PUBLIC COMMENTS ON DRAFT ALASKA GAS PIPELINE CONTRACT, 10/27/06

ALASKA STATE LEGISLATURE

Official Business

SENATE RESOURCES COMMITTEE
Senator Tom Wagoner, Chair
State Capitol, Room 427
Juneau, . K 99801-1182

HOUSE RESOURCES COMMITTEE
Rep. Ralph Samuels, Co-Chair
State Capitol, Room 126
Juneau, AK 99801-1182

Rep Jay Ramras, Co-Chair
State Capitol, Room 104
Juneau, AK 99801-1182

DATE: October 13, 2006

TO: Senate Secretary and House Clerk

FROM: Senate & House Resources Committee

RE: Joint Resources Meeting on October 27, 2006

Please notice the following.

Joint Senate and House Resources Committee Meeting

October 27, 2006
1-4pm
Anchorage LIO

Presentation by Administration - Public Comments on Draft Alaska Gas Pipeline Contract.

The forum is provided to outline the public comments that were received on the draft Alaska Gas Pipeline Contract and then provide the administration's response to those comments.

ALASKA STATE LEGISLATURE

SENATE RESOURCES COMMITTEE
Senator Tom Wagoner, Chair
State Capitol, Room 427
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Juneau, AK 99801-1182

Rep Jay Ramras, Co-Chair
State Capitol, Room 104
Juneau, AK 99801-1182

Official Business

DATE: October 13, 2006

TO: Governor Frank Murkowski

FROM: Senate & House Resources Committee

RE: Joint Resources Meeting on October 27, 2006

In order to present you with a legislative forum, we are holding a joint Senate and House Resources Committee meeting on October 27, 2006, from 1pm until 4pm, at the Anchorage LIO.

The forum is provided for you to outline the public comments that were received on the draft Alaska Gas Pipeline Contract and then provide the administration's response to those comments.

We look forward to hearing this valuable information.

Tom Wagoner

Senator Tom Wagoner, Chair
Senate Resources Committee

Rep. Ralph Samuels, Co-Chair
House Resources Committee

Rep. Jay Ramras, Co-Chair
House Resources Committee

Committee Staff: Mary Jackson (907) 283-7996 telephone (907) 283-8127 fax

JOINT Senate & House Resources Committee OCT 27

1) Call to Order – note day/time/place – note members present

Anchorage LIO – Room 220

Senate:		House:
Tele:	Elton, Seekins	Co-Chair Samuels
Anch:	Wagoner, Dyson, and Stedman	Co-Chair Ramras (tele)
Absent:	B. Stevens, Kookesh	

2) Presentation by Administration – Public Comments on Draft Alaska Gas Pipeline Contract

This forum is provided to outline the public comments that were received on the draft Alaska Gas Pipeline Contract and then provide the administration's response to those comments.

Presenters: Jim Clark, Bill Corbus, Mike Menge, Michael Williams, Bob Loeffler, Steve Porter, Roger Marks, Ken Griffin and Dan Dickinson

3) Meeting adjourned at _____.

REPRESENTATIVE PAUL SEATON

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ALASKA STATE LEGISLATURE
House District 35

October 31, 2006

Department of Revenue Commissioner William Corbus
and Joint Resources Committees

Dear Sirs,

This is a follow up on the open letter I wrote you on October 23rd questioning a possible declaration of North Slope gas as "Stranded." This open letter seeks to clarify our discussions at the October 27th meeting of the Joint Resources Committee.

There seemed to be some misunderstanding of my raising the Gas to Liquids (GTL) technology subject at the meeting. Although the subject was raised in the public comments to the Interim Fiscal Interest Finding (IFIF), my reason for bringing up GTL related specifically to the Commissioner's discussion of IFIF Section 3.2.1 and his response to the entire series of comments that he plans to use a Fiscal Interest Finding to declare the gas "stranded." There appeared to be an intention by the Commissioner to use comments on the contract as the *only* criteria to make a stranded determination. As I am sure all will agree, the SGDA only applies and such a contract can only be executed with the prior determination that gas is non-economic to produce, and therefore stranded. If the gas can be profitably utilized or monetized – it is not stranded, regardless of the administration's preference for a specific contract option for monetizing the gas.

Commissioner Corbus, on page IFIF-R-39, discussed the reasons why he intends to declare the gas stranded based on the opinion of Dr. Pedro Van Meurs. However, at the Joint Resources meeting the Committee was presented information that demonstrated those constraints did not apply to monetizing gas through a GTL project. Those points are individually discussed as follows.

- "Long lead time" discussion revealed that a minimum of four years (and according to Rep. Samuels, six years) will be consumed before project sanction and beginning of possible construction by the FERC process. The administration expert agreed that under a GTL monetizing of the gas, no FERC delay would occur.
- "The very large Alaska Gas Project" discussion revealed that the producers involved are individually engaged in GTL in Qatar in larger cubic footage volumes than the Alaska project.

- "The market dynamics ... to smaller projects with a shorter lead time...." Does not hold if a GTL option occurs, as the FERC lead-time is removed.
- "The inherent unpredictability of the gas price" – Dr. Van Meurs 10-25-0(Anchorage Daily News editorial states "It now seems that gas and crude oil prices are clearly diverging. Low gas prices are coexisting with high oil prices in the North American market." As it is a form of oil, GTL is comparatively more stable and profitable than gas, and is predicted to remain so into the future.
- "The relative high transport costs" – The administration agreed that this mostly relates to gas pipeline building costs and would not apply to a GTL option.
- "The relatively low IRR..." This needs to be analyzed for a GTL option based on the lack of pipeline construction costs with GTL and the fact that identical projects are going forward in Qatar and without the construction of new pipelines. The addition of the 520,000 barrels per day of GTL to the Trans Alaska Pipeline system will lower the tariff, as stated by the administration's FERC expert. According to the 1996 U.S. Department of Energy study "Economics of Alaska North Slope Gas Utilization Options" GTL would lengthen the life of TAPS to 2035 without any new oil or gas discovery. The effect of a longer TAPS lifespan should be analyzed as part of the IRR of the producer's entire North Slope investment.

Thus if North Slope Gas can be profitably monetized it cannot be declared stranded. There is no analysis discounting the economic viability of the GTL option. In fact, there is a discussion in the 1996 Department of Energy study that at prices above $19.94 per barrel of oil it is economical to monetize the gas as GTL. It is my understanding that in 1996 Exxon made presentations to legislators and offered the same $19 per barrel viability scenario for GTL. This figure is obviously well below current oil prices.

To reiterate, I do not believe the commissioner has the legal authority to declare the North Slope gas stranded at this time.

Sincerely,



Representative Paul Seaton
Alaska State Legislature
House District 35

BY MICHAEL WILLIAMS

Impacts of Delaying Natural Gas Development

October 27, 2006, Anchorage, Alaska

Good afternoon and thank you for the introduction Commissioner Corbus. My purpose today is to discuss the impacts of delaying the development of natural gas in Alaska. There are three major points I would like to review and they are the following:

1. Fiscal impacts to the State
2. Loss to the Alaska State economy
3. Loss of potential market share for Alaskan natural gas

$\frac{103}{2169} = 4.9\%$

1. Fiscal Impacts to the State

Under the current proposal, the State would receive between $1 and $3 billion per year beginning in 2016 depending on natural gas prices. Since the State receives about 90% of its discretionary revenue from oil, and oil production is declining, it is just a matter of time before we run a deficit. Our analysis in the preliminary fiscal interest finding, reveals the State running a deficit beginning in 2009 and depleting the Constitutional Budget Reserve in 2014. Every minute we delay the pipeline, brings the time closer when the State has a deficit. We need to diversify our revenue base.

2. Loss to the State Economy

There are about 11,000 construction jobs associated with the pipeline each year ~~and the~~ construction lasts about four to five years. As the project is delayed, the time when these construction jobs are needed is pushed further into the future. In addition, it is assumed the State spends most of the money that accrues to it from natural gas sales. These expenditures are recycled through the economy for products and services – these are additional economic impacts. The impacts from State expenditures are about 22,000 jobs per year – over the life of the pipeline or 35 years – thus, the impact on the State from their expenditures dwarfs the jobs associated with construction. Delaying one year reduces construction employment beginning in 2011 & reduces the additional impacts beginning in 2017.

3. Loss of Potential Market Share for Alaskan Natural Gas

The short story – if the project is not approved shortly, there is a chance there will not be demand for Alaska's natural gas. This is a complex story to tell and I am going to attempt to weave several parts together – so please bear with me.

- First – today there is demand for Alaska's natural gas in North America. It would most likely be for electricity generation.

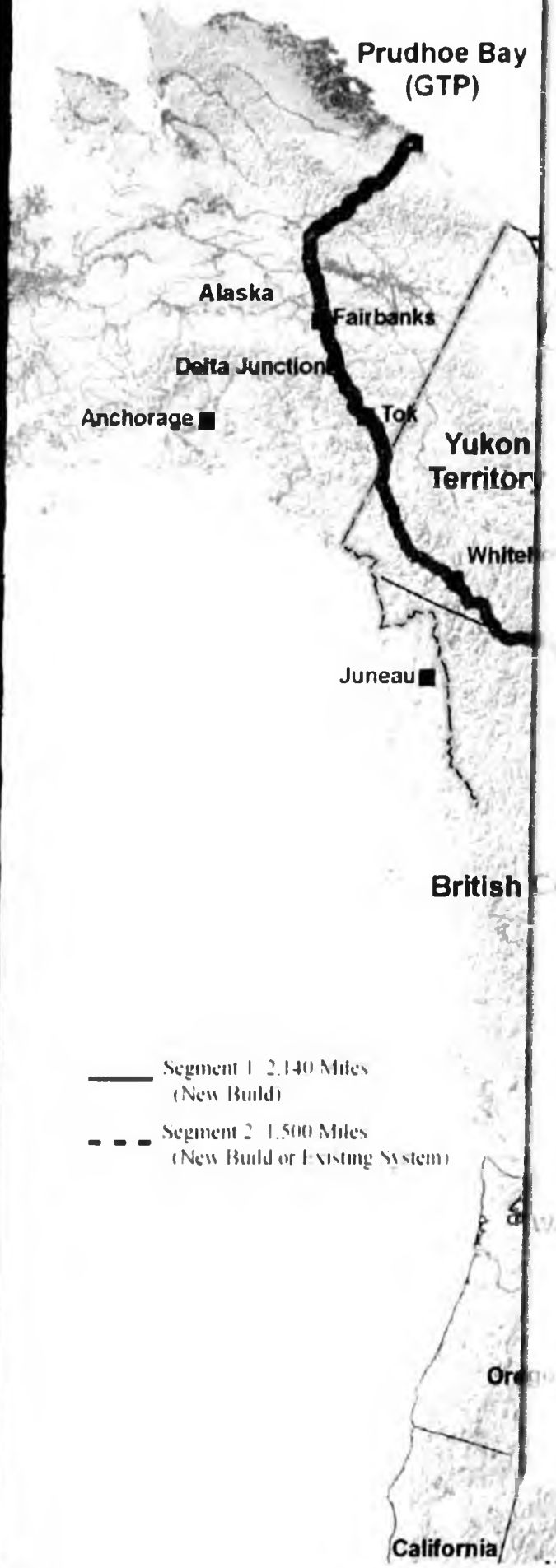
- Second – the high natural gas prices in recent years and the interruptible supply caused by the hurricanes are causing many utilities to explore other options. These options include coal [because of the cost advantage] and nuclear [in part because of federal tax credits].
- Third, uncertainty over the availability of Alaskan natural gas is causing some utilities to believe it is not forthcoming. Based on that scenario, they are making decisions to go with coal. This has been documented by the US Department of Energy who reduced the long-term demand for natural gas in electricity generation in their most recent long run outlook.
- Fourth, the US petrochemical industry is not competitive in the world. The industry in the Middle East has been expanding with the construction of world scale plants and low cost fuel stock. Over the last 15 years employment in the US petrochemical industry has contracted by 33%. This industry will not be a source of demand for Alaska's natural gas.
- Taken together, these topics paint a picture of timing. If Alaska natural gas is not developed shortly, other industries will make decisions to seek alternative fuels.
- A good example close to home is Agrium. Lat year the Governor brokered a deal between Agrium and an oil company. The oil company agreed to provide gas to Agrium and it was able to operate another year. This year, Agrium has already announced it plans to close part the year due to a lack of natural gas supplies. Because of these "interruptible" supplies, Agrium is investigating coal gasification in conjunction with the local electric utility. Keep in mind there is a great deal of coal in Alaska. Should Agrium decide to use the coal gasification technique and invest capital in the plant and equipment, they will not change their mind after the capital is invested. This scenario is being played out throughout the United States. If companies believe Alaska gas is not forthcoming, they will soon make decisions that are not reversible.

