Resource Committees*

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KENAI-KACHEMAK  
PIPELINE PROJECT

## Kenai Kachemak Pipeline LLC

### **KKPL Facts – Cont.**

- Received RCA Temporary Certificate of Convenience and Necessity under AS 42.06 on January 9, 2003.
- Construction is in Progress.
  - Started in January 2003.
  - Contractual Target In-Service Date is 11/1/03.
  - Construction is ahead of schedule by ~ 2 months.
- RCA Tariff Filing is required at least 90 days before Commencement of Commercial Operation.
  - KKPL tentatively plans to make this filing in late April.

April, 2003

*Testimony of A Ben Schoffmann to Alaska State  
Senate and House Resource Committees*

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KENAI-KACHEMAK  
PIPELINE PROJECT

## Kenai Kachemak Pipeline LLC

### HB 204 / SB 151

## Impacts to State of Alaska

- Pro-Development, without providing a “handout”.
  - Provides stability to potential pipeline investors if firm capacity is committed.
  - Provides gas suppliers with flexibility to match transportation service to gas supplies (proven or prospective) and sales contracts (firm or interruptible).



KENAI-KACHEMAK  
PIPELINE PROJECT

## Kenai Kachemak Pipeline LLC

# HB 204 / SB 151 Conclusions

- **Provides a Tool:** Clarifies RCA's Authority
  - They have the ability to approve firm and interruptible service for all intrastate Natural Gas Pipelines under the Pipeline Act.
- **Has a Purpose:** Encourages Investment
  - Meets the needs of Pipeline Owners who require economic justification and minimization of risk for their investments.
  - Helps Potential Shippers align their transportation service with their gas supplies and gas sales contracts.
    - Firm Transport for Firm Contracts and Relatively Certain Supplies
    - Interruptible Transport for Interruptible Contracts and less certain supplies
  - Retains "Open Access" provisions of the Pipeline Act.
- **Meets a Need:** KKPL has commitments for this service & will shortly file for approval by RCA.

April, 2003

*Testimony of A Ben Schoffmann to Alaska State  
Senate and House Resource Committees*

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April 9, 2003

The Honorable Mike Chenault  
Alaska House of Representatives  
State Capitol, Room 432  
Juneau, AK 99801-1182

RE: An Act Relating to the Regulation of Natural Gas Pipelines under the Pipeline Act  
Senate Bill 151 / House Bill 204

Dear Mr. Chenault,

*Aurora Gas, LLC and its marketing affiliate, Aurora Power Resources, Inc. ("Aurora"), support Senate Bill 151 and House Bill 204. As a producer and marketer of natural gas, Aurora understands how critical infrastructure is to the ultimate development of natural gas reserves in Cook Inlet. Additionally, we are in favor of rate structures that provide flexibility and can be tailored to the needs of various entities seeking to transport gas on regulated pipelines. We are in favor of having the option to choose between firm and interruptible transportation rates on pipelines. As we understand the legislative revision, it will provide clarification as to the Regulatory Commission of Alaska's ability to approve such rate structures for pipelines in the Cook Inlet.*

*Although the Cook Inlet basin has been explored and produced for over forty years, the development of associated infrastructure is not very mature. As a result, producers will be the most likely entities that own, and financially back, the construction of new pipelines. Aurora understands this and is comfortable that the regulatory process will sufficiently protect the interests of third parties seeking to access these pipelines.*

*Aurora Gas would not avoid exploring and developing acreage in the vicinity of producer owned facilities. However, Aurora can and would substantially discount the value of exploring and developing acreage with no infrastructure whatsoever.*

*For these reasons, Aurora supports Senate Bill 151/House Bill 204. Please do not hesitate to contact me directly, should have any questions on this matter.*

Sincerely,

A handwritten signature in black ink, appearing to read "G. Scott Pfaff", written over a faint, larger version of the same signature.

G. Scott Pfaff  
President

G:SP: djm

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1029 West 3rd Avenue, Suite 220 • Anchorage, Alaska 99501 • (907) 277-1003 • Fax (907) 277-1008