There are additional impacts from delaying the project, such as reductions to the Permanent Fund and the reduced Net Present Value of the project. However, I would like you to remember the impact of delaying the natural gas pipeline can be devastating to the State; a loss of revenue to the State government; a loss of jobs to the State economy; and finally, the potential loss of market share, which means the project might never get developed.

The Summary of Public Comments contains public comments on this topic and you can view the comments and responses on pages 65 & 66.

Thank you for your attention and I will attempt to answer any questions.

MA Jacksm
10-27-06



Appendix R to the Interim Fiscal Interest Finding:

Summary of Public Comments

Received in Response to

The Preliminary Findings and Determination

and

The Fiscal Contract

between

The State of Alaska

and

BP Alaska (Exploration), Inc.
ConocoPhillips Alaska, Inc.
ExxonMobil Alaska Production, Inc.

As required by the
Stranded Gas Development Act

October 20, 2006

Volume I

- Summary of Comments
- Attachment 1
- Attachment 2
- Attachment 3

STATE OF ALASKA
DEPARTMENT OF
REVENUE

Appendix R to the Interim Fiscal Interest Finding:

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STATE OF ALASKA
DEPARTMENT OF
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Executive Summary

Summary of Public Comment Process

On May 10, 2006, Governor Frank Murkowski and commissioner of revenue William Corbus released the *Preliminary Findings and Determination* (FIF) and the *Alaska Stranded Gas Fiscal Contract Between the State of Alaska and BP Alaska (Exploration), Inc., ConocoPhillips, Inc. and ExxonMobil Alaska Production, Inc.* (collectively, the sponsor group). Subsequently an amended contract was released on May 24, 2006. The amended version of the contract included provisions for fiscal certainty on oil. The purpose of the contract is to facilitate the construction of a natural gas pipeline from the ANS to Canada, with an option to continue on to a hub near Chicago, Illinois.

The release of the proposed contract began a public review process, which is required by the Stranded Gas Development Act (SGDA) for a minimum of 30 days. The public review process period was initially scheduled for 45 days and was extended to 75 days in response to the feedback from the public requiring more time to understand and analyze the contract and the Preliminary FIF. The extension from 45 to 75 days also gave the public additional time to review the amended version of the contract that was released May 24, 2006. The comment period was officially closed at 5 p.m. on July 24, 2006.

This public review process involved not only collecting comments through postal mails, voice mails, faxes and internet submissions, but also holding a series of public outreach activities led by the governor, the commissioner of revenue and other members in the administration. These activities were intended to: 1) educate the legislature and the public on the proposed contract and Preliminary FIF; 2) take official testimonies from the public; and 3) answer questions and concerns from the public in person.

In addition to the public comments received as oral testimony during public hearings and presentations, public comments were received by mail, e-mail, fax, and telephone on a dedicated, toll-free comment line, and via laptop computers with Internet connections that were set up at some public meetings.

Overall there were a total of 2,169 submissions in the public comment process. These submissions included comments made in all of the forums and public hearings, comments submitted through the internet, as well as formal letters submitted directly to the governor and commissioner of revenue by legislators and their consultants. Of these, a total 2,120 submissions were determined to be valid comments, while a total of 49 were determined to be duplicates or materially irrelevant to the fiscal contract or Preliminary FIF.

The analysis of public comments was a multi-step process that included reviewing, coding, sorting and analyzing the submissions or transcripts and then preparing responses to the issues and concerns raised. Groups of similar comments within an issue were termed a Statement of Concern (SOC). An SOC was defined as a statement that captures the meaning of the grouped comments and can be addressed with a single response. During the comment analysis process the comments were sorted into 14 general areas of concern, covering 60 different issue categories. Within the various issue categories, a total of 365 different SOCs were created. The state then developed responses to each of the SOCs. The SOCs and the state's responses can be found in Section 3 of this report.

Finally, an in-depth assessment of the public comments was done. This assessment resulted in changes to the Preliminary FIF and a set of recommended amendments to the fiscal contract. While the administration believes that the existing contract fairly protects the state's interests, it has agreed to propose certain changes to the contract to respond to concerns raised in the public process. It should be emphasized that while the current administration is recommending these changes, negotiations with the sponsor group have not advanced and they have not accepted these changes. An Interim FIF incorporating the changes to the Preliminary FIF referenced above is scheduled to be published in November 2006.

1 Introduction

1.1 Overview of the Contents of this Public Process Appendix

This summary of public comments is provided as required by Stranded Gas Development Act (SGDA) in AS 43.82.430(a)(1). This summary is divided into 5 sections (including this introduction) and four attachments. A description of the contents of each section and attachment is shown below:

- Section 1 contains a description of the public process and describes the methodology used to collect and analyze public comments.
- Section 2 contains a statistical summary of the submissions received during the public comment process.
- Section 3 contains the Statements of Concern (SOCs) into which submissions were grouped and the state's responses to those concerns.
- Section 4 provides an analysis of the comments based on the type of commenter and the content of the submission.
- Section 5 provides a brief summary of the comment process and the steps that will follow.
- Attachment 1 contains three separate indices of the submissions collected during the public process and relates those submissions to particular SOCs and responses.
- Attachment 2 contains a series of formal responses provided by state to letters from various Alaska State Legislators, Mayors, and interest groups.
- Attachment 3 contains a presentation and memo on Access to Alaska Gas Pipeline and "Basin Control" that is referenced in the response to comments.
- Attachment 4 (Volume II), which is available upon request to the commissioner of revenue, is a compilation of all 2,169 submissions received during the public comment process. The attachment is available either as a printed hard copy (968 pages) or as a searchable electronic file (an Adobe® PDF); the latter is included on the CD version of this document.[1]

1.2 Description of the Public Process

1.2.1 Release of Contract

On May 10, 2006, Governor Frank Murkowski and commissioner of revenue William Corbus released the *Preliminary Findings and Determination* (PIF) and the *Alaska Stranded Gas Fiscal Contract Between the State of Alaska and BP Alaska (Exploration), Inc., ConocoPhillips, Inc. and ExxonMobil Alaska Production, Inc.* (collectively, the sponsor group). Subsequently a revised contract was released on May 24, 2006. The May 24 contract

[1] As of the printing of this document all of the submissions are also available on the Internet by clicking on "Public Comments" at http://www.gov.state.ak.us/gasline/.

added provisions to two Articles and six Exhibits related to the proposed PPT (see Hearings_08). The purpose of the contract is to facilitate the construction of a natural gas pipeline from the ANS to Canada, with an option to continue on to a hub near Chicago, Illinois.

The release of the proposed contract began a public review process, which is required by the Stranded Gas Development Act (SGDA) for a minimum of 30 days. The public review process period was initially scheduled for 45 days and was extended to 75 days in response to the feedback from the public requiring more time to understand and analyze the contract and the Preliminary FIF. The extension of the public comment period was particularly important given that that the amended fiscal contract was released on May 24, 2006—two weeks after the official beginning of the comment period. The comment period was officially closed at 5 p.m. on July 24, 2006.

A large amount of material was made available at the start of the comment period on the state's gas pipeline website: www.gaspipeline.alaska.gov. These documents included:

- Proposed fiscal contract
- Preliminary FIF
- Documents from the sponsor group
- Documents from state agencies:
    - Alaska Gasline Port Authority (AGPA)
    - Alaska Oil & Gas Conservation Commission (AOGCC)
    - Department of Natural Resources (DNR)
    - Governor's Office
    - Department of Law
    - Alaska Natural Gas Development Authority (ANGDA)
    - Alaska State Legislature
    - Department of Revenue (DOR)
    - Department of Labor and Workforce Development (DOLWD)
    - Regulatory Commission of Alaska (RCA)
- Documents from federal agencies:
    - Energy Information Administration (EIA)
    - Department of Defense (DOD)
    - Federal Energy Administration
    - Federal Energy Regulatory Commission (FERC)
    - Government Accountability Office (GAO)
    - National Security Council (NSC)
    - Department of Energy (DOE)
    - Department of the Interior (DOI)
    - U.S. Geological Survey (USGS)
    - U.S. House of Representatives

- State statutes:
  - Alaska Constitution
  - Gas Production Tax AS 43.55
  - Oil & Gas Exploration, Production, and Pipeline Transportation Property Taxes AS 43.56
  - Right of Way Leasing Act AS 38.35.017
  - Stranded Gas Development Act AS 43.82.010-43.82.990
  - Alaska Land Act-Sale of Royalty AS 38.05.183
  - Municipal Powers & Duties-Powers AS 29.35.620
  - Pipeline Act AS 42.06
  - State Corporate Income Tax AS 43.20.072
  - Stranded Gas Development Act-Amendment HB16
- Federal statutes:
  - Alaska Natural Gas Pipeline Act 15 USC 720
  - American Jobs Act PL 108-357
  - FERC Regulations 18 CFR 157
  - Natural Gas Policy Act 15 USC 717
  - Alaska Natural Gas Transportation Act 15 USC 719
  - Natural Gas Act PL97-93
  - National Environmental Policy Act 15 USC4321
- Documents from contractors:
  - Citigroup
  - Information Insights
  - Merrill Lynch
  - Muse Stancil
  - Paragon Engineering Services
  - PricewaterhouseCoopers
  - Van Meurs & Associates
  - Ziff Energy
  - Goldman Sachs
  - Lukens Energy Group
  - Morrison Foerster
  - Northern Economics
  - PFC Energy
  - UBS Financial Services
  - Wood MacKenzie
- Documents from other sources:
  - Aberdeen University Petroleum & Economic Consultants
  - Gaffney, Cline & Associates
  - Agrium U.S.
  - Alaska Journal of Commerce

- Alberta Energy
- American Council for an Energy-Efficient Economy
- Anchorage Daily News
- Carol Nykolyn
- Dr. Richard G. Newell
- Financial Accounting Standards Board of the Financial Accounting Foundation
- Hosie McArthur , LLP
- UA Institute of Social & Economic Research
- Marty Rutherford
- Nickle's Energy Group
- Petrotechnical Resources of Alaska
- Southwest Statistical Consulting
- Western Center for Economic Research
- World Bank Group
- Acadian Consulting Group
- Alaska Business Monthly
- Alaska State Chamber of Commerce
- Alberta Hub
- Anchorage Chamber of Commerce
- Government of Canada
- Dave Gray
- Econ One Research
- Foothills Pipe Lines
- Hybrid Energy Advisors
- Jensen Associates
- Municipal Advisory Group
- Petroleum News
- Saber Partners
- Standard & Poor's
- Wilson Gillette & Co.
- Yukon Pacific Corporation

This public review process involved not only collecting comments through postal mails, voice mails, faxes and Internet submissions, but also holding a series of public outreach activities led by the governor, the commissioner of revenue and other members in the administration. These activities were intended to: 1) educate the legislature and the public on the proposed contract and Preliminary FIF; 2) take official testimonies from the public; 3) answer questions and concerns from the public in person. These activities took place in three phases:

1) Legislative Education Process
2) Public Hearing
3) Public Forums

1.2.2 Legislative Education Process

The first phase was from May 10 to May 23, eleven days of extensive presentations to the legislature on the gas pipeline project and question-and-answer sessions, which were all broadcast statewide through *Gavel-to-Gavel* on television. Furthermore, all the presentations, along with questions and answers, were made available on the state's gas pipeline website. The table below lists the agenda for the presentations to the legislature.

Table 1. Presentations to the Legislature

Day 1	**Wednesday - May 10, 2006**		
1:30 PM-5:00 PM	Overview of Presentations/Background on Negotiating Process	Bill Corbus	1 hour
	Project Description	Mike Menge	1 hour
	Project's Benefits to Alaska/Alaskans Fiscal Strategy of Gas Pipeline Contract	Pedro van Meurs	1.5 hours
Day 2	**Thursday - May 11, 2006**		
9:00 AM-12:00 PM	Overview of Preliminary FIF	Bill Corbus	1 hour
	Fiscal Certainty on Oil and Gas-What it Means/Why it Matters.	Bill Corbus/ Pedro van Meurs	5 hours
	Economics of Gas Pipeline Contract-Analysis of Deal: Comparison with other Contracts around the World.		
1:30 PM-4:30 PM	Economic Benefits of Gas Pipeline-Compared with Similar Contracts Around the World	Bill Corbus/ Pedro van Meurs	
Day 3	**Friday - May 12, 2006**		
8:30 AM-11:30 AM	Key Alaska Issues		2 hours
	-Alaska Hire/Alaska Buy	Greg O'Claray	
	-In state Access and Use of Gas	Ken Griffin	
	-Fiscal Certainty for Explorers (UUFC)	Mike Menge	
Day 4	**Monday - May 15, 2006**		
1:30 PM-4:30 PM	Constitutional Issues Associated with Fiscal Certainty and Other Legal Issues Concerning the Contract	Dave Marquez/ Brad Lui	3 hours
Day 5	**Tuesday - May 16, 2006**		
9:00 AM-12:00 PM	Alternate Comparisons	Roger Marks/ Pedro van Meurs	1.5 hours
	Work Commitments and Project Risks	Pedro van Meurs	1 hour
1:30 PM-4:00 PM	Fiscal Certainty and Term	Pedro van Meurs	1.5 hours
	Canada Plan/PTU	Mike Menge	2 hours

Day 6	Wednesday - May 17, 2006		
9:00 AM-12:00 PM	Challenges of State Ownership -Capacity Management -Marketing Management	Ken Griffin	3 hours
2:00 PM-3:00 PM	FERC Permitting/EIS Process/Project Sanction	Bob Loeffler	1 hour
3:00 PM-5:00 PM	Explanation of Contract Provisions	Bob Loeffler	2.5 hours
Day 7	**Thursday - May 18, 2006**		
9:00 AM-12:00 PM	Explanation of Contract Provisions	Bob Loeffler/ Dan Dickinson	6 hours
Day 8	**Friday - May 19, 2006**		
9:00 AM-12:00 PM	Work Commitments and Project Risks	IPA-Al Rogers	3 hours
Day 9	**Saturday - May 20, 2006**		
9:00 AM-12:00 PM	Payments in lieu of taxes issues -Benefit to Municipalities -Marketing Management	Dan Dickinson/ Randy Hoffbeck	3 hours
1:30 PM-4:30 PM	Managing and Financing the Gas Pipeline -LLC -Financing options -Federal loan guarantee	Bill Corbus/ Bill Voge/ Bob Doherty	3 hours
Day 10	**Monday - May 22, 2006**		
9:00 AM-12:00 PM	Right-of-Way Plan	Ed Fogels	1 hour
	-PPT Legislation	Dan Dickinson/ Pedro van Meurs	2 hours
Day 11	**Tuesday - May 23, 2006**		
9:00 AM-12:00 PM	Legislation Requests -SGDA Amendments -Pipeco -Original Jurisdiction for Supreme Court -Upstream Fiscal Contract	Steve Porter/ Larry Ostrovsky/ Jim Baldwin/ Joe Donohue	3 hours
1:30 PM-4:30 PM	Why this Project is in the financial interest of the State	Bill Corbus	2 hours
	Summary/ Wrap up	Bill Corbus/ Pedro van Meurs	1 hour

1.2.3 Public Hearings

The second phase was from May 19 to June 15, including eight formal public hearings in major communities and three statewide teleconferenced public hearings to take official testimonies from the public (Table 2 and Table 3). Each formal public hearing in a major community started with about one-hour remarks and presentations by the governor, the commissioner of revenue and representatives from Departments of Natural Resources and Labor, followed by public testimonies. All of the comments made by the public at the hearings were transcribed and added to the public comment database. Each hearing in a major community was also accompanied by an open house attended by representatives from

the state and sponsor group, who would answer any questions from the public regarding natural gas development, the gas pipeline, the proposed contract and the Preliminary FIF. Furthermore, a number of displays and handouts were available at the open houses to educate the public. Listed below is the schedule of the formal public hearings and statewide teleconferenced public hearings.

Table 2. Formal Public Hearings in Major Communities

Date	Time	Location
May 19	11 AM – 8 PM	Ted Ferry Civic Center, Ketchikan
May 24	2 PM – 8 PM	City Council Chambers, Delta Junction
May 25	11 AM – 1:30 PM 5 PM – 8 PM	Carlson Center, Fairbanks
M[illegible]d	2 PM – 8 PM	Kodiak High School Commons, Kodiak
June 2	11 AM – 8PM	Egan Convention Center, Anchorage
June 3	11 AM – 5PM	Egan Convention Center, Anchorage
June 7	11 AM – 1:30 PM 5 PM – 8 PM	Best Western Inn, Wasilla
June 9	11 AM – 1:30 PM 5 PM – 8 PM	Convention & Civic Center, Valdez
June 15	11 AM – 1:30 PM 5 PM – 8 PM	Challenger Learning Center of Alaska, Kenai

Table 3. Statewide Teleconferenced Public Hearings

Date	Time	Location
May 23	6 PM – 10 PM	Legislative Information Offices, and (888) 295-4546
May 30	6 PM – 10 PM	Legislative Information Offices, and (888) 295-4546
June 5	6 PM – 10 PM	Legislative Information Offices, and (888) 295-4546

1.2.4 Public Forums

The third phase was from July 17 to July 24, consisting of seven public question-and-answer forums to answer questions and concerns raised by the public (Table 4). Eleven basic issues, developed based on comments received from the legislature and the public in the previous two phases, were discussed in detail in each forum. The basic issues included 1) the gist of the deal; 2) the economic impact; 3) the term of the contract; 4) constitutional issues; 5) in-state use and off-take points; 6) work commitments; 7) jobs and job trainings for Alaskans; 8) the petroleum profits tax; 9) the all-Alaska pipeline route; 10) Canadian issues; and 11) stranded gas. The governor, chief of staff, commissioners from the Departments of Revenue, Natural Resources and Labor, the attorney general and other state representatives participated in the forums to discuss the basic issues and to answer any other questions in person.

Table 4. Public Forums

Date	Time	Location
July 17	12 PM – 3 PM	Centennial Hall, Juneau
July 18	2 PM – 5 PM	Challenger Learning Center of Alaska, Kenai
July 19	2 PM – 5 PM	Tanana Valley Campus, University of Alaska Fairbanks, Fairbanks
July 20	2 PM – 5 PM	Cuddy Center, University of Alaska Anchorage, Anchorage
July 21	2 PM – 5 PM	Palmer Library, Palmer
July 21	7 PM – 9 PM	Eagle River Parks/Recreation Office, Eagle River
July 24	1 PM – 5 PM	North Slope Borough Assembly Room, Barrow

1.2.4.1 Community Outreach

In addition to the eleven-day presentations to the legislature, eight formal public hearings, three statewide teleconferenced hearings, and seven public forums, more than 70 community presentations were held throughout the state. Many of these were attended by the governor, chief of staff, commissioners, and department directors. All of the presentations, hearings and forums were designed to ensure that the public had a good understanding of the proposed contract and Preliminary FIF, and to ensure the administration received feedback from the public.

1.3 Sources of Inputs for Analysis

In addition to the public comments received as oral testimony during public hearings and presentations, public comments were received by mail, e-mail, fax, telephone on a dedicated, toll-free comment line and via laptop computers with Internet connections that were set up at some publics meetings so that anyone attending the meetings could submit comments directly onto the state's gas pipeline website. After the close of the comment period, the state made all the submissions available for public viewing on the state's gas pipeline website. Submissions were listed by number and the name and organization/affiliation of the commenter.

1.3.1 Web Submissions

Submissions received via the Web-form on the state's gas pipeline website were logged directly into the database and were made available to the Department of Revenue for immediate review and analysis.

1.3.2 Transcription of Public Testimony and Public Opinion Messages

Certified court reporters were used to record and transcribe verbatim testimony taken at the formal public hearings, statewide teleconferences and from the Public Opinion Message (POM) line. These transcripts were copied into the database and identified by speaker, venue and date. Most transcripts were entered into the database within a few days of the event. The POM voice mail system was checked twice a day.

1.3.3 E-mails

E-mails received by the Governor's Office or other State of Alaska departments or agencies that specifically addressed the proposed contract, Preliminary FIF or gas pipeline project were forwarded to the Department of Revenue. These e-mails and any attachments were copied into the database as they arrived.

1.3.4 Other Written Submissions

Letters, faxes and other forms of written submissions were received by the Governor's Office or Department of Revenue. Word processing staff entered the text as submitted (i.e., spelling and typographic errors were not corrected) into the database, although formatting could not be preserved by the database software. The original submission was scanned, and in all cases was made available online after the comment period closed.

1.3.5 Viewing Submissions

Presently and in the foreseeable future, all of the submissions can be accessed online through the State of Alaska's Gas Pipeline web-site. All of the submissions are available on CD or in a printed hard-copy (968 pages) by sending a request to the commissioner of revenue. Indexes of these submissions are provided for interested individuals and organizations in Attachment 1 of this document.

To view submissions on the internet take the following steps:[2]

1. Log onto the internet using your internet browser;
2. Enter http://www.gov.state.ak.us/gasline as the URL and hit return;
3. Click once with your mouse on the "Public Comments" section of the gas pipeline web-site;
4. Click once on the text "Review comments submitted on the Fiscal Interest Findings";
5. Click on the arrow at the right of any one (or more) of the search boxes[3] and select the item you wish to find;
6. Click on continue;
7. After the screen refreshes, scroll to the bottom of the page and click on the submission number of the comment you wish to review;
8. If the comment was entered directly into the web the full comment will appear when the screen refreshes;
9. If the comment was submitted as an attachment, click on the attachment file name to see the comment.

[2] To view the submissions from the CD, place the CD in the drive of your computer and follow the directions that are shown on the CD.

[3] Note that submissions from individual's associated with organizations, do not necessarily represents the views of that particular organization—because individuals were given the option to indicate the organization with which they were associated.

1.4 Description of Data Management and Comment Analysis Process

1.4.1 Data Management

All submissions were stored in a secure, relational database where each was assigned a unique Submission ID number. Information about each submission, such as date submitted, venue (for public hearings) and format (e.g. Web-form, e-mail, etc.), were recorded. The name and address of the commenter were also recorded when available. The submission text field on the Website comment form was large enough to accommodate four to five pages of typed material. In addition, attachments to submissions on the Internet and to e-mails were also permitted. Attachments of up to 35 pages were capable of being uploaded on the state's gas pipeline website. These additional comments were linked in the database to the original submission and commenter.

1.4.2 Comment Analysis Process

The analysis of public comments was a multi-step process that included reviewing, coding, sorting and analyzing the submissions or transcripts and then preparing responses to the issues and concerns raised. Figure 1 diagrams the comment analysis process.

The first step was to review each submission or transcript and divide it into a series of substantive comments, each of which was assigned a unique Comment ID number. The goal was to capture each idea or opinion expressed that was pertinent to the proposed contract, Preliminary FIF, or gas pipeline project.

Next, analysts identified the general area of concern and specific issue or issues discussed in each comment. An example of a general area of concern is "State and Local Impacts." Examples of issue categories within this area of concern are "Alaska Hire Provisions," "Community Impacts" and "Impact Payments." An abbreviation code was assigned to each issue category to facilitate data management; for example, AKHIRE, COMM and IMP_S. Table 5 lists the issue categories by area of concern identified from the public comments. In most cases, issue categories were designed to be opinion neutral.

The coded comments in each issue category were then further reviewed to identify similarities among them. Groups of similar comments within an issue category were termed a Statement of Concern (SOC). An SOC was defined as a statement that captures the meaning of the grouped comments and can be addressed with a single response. SOCs usually express a definite position within the broader issue.

For example, Alaska Hire Provisions (AKHIRE) identifies comments about the job opportunities for Alaskans created by the gas pipeline project. Within this issue category, a number of SOCs were developed based on the similarities of the comments. These SOCs included the following:

- AKHIRE_01 Statements expressing concern regarding Alaska hire, including the impacts of U.S. Supreme Court decisions on local hire.
- AKHIRE_02 Statements expressing concern about the lack of skilled workers needed for the project and the need for training programs and other ways that the state would assist Alaskans and Alaska contractors to better compete with non-Alaskans.

The final step in the process was a global review of the SOCs to minimize unnecessary duplication. Where possible, similar SOCs were combined into one statement and placed in a category best fitting the overall concern.

Figure 1. The Comment Analysis Process

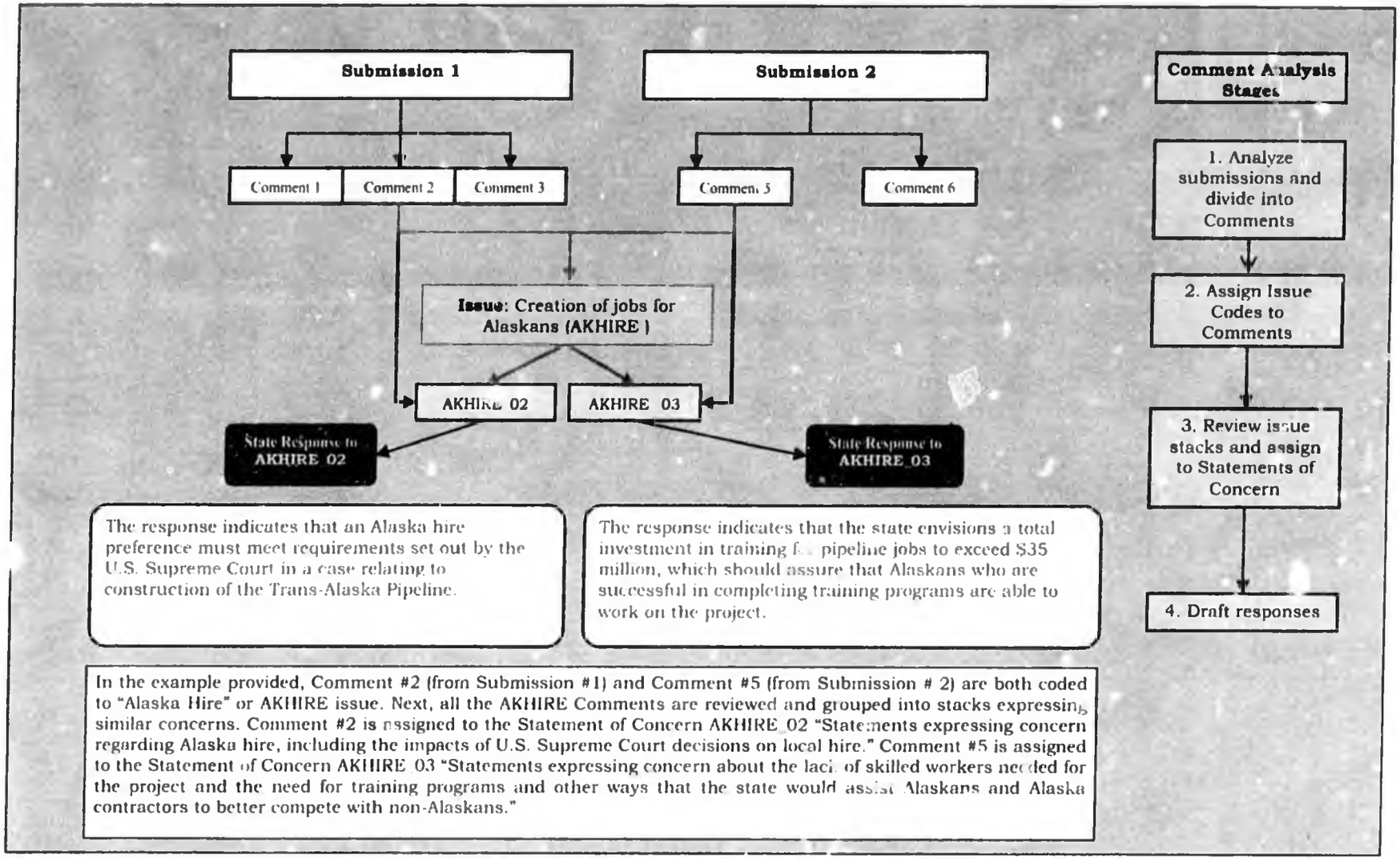


Table 5. Summary of Issues Identified from Public Comments

Issue Code	Issue Category	Comment Summaries	# of SOCs
		Public Process	
HEARINGS	Public Hearings	Comments expressed concern about accessing information generated during public presentations, time limits on individual oral testimony, how public comments will be responded to, and the timing of the public hearings given that parts of the contract are incomplete	9
COMM_PER	Comment Period	Comments expressed a number of concerns about the public review process, including the length and complexity of the contract and associated documents, the time limit on individual oral testimony during public hearings, the use of state funds to promote the project, and the timing of the public review process given that parts of the contract are incomplete.	12
WEB	Internet Access to Information and Web-Based Comments	Some comments supported the use of the Internet to make available to the public large volumes of information, while others reported difficulty in accessing information.	5
		SGDA and Constitutionality	
STRND	Is the Gas Stranded?	Comments reflected the disagreement as to whether ANS gas is stranded. Comments also suggested that the question of whether ANS gas is stranded is a policy call and can't be answered empirically.	2
CNSTL	Constitutionality	Comments focused on the legality of surrendering the state's power of taxation for the term of the proposed contract, not developing the state's gas for the maximum benefit of Alaska's citizens, altering tax rates and leases related to existing oil and gas infrastructure and production, prohibiting municipalities from initiating lawsuits with respect to the contract, and retroactively changing the SGDA terms to fit the contract.	12
CNFDL	Confidentiality and Secrecy	Comments were critical of what was perceived as a secretive negotiation process conducted by the administration and the sponsor group.	4
SGDA	SGDA Concerns	Comments expressed concern that the proposed contract violates the provisions of the SGDA because it includes changes in taxes and incentives for oil production and development, does not include all the causes for termination required by the Act, and does not define the specifics of the qualified project. Comments also asserted that the preliminary findings and determination violates the provisions of the SGDA because it fails to fully evaluate project alternatives and the option that the gas is not stranded, fails to provide an adequate analysis of the impact of the contract terms on the state's budget, fails to accurately analyze whether the gas is economically stranded, and determines that it is appropriate to move forward a contract that is not yet complete.	20
LEGIS	Legislative Process	Some comments expressed concern that actions by groups in favor of and against the proposed contract have "politicized" the contract review process. Other comments indicated that the legislature should take time to understand the contract provisions before making a decision. Comments were mixed with respect to whether the governor should sign a contract without first putting it to a vote by the legislature.	12
XOM	Exxon Settlement and Negotiating With Exxon	Comments expressed concern that the state is negotiating a contract with ExxonMobil when the company has yet to pay the punitive damages awarded against it after the Exxon Valdez oil spill.	1

Issue Code	Issue Category	Comment Summaries	# of SOCs
		General Comments on the Contract and the FIF	
FIF	Contract is or is not in the Interest of the State	General comments that either agreed or disagreed with the commissioner's preliminary findings and determinations that the proposed contract terms are in the long term fiscal interest of the state and further the purposes of the SGDA	2
EDI	Editorial Comments and Corrections	Editorial comments included the need for clarification on total estimated state revenues from oil and gas under the proposed fiscal terms and the need to break out estimated state revenues (i.e., royalties, severance taxes, corporate income taxes and property taxes).	6
ACK	Irrelevant Comments	Comments that were not relevant to the FIF or to the fiscal contract	1
		Work Commitments and Project Timing	
WORK_COMM	Work Commitments from the sponsor group	Comments reflected the mixed views as to the adequacy of the contract provisions with respect to work commitments, including whether: • "diligence" is sufficiently defined • penalties should be imposed if the sponsor group does not take action to proceed with the project • the state's ability to terminate the contract is too restricted • the contract should include a project timeline with specified milestones	10
TIME	General Project Timeline	Comments were made regarding the urgency of contract approval—some expressed concern that delays in approval of the contract could delay the gas pipeline project and its expected benefits, while others expressed concern that the project is being unnecessarily rushed.	3
		State and Local Impacts	
AKHire	Alaska Hire Provisions	Comments generally supported the notion that most gas pipeline jobs should go to Alaskans. A number of concerns regarding the proposed contract's Alaska hire provisions were expressed, including the absence of language specifying an Alaska hire preference and the absence of a project labor agreement that would offer wage protections for Alaska workers as well as ensure the greatest amount of Alaska hire possible. Comments also expressed a perception that the contract language is biased against hiring Alaskans.	23
GENBEN	General Benefits of the Pipeline	Comments focused on specific expected benefits of the gas pipeline project, including job creation for Alaskans, higher and more diversified state revenues, economic development, a strengthened oil and gas industry in Alaska, cost effective energy for Alaskans, improvements in the state's public infrastructure and a stable supply of natural gas for the U.S. as a whole. Many comments called for better documentation and planning for the sharing of revenue between state, communities, and individuals.	9
COMM	Community Impacts	Comments reflected the mixed views on the overall impact of the gas pipeline project on local municipalities and unincorporated communities; for example, some comments indicated that communities along the pipeline route are likely to see high levels of economic development, while other comments noted the potential for a boom and bust economic cycle.	9
INFRA	Local Infrastructure Needs	Comments expressed concern about the impacts of the gas pipeline project on public infrastructure, especially the heavy demands on Alaska's surface transportation system and the costs involved in building all of the necessary supporting infrastructure for the pipeline construction.	4
IMP_S	Impact Payments	Comments expressed concern about the level, duration, distribution and use of impact payments made under the proposed contract. Specific comments indicated that the impact payments should be adjusted for inflation.	7

Issue Code	Issue Category	Comment Summaries	# of SOCs
SUBST	Subsistence	Some comments indicated that the economic benefits of the gas pipeline project will enable rural residents to continue to participate in subsistence activities, but other comments noted the absence of contract provisions to preserve aboriginal lands and hunting grounds.	2
AK_NATV	Alaska Native Issues	Comments supported greater recognition of Alaska Native interests, such as more consultation and providing for Alaska Native hire during project construction.	5
		Gas for In-state use	
AK_DMD	In-State Demand	Some comments expressed confidence that the contract contains provisions that ensure in-state needs would be met, while others indicated that the contract provisions do not assure gas to Alaska at reasonable rates and within a reasonable timeframe, nor do they adequately address concerns about the dependability of the state's gas supply.	2
OFFTAKE	Off-Take Points	Comments both agreed and disagreed that the terms of the contract adequately provide for the creation of off-take points. A number of comments expressed preferences for off-take point locations.	1
INDST	Future Alaska Industrial Uses	Comments supported the construction of a natural gas liquids (NGL) plant in Alaska and development of a propane distribution system for rural Alaska.	3
		Regulatory Issues	
FERC	FERC Process	Comments generally centered on the FERC-approved tariff for the transportation contracts and the agency's open-season rules, including the need for clarification in the contract on future intrastate and interstate "mileage-sensitive" transportation rates. Many of these comments also contained reference to RCA issues, noting that it is not clear whether the upstream facilities (i.e., GTP) would be regulated by FERC. Comments also expressed concern that there may be regulatory gaps and that commercial arrangements would limit regulation.	10
RCA	Regulatory Commission of Alaska	Comments were critical of contract provisions that disallow the state from seeking or supporting regulatory authority by the RCA and that require the state to reimburse the sponsor group for any losses if the RCA does assert its authority. Statements also ask that RCA regulate portions of the project in Alaska that are not under FERC jurisdiction. In general, comments that dealt with the interaction between FERC and RCA are coded under FERC.	2
		Capacity Management and Access	
ACC	Access for Other Companies	Both negative and positive comments were submitted on whether the contract sufficiently accommodates 3rd-party explorers and adequately provides for incremental expansions for in-state use and reasonable expansion tariff structures.	16
OIL_Px	Oil Production Issues	Some comments expressed concern that commercialization of ANS gas could result in lower oil recovery in existing wells, while others noted that within 10 years the cost of recycling ANS gas (and the opportunity cost of unsold gas) may be greater than the benefit of the additional oil produced.	2
		Taxes and Incentives	
FISC	Fiscal Certainty	Comments reflected the mixed views on whether a 45-year period of fiscal certainty for gas and a 30-year period for oil are required. Comments also expressed concern that the contract contains no fiscal certainty for the state, and noted the many fiscal obligations that the contract imposes on the state.	10
PPT	PPT Legislation	Both negative and positive comments were submitted on the PPT. Comments in opposition pointed to the possible difficulty of accurately determining industry profits.	7

Issue Code	Issue Category	Comment Summaries	# of SOCs
INCNT	Investment Incentives in the Contract	Comments both agreed and disagreed with the need for incentives. Particular incentives questioned included state subsidies; tax exemptions for participant affiliates, contractors and subcontractors; and state indemnification of the sponsor group for losses.	10
LCL_X	Local Taxation	Comments expressed concern about contract provisions that require the state to pay the participants' municipal tax above a certain cap; allow tax breaks to apply to the sponsor group, their affiliates and subcontractors; undermine the right of municipalities to impose taxes; exempt, defer, or reduce taxes on existing oil and gas properties prior to project sanction or commencement of commercial operations; or could potentially affect the level of school district funding and funding of other local programs.	19
EXPLR	New Exploration for Oil and Gas	Comments indicated that the contract should include additional incentives (and remove possible disincentives) for exploration and development. Most of the comments on new exploration were also related to 3rd party access and the UUFC, and were coded to those issues.	2
PTU	Point Thomson Unit	Some comments expressed concern that the contract allows Point Thomson (PTU) leaseholders to default on their lease obligations to develop the PTU, while others indicated that the gas pipeline project will encourage exploration and production in the PTU.	8
UUFC	Uniform Upstream Fiscal Contract	Comments indicated that the proposed UUFC legislation should be modified to ensure that producers who are not parties to the proposed contract will be treated the same as those that are. Other comments noted that there is no assurance that the UUFC legislation will pass, therefore there is no guarantee that they will be able to receive the same benefits and incentives that the sponsor group will have as specified by the contract.	2
RSRV_X	Proposed Reserves Tax	Comments expressed both support for and opposition to a gas reserves tax. Some comments objected to the contract provisions that exempt the sponsor group from taxes imposed by the state under a law initiated by the people.	1
		State Ownership	
LLC	New Limited Liability Corporations (LLCs) Between State and Partners	Comments expressed concern that the terms of the project entity LLC agreements have not been made public, and whether the preliminary fiscal interest findings can be fully reviewed because it is not yet complete; questioned whether the dispute resolution and arbitration processes in the contract can adequately protect the state's and local interests; and inquired why the mainline entity would be formed under the laws of Delaware rather than Alaska.	17
DISP	Dispute Resolution	Comments focused on the legal processes for resolving disputes between the state and the sponsor group.	1
REGCON	Regulatory Conflict	Some comments expressed concern about the state's potential conflict of interest in its role as a regulator of the pipeline and manager of natural resources and its proposed role as a participant in the gas pipeline project and marketer of state gas. However, other comments noted that the state already manages to perform a dual role with respect to the Alaska Railroad Corporation and Permanent Fund.	1
NATRSC	State Management of Natural Resources	Comments indicated that the state, as owner of the oil and gas resources, should manage them in a way that benefits Alaskans and should not give up its sovereign rights. Comments also noted the importance of fully utilizing these resources.	12

Issue Code	Issue Category	Comment Summaries	# of SOCs
AK_FINC	Financing of Alaska's Portion of the Project	Some comments indicated that the state's ownership position in the gas pipeline and associated facilities should be 20 percent (or higher), while others expressed reservations about state investment, including concerns that the project costs borne by the state in the form of various concessions or subsidies imposes too many fiscal obligations on the state and are disproportionate to its ownership position.	9
PFD	Permanent Fund	Some comments were opposed to the state using the Permanent Fund to fund its share of equity contributions for the project, while others supported the idea. Comments also expressed concern that the contract places the Permanent Fund at risk on matters over which the state has no control.	4
		Project Risks	
OWNRISK	State Ownership Risks	Comments reflected the disagreement as to whether the benefits of state investment justified the risks. Comments also expressed concern that the contract requires the state to invest 20 percent of the costs in all upstream pipelines between the GTP and the producing units, and requires the state to own a percentage of the total project including pipelines and facilities in Canada and the lower 48 states.	5
POL_RSK	Political Risks	Some comments expressed concern about the risks associated with the Canada-portion of the project, such as terrorist activity and poor Canada-U.S. relations, while others indicated that these risks have been exaggerated.	6
INKIND	Risks Related to Gas In-Kind	Some comments agreed that taking all gas royalties in kind (as opposed to retaining the option of taking them in value) would be beneficial to the state, while other comments pointed to the costs and risks that the state would incur	2
RSC_RSK	Resource Risks	Comments acknowledged the risks of under capacity due to insufficient gas discoveries.	1
MRK_	Market Risks	Some comments noted that market conditions were favorable for a gas pipeline project, while others pointed to the risk associated with possible drops in future gas prices and competition from other gas sources. Comments associated with prices for In-Kind sales were typically coded to In-Kind.	3
ENVI	Environmental Risks	Comments related to the environment expressed concern about the effects of state equity ownership in the gas pipeline project on its enforcement of environmental regulations and its liability for environmental damages, and the potential adverse effects of additional oil and gas production on the ANS environment and on incentives to develop renewable energy resources. Some comments noted that the environmental impacts of the project should be minimal based on the track record of the producers in the ANS.	13
OVRRUN	Cost Overrun Risks	Comments expressed concern that cost overruns posed a significant risk for both the sponsor group and state. Some comments noted that overruns would be passed along to gas consumers in the form of higher prices.	4
FRCE	*Force majeure*	Comments expressed concern that the definition of *force majeure* in the contract is too broad	2
		Canadian Issues	
CAN_OWN	Ownership Rights in Canada	Comments indicated that TransCanada Corporation has ownership interests in the Canada-segment of the project; that Foothills (a subsidiary of TransCanada) is the party entitled to own and construct the Canada-portion of the pipeline as per the Northern Pipeline Act; and that if the contract specifies an ownership structure that does not recognize Foothills as the holder of the existing certificates in Canada, the project will be delayed due to litigation.	5

Issue Code	Issue Category	Comment Summaries	# of SOCs
CANREG	Canadian Regulatory Issues	Comments expressed concern about the jurisdictional authority of FERC and the Canada National Environmental Board, references in the contract to regulation of the Canada-portion of the gas pipeline project, and the TransCanada Corporation's expressions of dissatisfaction with certain contract's provisions regarding the two federal legislative regimes in Canada (National Energy Board Act vs. Northern Pipeline Act)	4
ALB	Alberta Hub	Comments requested clarification on what effect extending the gas pipeline through Canada would have on state revenues given state equity ownership in the project.	2
MCKZ	Mackenzie Valley Pipeline	Comments expressed concern about how Mackenzie Valley Pipeline might affect Alaska's gas pipeline project.	4
INDG	Indigenous Peoples in Canada	Comments supported greater recognition of First Nation interests, such as acknowledging native sovereignty and providing for economic benefits from the gas pipeline project.	2
		Other Transportation Alternatives	
OTA	Other Transportation Alternatives	Comments indicated that the state should not only negotiate with the sponsor group, but with all interested parties to get the best deal for the state. Some comments added that the state should use competitive bidding procedures to award the contract. Other comments expressed preferences for routes not previously considered.	3
AGPA	AGPA Alternative	Some comments supported the AGPA proposal because of the perceived benefits of an "All-Alaska" project, including a greater opportunity to meet in-state demand and for state revenue sharing with municipalities, while other comments questioned the economic feasibility of the proposal.	6
YLINE	The Y-Line Alternative	Comments supported the Y-line option, with some suggesting developing the route through Canada first and then extending a line down to Valdez, while others suggested developing the route to Valdez first and then extending a line through Canada.	1

2 Comment Analysis

2.1 Index of Submissions

Overall there were a total of 2,169 submissions made to the state in the public comment process. Attachment 1 contains two indexes of all of the submissions. The first index lists submissions from individuals and organizations, while the second index contains submissions from organizations only. Both indexes are sorted alphabetically, and show the submitters name, the submission number and the Statements of Concerns (SOC) to which the submission was coded. To find the state's response to a particular submission, look up the submission by the submitter's name, note which SOCs to which the submission was coded, then look up the state's response to that particular SOC in Chapter 3.

2.2 Summary Statistics

2.2.1 Number of Submissions

The following table presents an overview of the number of submissions received during the comment period. Of the 2,169 submissions, 49 submissions were found to be duplicate submissions or submissions that were irrelevant to the gas pipeline project—therefore a total of 2,120 submissions were analyzed.

Table 6. Total Number of Submissions

Total Number of Submissions	2,169
Number of Submissions Excluded*	49
Number of Submissions Analyzed†	2,120

* Excluded submissions include tests of the system, duplicates, spam or comments with no relevance to the gas pipeline project, proposed contract or Preliminary FIF.

† Total submissions less the number of excluded submissions. This number is the "total" or "total submissions" referred to in the remainder of this document.

2.2.2 Number of Issue Categories

Sixty issue categories were identified from the public comments. These issue categories are listed in Table 5 above.

2.2.3 Number of Statements of Concern

Grouping of similar comments within issue categories resulted in the identification of 358 Statements of Concern (SOCs). The SOCs sorted, by general area of concern and issue, are shown in Section 3 along with the state's response of the SOC.

2.2.4 Number of Submissions by Date

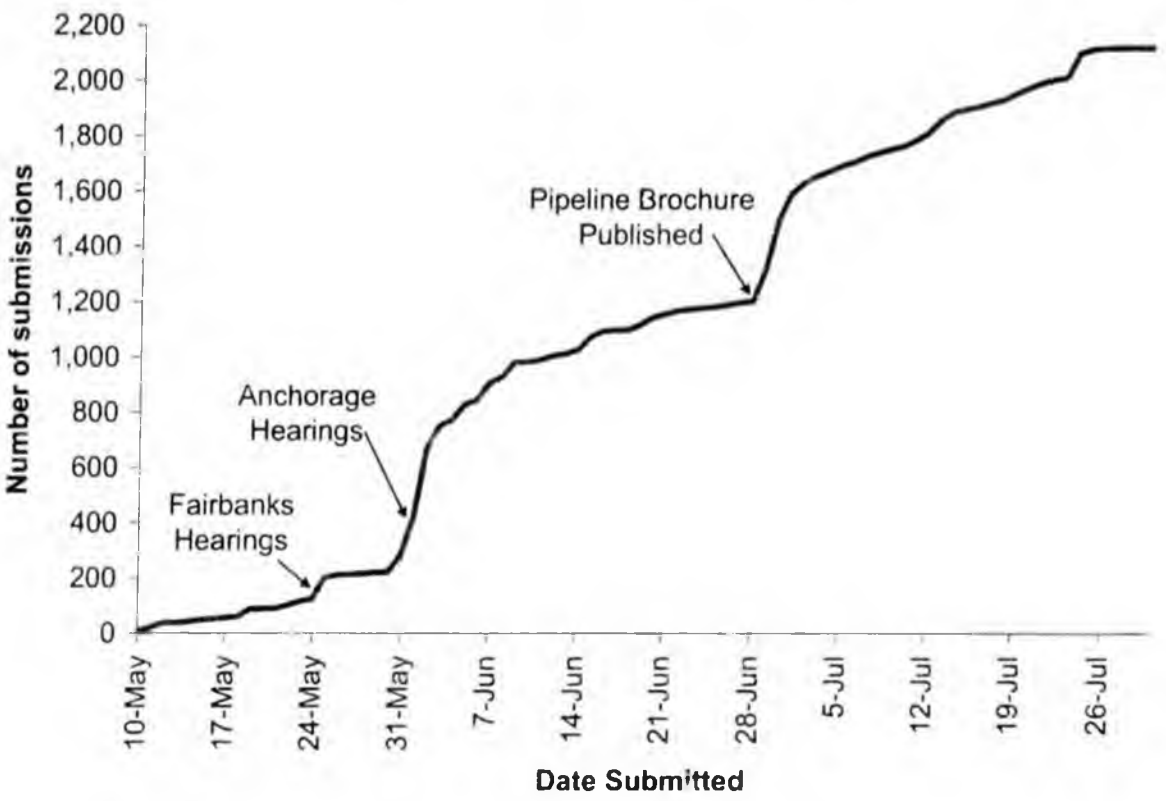
A number of gas pipeline-related events occurring during the 75-day comment period appear to have affected the rate of submission. For example, 36 percent (756) of all submissions

were received between May 31 and June 7, a period spanning the two Anchorage public hearings and the one in Wasilla. Over 60 percent (454) of these submissions were received via the state's gas pipeline Web site.

A second spike occurred after the publication of the "Alaska Gas Pipeline" brochure by the Governor's Office on June 29. Over the five-day period following the release of the brochure, including the Fourth of July holiday, 22 percent (452) of all submissions were received.

Figure 2 shows the cumulative total of submissions over the entire comment period.

Figure 2. Alaska-Canada Natural Gas Pipeline Cumulative Public Comments Received May 10 - July 24, 2006



2.2.5 Number of Submissions by Format

Table 7 lists the number of comments received via various formats, while Table 8 lists the number of comments received at the formal public hearings in major communities and the statewide teleconferenced public hearings. Both tables show both the number of submissions and the percent of total submissions excluding duplicate and irrelevant submissions.

Table 7. Submissions by Source

Comment Source	Number of Submissions	Percent of Submissions
Web Form	1,352	63.8
Public Hearing	335	15.8
Voice Mail	160	7.5
Bulk Mailer	118	5.6
Letter	101	4.8
Email	54	2.5
All Sources	2,120	100.0

Table 8. Submissions Received at Public Hearings

Venue	Venue Date	Number of Submissions	Percent of Submissions
Ketchikan Public Hearing	19-May-06	11	0.5
Statewide Teleconference #1	23-May-06	12	0.6
Delta Public Hearing	24-May-06	2	0.1
Fairbanks Public Hearing	25-May-06	63	3.0
Kodiak Public Hearing	26-May-06	4	0.2
Statewide Teleconference #2	30-May-06	3	0.1
Anchorage Public Hearing # 1	02-Jun-06	72	3.4
Anchorage Public Hearing # 2	03-Jun-06	58	2.7
Statewide Teleconference #3	05-Jun-06	6	0.3
Mat-Su Public Hearing	07-Jun-06	33	1.6
Valdez Public Hearing	09-Jun-06	36	1.7
Kenai Peninsula Public Hearing	15-Jun-06	31	1.5
All Submissions from Public Hearings		**331**	**15.6**

2.2.6 Number of Submissions by Location of Commenter

Comments were received from 32 States and Canadian Provinces, with Alaskan addresses accounting for 89 percent of the total (Table 9). Five submissions were received from the Canadian provinces of Alberta (3) and British Columbia (2). Finally, one comment was received from Chile while it not possible to determine the origin of the remaining 72 submissions.

Table 9. Submissions by State or Province

State	Number of Submissions	Percent of Submissions
Alaska	1,887	89.0
Texas	35	1.7
Washington	17	0.8
Idaho	10	0.5
Montana	10	0.5
Oregon	10	0.5
District of Columbia	8	0.4
Alabama	7	0.3
Louisiana	7	0.3
Florida	5	0.2
Oklahoma	5	0.2
Arizona	4	0.2
Arkansas	4	0.2
Alberta	3	0.1
California	3	0.1
Illinois	3	0.1
New Mexico	3	0.1
Ohio	3	0.1
British Columbia	2	0.1
Colorado	2	0.1
Kansas	2	0.1
Michigan	2	0.1
Minnesota	2	0.1
Nevada	2	0.1
Pennsylvania	2	0.1
Tennessee	2	0.1
Utah	2	0.1
Georgia	1	0.0
Nebraska	1	0.0
New Hampshire	1	0.0
New York	1	0.0
North Carolina	1	0.0

Twenty-seven Alaska communities had five or more submissions (Table 10). These communities accounted for 1,792, or 85 percent of the coded submissions. Another 89 submissions were received from 60 other Alaska communities, including Petersburg (4), Ester (4), Trapper Creek (4), Haines (4), Sitka (4), Anchor Point (3), Glennallen (3), Kotzebue (3), and Auke Bay (3). Finally, 6 submissions were known to have come from Alaska but the exact community was not specified.

There were 161 submissions received from communities outside Alaska. Houston, Texas, with 14 submissions, was the only outside community with more than three submissions.

Table 10. Submissions by Alaska Communities with Five or More Submissions

City	Number of Submissions	Percent of Submissions
Anchorage	981	52.0
Fairbanks	149	7.9
Wasilla	123	6.5
Eagle River	105	5.6
Palmer	61	3.2
Kenai	54	2.9
Valdez	47	2.5
Soldotna	39	2.1
Ketchikan	38	2.0
Juneau	32	1.7
North Pole	26	1.4
Chugiak	21	1.1
Homer	14	0.7
Big Lake	12	0.6
Delta Junction	11	0.6
Kodiak	11	0.6
Nikiski	10	0.5
Willow	9	0.5
Barrow	8	0.4
Sterling	8	0.4
Cordova	6	0.3
Girdwood	6	0.3
Glennallen	6	0.3
Seward	5	0.3
Talkeetna	5	0.3
Tok	5	0.3

2.3 Summary of Comments

2.3.1 Proportion of Comments in Favor of or Opposed to the Fiscal Contract

Before submissions were coded to issues, they were first categorized as being generally in favor of ("Pro") or opposed to ("Con") the fiscal contract. In performing this task, analysts were careful to distinguish between being in favor of (or opposed to) the *fiscal contract* and being in favor of (or opposed to) *a gas pipeline*.

"Pro" submissions were those which supported the current terms of the contract and the current proposed project (which would follows TAPS down to Delta, then would follow the AlCan highway route through Canada to the lower 48) in whole or in part. Some commenters were not in favor of construction of any gas pipeline. Others expressed opinions supporting the construction of a gas pipeline but were opposed in whole or in part to the current proposal, terms or route. These were classified as "Con."

In some cases, no clear position could be ascertained. These were classified as "Neutral." In a few cases, the person was not commenting on the proposed contract, Preliminary FIF or gas pipeline project at all but either was requesting information, such as where to apply for a

pipeline job, making a strictly political comment or making a point entirely without reference to the project. These comments were excluded from the results.

Overall, 65 percent of the coded submissions favored the fiscal contract. The proportion of comments in favor of or opposed to the fiscal contract is shown in the table below (Table 11).

Table 11. Proportion of Submissions in Favor of or Opposed to the Fiscal Contract

General Pro/Con	Number of Submissions	Percent of Submissions
Pro	1,385	65
Con	609	29
Neutral	126	6
Coded Submissions	2,120	100
Uncoded—Not Applicable	49	2
All Submissions	**2,169**	**102**

2.3.2 Summary of Comments by General Area of Concern and Issue

This section summarizes the comments by looking at the frequency that particular areas or specific issues of concern were commented upon. This can provide a quick indication of the most important issues concerning the public. Table 12 shows the number of submissions by general area of concern. The vast majority of submissions (1,396 or 66 percent) dealt with very general comments on the contract and the Preliminary FIF and did not bring up specific issues. Many other discussed State and Local Impacts (634), while Taxes and Incentive (including fiscal certainty and the PPT legislation) and the SGDA and Constitutionality were also regularly commented upon. It should be noted that many submissions touched on several areas of concern which explain why the sum of submissions over the different general area of concern yields a number far greater (4,285) than the actual number of coded submissions (2,120).

Table 13 breaks down the submissions into specific issues of concern. As indicated in Table 5, submissions were sorted into 60 specific issue categories. Among the specific issues most frequently commented upon (excluding general pro and con statements) were the following:

- Fiscal Certainty (222)
- PPT Legislation (215)
- Alaska Hires Provisions (175)
- The AGPA Alternative (157)
- Work Commitments from the sponsor group (155)
- Legislative Process (127)
- In-State Demand (124)
- Market Risk (111)
- General Project Timeline (103)

Table 12. Number of Submissions by General Area of Concern

Genoral Area of Concern	Number of Submissions	Percent of Submissions
Public Process	94	4.4
SGDA and Constitutionality	331	15.6
General Comments on the Contract & the FIF	1,396	65.8
Work Commitments and Project Timing	250	11.8
State and Local Impacts	634	29.9
Gas for In-state use	183	8.6
Regulatory Issues	29	1.4
Capacity Management and Access	59	2.8
Taxes and Incentives	470	22.2
State Ownership	295	13.9
Project Risks	293	13.8
Canadian Issues	17	0.8
Other Transportation Alternatives	234	11.0
Coded Submissions	2,120	100.0
Duplicate or Un-coded Submissions	49	2.3
Total Submissions	**2,169**	**102.3**

Table 13. Number of Submissions by Specific Issue of Concern

General Area of Concern	Issue	Issue Code	Number of Submissions	Percent of Submissions
Public Process	Public Hearings Process	HEARINGS	32	1.5
	Comment Period Issues	COMM_PER	61	2.9
	Information on the Internet & Web-Based Comments	WEB	11	0.5
	All Comments within General Area		104	4.9
	Multiple Comments within General Area		10	0.5
	Unique Submissions within General Area		94	4.4
SGDA and Constitutionality	Is The Gas Stranded?	STRND	27	1.3
	Constitutionality Issues	CNSTL	84	4.0
	Confidentiality and Secrecy	CNFDL	94	4.4
	SGDA Concerns	SGDA	44	2.1
	Legislative Process	LEGIS	127	6.0
	Exxon Settlement and Negotiating With Exxon	XOM	34	1.6
	All Comments within General Area		410	19.3
	Multiple Comments within General Area		79	3.7
	Unique Submissions within General Area		331	15.6
General Comments on the Contract and the FIF	General Agree/Disagree	FIF	1,338	63.1
	Editorial Comments and Corrections	EDI	23	1.1
	Comment Acknowledged	ACK	69	3.3
	All Comments within General Area		1,430	67.5
	Multiple Comments within General Area		34	1.6
	Unique Submissions within General Area		1,396	65.8

General Area of Concern	Issue	Issue Code	Number of Submissions	Percent of Submissions
Work Commitments and Project Timing	Work Commitments from the Producers	WORK_COMM	155	7.3
	General Project Timeline	TIME	103	4.9
	All Comments within General Area		258	12.2
	Multiple Comments within General Area		8	0.4
	Unique Submissions within General Area		250	11.8
State and Local Impacts	Alaska Hire Provisions	AKHire	175	8.3
	General Benefits of the Pipeline	GENBEN	466	22.0
	Community Impacts	COMM	41	1.9
	Local Infrastructure Needs	INFRA	7	0.3
	Impact Payments	IMP_$	12	0.6
	Subsistence	SUBST	3	0.1
	Alaska Native Issues	AK_NATV	5	0.2
	All Comments within General Area		709	33.4
	Multiple Comments within General Area		75	3.5
	Unique Submissions within General Area		634	29.9
Gas for In-state use	In-State Demand	AK_DMD	124	5.8
	Off-Take Points	OFFTAKE	79	3.7
	Future Alaska Industrial Uses	INDST	15	0.7
	All Comments within General Area		218	10.3
	Multiple Comments within General Area		35	1.7
	Unique Submissions within General Area		183	8.6
Regulatory Issues	FERC Process	FERC	15	0.7
	Regulatory Commission of Alaska	RCA	22	1.0
	All Comments within General Area		37	1.7
	Multiple Comments within General Area		8	0.4
	Unique Submissions within General Area		29	1.4
Capacity Management & Access	Access for Other Companies	ACC	46	2.2
	Oil Production Issues	OIL_PX	15	0.7
	All Comments within General Area		61	2.9
	Multiple Comments within General Area		2	0.1
	Unique Submissions within General Area		59	2.8
Taxes and Incentives	Fiscal Certainty	FISC	222	10.5
	PPT Legislation	PPT	215	10.1
	Investment Incentives in the Contract	INCNT	87	4.1
	Local Taxation	LCL_X	29	1.4
	New Exploration for Oil and Gas	EXPLR	5	0.2
	Point Thomson Issues	PTU	27	1.3
	Uniform Upstream Fiscal Contract	UUFC	6	0.3
	The Proposed Reserves Tax	RSRV_X	31	1.5
	All Comments within General Area		622	29.3
	Multiple Comments within General Area		152	7.2
	Unique Submissions within General Area		470	22.2

General Area of Concern	Issue	Issue Code	Number of Submissions	Percent of Submissions
State Ownership	LLCs Between State and Partners	LLC	87	4.1
	Dispute Resolution between State & Partners	DISP	36	1.7
	Regulatory Conflict	REGCON	19	0.9
	State Management of Natural Resources	NATRSC	126	5.9
	Financing of Alaska's Portion of the Project	AK_FINC	71	3.3
	Permanent Fund Concerns	PFD	44	2.1
	All Comments within General Area		383	18.1
	Multiple Comments within General Area		88	4.2
	Unique Submissions within General Area		295	13.9
Project Risks	State Ownership Risks	OWNRISK	78	3.7
	Political Risks	POL_RSK	41	1.9
	Risks Related to Gas-In-Kind	INKIND	55	2.6
	Resource Risks	RSC_RSK	7	0.3
	Market Risks	MRKT	111	5.2
	Environmental Risks	ENVR	45	2.1
	Cost Overrun Risks	OVRRUN	17	0.8
	Force majeure	FRCE	7	0.3
	All Comments within General Area		361	17.0
	Multiple Comments within General Area		68	3.2
	Unique Submissions within General Area		293	13.8
Canadian Issues	Ownership Rights in Canada	CAN_OWN	3	0.1
	Canadian Regulatory Issues	CANREG	5	0.2
	Issues Regarding the Alberta Hub	ALB	2	0.1
	Mackenzie Valley Pipeline	MCKZ	5	0.2
	Indigenous Peoples in Canada	INDG	5	0.2
	All Comments within General Area		20	0.9
	Multiple Comments within General Area		3	0.1
	Unique Submissions within General Area		17	0.8
Other Transportation Alternatives	Other Transportation Alternatives	OTA	88	4.2
	The AGPA Alternative	AGPA	157	7.4
	The Y-Line Alternative	YLINE	10	0.5
	All Comments within General Area		255	12.0
	Multiple Comments within General Area		21	1.0
	Unique Submissions within General Area		234	11.0

3 Response to Public Comments

The remainder of this report contains the state's responses to the concerns raised during the comment period. The following list shows the initial ordering of the responses by general area of concern.

1. Public Process
2. SGDA and Constitutionality
3. General Comments on the Contract and the FIF
4. Work Commitments
5. State and Local Impacts
6. Gas for In-state Use
7. Regulatory Issues
8. Capacity Management and Access
9. Taxes and Incentives
10. State Ownership
11. Risks
12. Canadian Issues
13. Other Transportation Alternatives

To find a response to a specific submission use either the Name Index, the Organization Index, or the Legislative Index (all found in Attachment 1 of this document) to look up the name of the commenter and note the Submission ID number, noting the SOCs that are listed. Then, turn to the Table of Contents at the beginning of the document to find the specific page where each group of SOCs begins. Those readers that wish to see the entire submission of a particular commenter should refer to the instructions for looking up submissions shown on page R-9 of this document.

While the administration believes that the existing contract fairly protects the state's interests, it has agreed to propose certain changes to the contract to respond to concerns raised in the public process. It should be emphasized that while the current administration is recommending these changes, negotiations with the sponsor group have not advanced and they have not accepted these changes. In addition, in many of its responses to public comments the state indicated that it will be makings changes to the Preliminary FIF. These changes will be incorporated in the Interim FIF, which at the time this documents was printed is scheduled to be published in November 2006.

3.1 Public Process

Issues in this general area of concern included the period for the public and legislature to comment on the proposed contract and FIF; public presentations on the proposed contract

and FIF; and Internet access to the proposed contract and related documents, including the FIF.

3.1.1 HEARINGS: Public Hearings Process—SOC and Responses

This issue category addresses comments regarding the public presentations and hearings on the proposed contract and the commissioner's preliminary findings and determination.

HEARINGS_02: (2 Comments)
Statement of Concern: Statements inquiring about how to get access to information generated during public presentations/hearings.

Response: The Alaska Gas Pipeline Presentation is available online at www.gov.state.ak.us/gasline/basics.php. The most current information presented to the Alaska Legislature on the gas pipeline project is available online at www.gov.state.ak.us/gasline/legis.php. All comments received during the public comment period are posted online at http://commador.ursokr.com/. Responses to individual comments will also be posted online.

HEARINGS_02: (2 Comments)
Statement of Concern: Statements requesting for more discussion and more Q & A during public hearings/presentations regarding the risks of the projects.

Response: The duration of the public hearings was constrained by logistical considerations. Project risks are described in detail in *Section 6 Mitigating Project Risk* of the Preliminary FIF. Questions and concerns on project risks that were raised during the public comment period as well as responses to these concerns are summarized in the *Risks* section of this report.

HEARINGS_03: (5 Comments)
Statement of Concern: Statements expressing the importance and the need for public presentations and public hearings regarding the project/contract to increase awareness and understanding of the project/contract issues.

Response: Our complete agreement with this comment was demonstrated by an extensive public outreach effort. From May 19 to June 15 formal public hearings were conducted in major Alaska communities. To provide more opportunities for the public to comment on the gas pipeline project the state conducted additional public question-and-answer forums throughout the state. In addition to these public hearings and forums, three statewide teleconferences at Legislative Information Offices and dozens of "community outreach" briefings were conducted across the state. During the entire process, more than 70 community presentations were held throughout the state, some of which were attended by the governor, chief of staff, commissioners, and department directors. A schedule of all hearings, teleconferences and briefings can be found on the state's Alaska Gas Pipeline web site.

HEARINGS_04: (1 Comment)
Statement of Concern: Statements indicating that the public process will determine that the contract is indeed a fair deal for all stakeholders.

Response: The administration is hopeful that this comment will prove correct after the contract is fully discussed and analyzed by the public and the Alaska Legislature. The state notes that 65 percent of the comments were in favor of the fiscal contract and the Preliminary FIF. In addition, the legislature made a number of suggestions for change to the contract and FIF. The administration believes that the existing contract fairly protects the state's interests, but in response to concerns from the public process it has agreed to propose certain changes to the contract. It should be emphasized that while the current administration is recommending these changes, negotiations with the sponsor group have not advanced and they have not accepted these changes. The administration believes these changes will result in a contract that the majority of Alaskans will determine to be fair and beneficial to the state.

HEARINGS_05: (5 Comments)
Statement of Concern: Statements expressing concern that the public hearings were disingenuous, characterized more by the administration and the sponsor group promoting the proposed deal, than by an exchange of ideas.

Response: The intent of the hearings and other public outreach efforts was to provide for extensive public education on the contents of the contract. At the same time, the public was encouraged to provide comments on the contract, not only at public hearings, but also online, in writing, during statewide teleconferences at Legislative Information Offices, and via a toll-free telephone number.

HEARINGS_06: (2 Comments)
Statement of Concern: Statements suggesting that there should be a public debate on the pros and cons of the project/contract.

Response: The public forums were designed to address these issues. In addition the legislature debated these issues and the public was able to see and listen to the hearings on Gavel-to-Gavel.[4]

HEARINGS_07: (3 Comments)
Statement of Concern: Statements expressing concern that the public comments may be based on speculation, conjecture, or propaganda due to the lack of understanding about the facts; televised educational sessions would be helpful.

Response: The many insightful, well-informed comments that were submitted during the public review process suggest that a large segment of the public has an adequate understanding of the proposed contract and preliminary findings and determination. Information on the proposed contract and preliminary findings and determination was presented at public hearings and forums, and in dozens of "community outreach" briefings conducted across the state. In addition, details of the proposed contract and related

[4] As of the printing of this document the presentations were available on Gavel-to-Gavle and could be accessed at http://www.ktoo.org/gavel/videos.cfm or at http://www.ktoo.org/gavel/audio.cfm.

documents can be found online at the state's Alaska Gas Pipeline Web site: www.gaspipeline.alaska.gov. These sessions were also presented on Gavel-to-Gavel and were available to the general public throughout Alaska.[4]

HEARINGS_08: (11 Comments)
Statement of Concern: Statements indicating concern that since there are many parts of the contract that are not complete, it is difficult to make useful comments.

Response: The contract is complete, although the state is still reviewing the Accounting Procedures in Exhibit A and Example Calculations in Exhibit F to ensure they accurately implement or illustrate the provisions of the contract. The contract that was posted on May 10th included all terms with the exception of the complete integration of the terms associated with PPT, which required Legislative approval. The updated contract posted on May 24th added provisions in Article 11, 20.3, and in Exhibits P, Q, R, X, Y, and Z to implement these provisions. No other changes were made to the contract. As the governor and the producers announced on May 24th, the parties are prepared to sign the contract released on that date.

HEARINGS_09: (1 Comment)
Statement of Concern: Statements expressing concern that Governor Murkowski is not listening to public comments at hearings and is not returning phone calls regarding the gas pipeline.

Response: During the public review process, more than 70 community presentations were held throughout the state, some of which were attended by the governor, chief of staff, commissioners, and department directors. In addition, the public was encouraged to provide comments online, in writing and via a toll-free telephone number. A summary of all public comments received during the public comment period has been prepared by the commissioner of revenue. Each of those comments has been responded to by members of the governor's gas team, either in this document or in previously issued response letters (included as Attachment 2).

The governor and his staff have listened closely to these comments and are proposing a number of changes to the contract based on this input. These changes are described briefly in the Executive Summary and in Section 5 of this document, and more thoroughly in the Interim FIF.

The administration sincerely appreciates the public's involvement in the comment process, and credits the public and the public process with many of the improvements that will be made to the Interim FIF and many of the recommendations they are proposing for changes to the fiscal contract.

3.1.2 COMM_PER: Comment Period Issues—SOC and Responses

This issue category covers comments regarding the duration of the public comment period and the public comment process.

COMM_PER_01: (26 Comments)
Statement of Concern: Statements expressing concern that a 45-day comment period is too short.

Response: Once a contact is negotiated, the Stranded Gas Development Act requires at least a 30-day period for the public and members of the legislature to comment on the proposed contract and the commissioner's preliminary findings and determination. The public comment period began May 10, 2006, and was initially scheduled to last 45 days. However, the comment period was extended to 75 days to provide the public and legislators more time to understand the contract and submit comments. The public comment period was closed on July 24, 2006, and responses to the public comments received are contained in this report.

COMM_PER_02: (8 Comments)
Statement of Concern: Statements expressing concern that the contract and associated documents are too long and complicated.

Response: Given the complexity and magnitude of the fiscal issues associated with a decades-long fiscal contract for a $20 billion project, the length of the contract is both reasonable and appropriate for protecting the state's interests by carefully documenting the negotiated resolution of the rights and privileges of the parties to the contract. The amount of supplementary information provided was essential to provide relevant background material, economic analyses, review of contract provisions and legal issues, and other material to support the preliminary findings and determination that the contract is in the long-term interest of the state. The state arranged for extensive public education on the contents of the contract and the Preliminary FIF, both on the Internet and through numerous public hearings and presentations throughout Alaska. To facilitate public understanding of the fiscal contract a "contract at a glance" sheet has been posted on the Internet, and is available at http://www.gov.state.ak.us/gasline/basics.php. The sheet describes the highlights of the contract and defines important terms used in the contract.

COMM_PER_03: (5 Comments)
Statement of Concern: Statements of concern about 3-minute limit on length of time to testify during hearings.

Response: A three-minute time limit on individual oral testimony was imposed so that there would be adequate time for all public hearing attendees to provide comments. Longer comments could be submitted online, or in writing.

COMM_PER_04: (13 Comments)
Statement of Concern: Statements expressing concern about not enough time between release of documents and the scheduled hearings, and about hearing process itself.

Response: The proposed contract and related documents, including the commissioner's preliminary findings and determination, were released on May 10, 2006. Soon thereafter these documents were published on the state's Alaska Gas Pipeline Web site: www.gaspipeline.alaska.gov. On May 24 an amended version of the contract was released, which added provisions to two Articles and six Exhibits related to the proposed PPT (see Hearings_08). From May 19 to June 15 formal public hearings were conducted in major Alaska communities. To provide more opportunities for the public to comment on the gas pipeline project, the state conducted additional public question-and-answer forums throughout the state. The public forums began on July 17 and ended on July 24. In addition to these public hearings and forums, three statewide teleconferences at Legislative Information Offices and dozens of "community outreach" briefings were conducted across the state.

During the entire process, more than 70 community presentations were held throughout the state, some of which were attended by the governor, chief of staff, commissioners, and department directors. The public comment period and the timeline for revising the contract and the Preliminary FIF are all specified in the SGDA. The public comment period was extended from 45 days to 75 days to accommodate additional presentations and to give the public additional time to comment on the issues. The extension of the public comment period was particularly important given that that the amended fiscal contract was released on May 24, 2006—two weeks after the official beginning of the comment period.

COMM_PER_05: (1 Comment)
Statement of Concern: Statements indicating that unless the public makes their thoughts and concerns known, the contract could be signed without changes.

Response: During the public review period, the department of revenue received a total of 2,120 valid comment submissions. This report summarizes the public comments received. As indicated in the SGDA, a list of proposed amendments have been prepared if needed, after consultation with the commissioner of natural resources and the pertinent municipal advisory groups. Then a final findings and determination is made about whether the proposed contract and any amendments meet the requirements and purposes of the SGDA. If the commissioner of revenue determines that the contract is in the long-term fiscal interests of the state, the commissioner of revenue submits the contract to the governor. The governor may transmit the contract to the legislature with a request for authorization to execute the contract. The contract is not binding or enforceable against the state or other parties unless the governor is authorized by the legislature to execute the contract. The state and other parties to the contract may execute the contract within 60 days after the effective date of the law authorizing the contact.

COMM_PER_06: (3 Comments)
Statement of Concern: Statements indicating that the public comment process could help allay suspicions about the contract and the negotiating process that was undertaken. Comments included requests for full disclosure of contract and project details.

Response: In accordance with the Stranded Gas Development Act, the state made available to the public copies of the proposed contract, the commissioner's preliminary findings and determination, and, to the extent the information is not required by law to be kept

confidential, the supporting financial, technical, and market data, including the work papers, analyses, and recommendations of any independent contractors. Details of the proposed contract and related documents, including the commissioner's preliminary findings and determination, are available online at www.revenue.state.ak.us/gasline/contractDocuments/.

COMM_PER_07: (2 Comments)
Statement of Concern: Statements expressing concern about advocacy groups making unsolicited calls to the public.

Response: The state does not approve of the use of unsolicited telephone calls as a way of educating the public about the proposed contract.

COMM_PER_08: (2 Comments)
Statement of Concern: Statements indicating that individuals wish to be added to the mailing list.

Response: The fiscal contract, the Preliminary FIF, and a large volume of related information materials compiled by the state were made available for public review via the state's website at http://www.gov.state.ak.us/gasline. Other information materials were also distributed during the public hearings that were conducted all throughout the state. No mailing list was developed as information materials were not distributed by mail.

COMM_PER_09: (2 Comments)
Statement of Concern: Statements requesting that independent university economists and/or federal regulators review the contract and the FIF.

Response: All members of the public were invited to comment on the proposed contract and the commissioner's preliminary findings and determination.

We also note that the advice of outside experts has not been ignored in drafting the terms of the proposed contract. Technical changes to the contract (e.g., how the Effective Date is determined, better description of the project and its route) have been made based on advice from those experts. The state's website at http://www.gov.state.ak.us/gasline provides an extensive listing of outside experts which were engaged as needed throughout the evaluations and negotiation process.

COMM_PER_10: (2 Comments)
Statement of Concern: Statements requesting a response to comment by email.

Response: Responses to comments will be posted online at http://www.revenue.state.ak.us/gasline/ContractDocuments/.

COMM_PER_11: (6 Comments)
Statement of Concern: Statements expressing concern about the use of state funds to generate public support for the fiscal contract negotiated between the state and the sponsor group.

Response: The state is required by law to make available to the public copies of the proposed contract, the commissioner's preliminary findings and determination, and, to the extent the information is not required by law to be kept confidential, the supporting financial, technical, and market data, including the work papers, analyses, and recommendations of any independent contractors. The state met this requirement by undertaking an extensive public outreach effort that included more than 70 community presentations were held throughout the state, some of which were attended by the governor, chief of staff, commissioners, and department directors. The SGDA requires the state to make the contract and the Preliminary FIF available to the public. The state believes that spending money to educate the public furthers this mandate.

COMM_PER_12: (2 Comments)
Statement of Concern: Statements asking about the process that will be used to respond to individual comments.

Response: The process used to respond to comments is described in Section 1.4 of this document.

3.1.3 WEB: Internet Access to Information and Web-Based Comments—SOC and Responses

This issue category addresses comments regarding access to information materials published on the state's gasline website.

WEB_01: (2 Comments)
Statement of Concern: Statements supporting the use of the web for its ability to make large volumes of information available to the public.

Response: The state is required by law to make available to the public copies of the proposed contract, the commissioner's preliminary findings and determination, and, to the extent the information is not required by law to be kept confidential, the supporting financial, technical, and market data, including the work papers, analyses, and recommendations of any independent contractors. One of the most effective ways of disseminating this information is through use of the Internet. Details of the proposed contract and related documents can be found online at the state's Alaska Gas Pipeline Web site: www.gaspipeline.alaska.gov.

WEB_02: (1 Comment)
Statement of Concern: Statements requesting comments and responses be available online to engender public debate.

Response: Presently and in the foreseeable future, all of the submissions can be accessed online through the State of Alaska's Gas Pipeline web-site. All of the submissions are available on CD or in a printed hard-copy (968 pages) by sending a request to the commissioner of revenue. Indexes of these submissions are provided for interested individuals and organizations in Attachment 1 of this document.

To view submissions on the internet take the following steps:[5]

1. Log onto the internet using your internet browser;
2. Enter http://www.gov.state.ak.us/gasline as the URL and hit return;
3. Click once with your mouse on the "Public Comments" section of the gas pipeline web-site;
4. Click once on the text "Review comments submitted on the Fiscal Interest Findings";
5. Click on the arrow at the right of any one (or more) of the search boxes[6] and select the item you wish to find;
6. Click on continue;
7. After the screen refreshes, scroll to the bottom of the page and click on the submission number of the comment you wish to review;
8. If the comment was entered directly into the web the full comment will appear when the screen refreshes.

If the comment was submitted as an attachment, click on the attachment file name to see the comment. This document, which contains responses to the concerns generated in the public process, is online http://www.revenue.state.ak.us/gasline/ContractDocuments/. Requests for copies of this document should be made to the commissioner of revenue.

WEB_03: (2 Comments)
Statement of Concern: Statements concerned that it is difficult to locate documents on the web-based comment site.

Response: The State of Alaska Web site at http://state.ak.us/ offers a primary navigation link to information through "The Alaska Gas Pipeline" button. Details of the proposed contract and related documents, including the commissioner's preliminary findings and determination, are online at www.revenue.state.ak.us/gasline/contractDocuments/.

WEB_04: (1 Comment)
Statement of Concern: Statements indicating that information in the state's Q&A may be misleading—in particular, Q&A on the RCA issues.

Response: A question has been raised about the accuracy of the information on the state's website about RCA jurisdiction. The suggestion has been made that the state has ceded away RCA jurisdiction in Sections 8.1 through 8.3 of the Contract. The question shows a misunderstanding of federal and state jurisdiction over interstate gas pipelines and the provisions of the contract. Federal jurisdiction of interstate gas pipeline is preemptive and exhaustive; the federal government regulates every aspect of the authorization and operation of an interstate gas pipeline. The RCA properly has no legal authority over the Mainline or

[5] To view the submissions from the CD, place the CD in the drive of your computer and follow the directions that are shown on the CD.

[6] Note that submissions from individuals that are associated with organizations do not necessarily represent the views of that particular organization—because individuals were given the option to indicate the organization with which they were associated.

the GTP. Thus, there was no jurisdiction to cede away. If the law changes, however, and the RCA has some legal and legitimate authority over the pipeline, then Sections 8.1 to 8.3 do not affect that authority. This is because the RCA is excluded from the definition of "state" in the contract and is not bound by any obligations or limitations of the contract. Sections 8.1 to 8.3 require the state as a contracting party, but not the RCA, to support appropriate regulatory jurisdiction in the U.S. and Canada. Nothing has been ceded away.

WEB_05: (7 Comments)
Statement of Concern: Statements indicating that more information is needed before commenting on the contract and that the administration's public information materials do not include enough facts and figures that would help the public make informed decisions.

Response: On May 10, 2006, the state released the proposed fiscal contract and a Preliminary FIF that provided a review of the contract, an analysis of the contract provisions, and substantive discussion of issues related to the Stranded Gas Act, the negotiations, implications on state revenues, regulatory processes, and other relevant material. As indicated in the Preliminary FIF the state went through a careful process of investigation with expert assistance on a host of issues. A large amount of material was made available at the start of the comment period on the state's gas pipeline Web site: www.gaspipeline.alaska.gov. These documents included:

- Documents from the sponsor group
- Documents from state agencies
- Documents from federal agencies
- State statutes
- Federal statutes
- Documents from contractors

3.2 SGDA and Constitutionality

Issues in this general area of concern included whether or not ANS gas meets the SGDA definition of stranded gas; the legality of the contract terms; the openness of the contract negotiation process; the consistency of the proposed contract with the SGDA; legislative review of the proposed contract and FIF; and the propriety of negotiating with ExxonMobil.

3.2.1 STRND: Is the Gas Stranded?—SOC and Responses

This issue category addresses concerns regarding the definition of stranded gas and whether ANS gas meets the SGDA definition of stranded gas.

STRND_01: (26 Comments)
Statement of Concern: Statements on the determination of stranded ANS gas, including (1) the gas is stranded, (2) the gas is not stranded, (3) the gas is stranded only until a contract is signed, and (4) the decision to declare the gas stranded is a policy decision rather than an empirical one.

Response: "Stranded" is defined in the Stranded Gas Development Act as not being marketed due to prevailing cost and market conditions. We interpret "prevailing" to mean during the construction and operation of the project – which means the next 45 or more years. After review of expert analyses, the commissioner of revenue made his preliminary determination in November 2003 that the gas on the North Slope is stranded. It should be noted that the gas on the North Slope was discovered in 1967 and has not been developed during the last 40 years – prima facie evidence that the gas is stranded. The commissioner's preliminary determination was based on a November 11, 2003 Henry Hub price of $4.52/mmbtu. On October 1 2006 the Henry Hub price was $3.63/mmbtu.

Aside from the price of gas, other factors that can cause the ANS gas to be stranded include anticipated long term cost, high risks associated with possible project execution, gas marketing difficulties and effective competition from non-Alaskan gas project. Among all these factors, the competition from non-Alaskan gas projects is the most significant.

Regardless of price, any ANS gas project has to compete against other projects throughout the world for construction materials, priority and financing. Corporations have finite budgets. Only the best projects get funded subject to portfolio management constraints. Under the 2005 fiscal terms, the Alaska gas project's IRR would have fallen into the lower quartile among IRRs of oil or gas projects throughout the world.

According to the memo dated March 10, 2006 from Dr. Pedro Van Meurs, it is likely that the North Slope gas will remain stranded for a considerable time without a stranded gas contract.

In his opinion, this is primarily due to the following factors:

- The high risks associated with a long lead time and the very large Alaska Gas Project;
- The market dynamics that will induce investors to give priority to smaller projects with a shorter lead time over the Alaska Gas Project;
- The inherent unpredictability of the gas price for the period 10 – 25 years from now;
- The relative high transport costs; and
- The relatively low IRR of the project compared to other projects under stress price conditions.

Appendix C Is Alaska's Natural Gas Stranded, in the Interim FIF, will contain more details on this issue.

STRND_02: (2 Comments)
Statement of Concern: Statements expressing concern about the enforcement of existing gas lease terms.

Response: The contract provides for specific lease terms to be superseded only for the term of the contract. The result of this provision is certainty of availability of the reserves base which will allow the sponsor group and the state to move forward with the long-term, enormous financial commitments necessary to make the pipeline a reality. If the contract terminates for any reason, all lease terms would be restored. Lease terms not specifically addressed by the contract are unaffected by the contract, and their enforcement is unaffected.

Concerning Point Thomson Unit (PTU), in particular, each of the above statements is true. During contract negotiations, it became clear the producers felt very uncertain about the status of PTU, particularly given its critical importance to the gas pipeline economics. The amended DNR decision of October 27, 2005 found the PTU Agreement to be in default. That decision did not call for the return of the PTU leases to the state, but it did call for "a plan to bring the PTU into commercial production within a reasonable time frame" and provided dates for initiation of development operations, commencement of drilling, and commencement of production. Because these dates are inconsistent with the work commitments contained in the contract, extensions of the time period within which the operator can appeal that default decision have been given, pending conclusion of deliberations on the contract by this legislature. The contract provides for a PTU development schedule which is consistent with and which supports gas pipeline development. PTU development, as an integral part of the gas pipeline project, is thereby subject to the same diligence standard, and is subject to the contract being terminated for failure to meet that diligence standard.

The decision to include PTU in the contract was a reasonable and necessary step, given the critical importance of PTU reserves and deliverability to the contract. That step was taken, while imposing specific requirements upon the producers:

- Each producer must commit PTU gas reserves to the gas pipeline project;
- The producers must apply to the AOGCC within 6 months for issuance of pool rules;
- In addition, the contract requirement that the gas pipeline project be pursued "with diligence" exists, and applies to PTU development, as well as the rest of the gas pipeline project – if the contract is terminated for any reason; according to the contract terms, the producers' rights to Pt. Thomson expansion leases terminate unless they initiate development within one year of the contract termination. In addition, DNR can also pursue other steps, including termination of the unit, and initiating procedures to revoke the leases.

Finally, nine months after startup of the gas pipeline, commitments to DNR Plans of Development resume, which will allow DNR to continue to manage development of PTU oil and gas reserves.

Historically, continuance of the PTU unit and leases has, until the latter half of 2005, been with the concurrence of DNR commissioners of several administrations of varied political perspectives. The companies have invested significant amounts of money over several decades in exploring this acreage and in addressing major technical issues. In recognition of those facts, each of these administrations has been a party to extending these leasehold interests. The amended DNR decision of October 27, 2005 has placed these companies on notice that development must now proceed. The contract provisions concerning PTU provide a specific context for that development.

3.2.2 CNSTL: Constitutionality Issues—SOC and Responses

This issue category addresses comments regarding the legality of the contract terms.

CNSTL_01: (46 Comments)
Statement of Concern: Statements indicating that: 1) the proposed contract is unconstitutional because it requires the state's power of taxation to be surrendered and locks in oil/gas taxes for 30/45 years; and 2) the tax structure under the contract would create two distinct tax systems—payments in lieu of "taxes" and tax exemptions—and not a tax system with exemptions, and this is unlikely to withstand judicial review.

Response: The commissioner of revenue requested an opinion from the Attorney General on the issue of whether the Alaska Constitution would permit the legislature to approve a binding tax contract under the Stranded Gas Development Act. The Attorney General concluded that, while, under Article IX, section 1 of the Alaska Constitution, the power to tax may not be surrendered, it may be suspended or subject to contract for a specific period of time under certain circumstances. (The *Attorney General's Opinion* can be accessed at www.law.state.ak.us/department/civil/gasline.html)

In fact, this would not be the first time that the state has authorized contractual tax incentives to encourage development of Alaska's resources. In 1949, 1957, and 1968, the state offered industrial incentive tax credits that had the binding effect of contracts. Those tax credits were limited to a period of ten years and the investments sought were quite small compared to the unprecedented investment that will be necessary to construct the proposed gas pipeline. The huge investment necessary to build a gas pipeline necessitates long-term financing and risk reduction. The commissioner concluded in the preliminary findings and determination that the periods set out in the contract are commensurate with depreciation schedules and other relevant financial factors (see for example page ES-11 of the Preliminary FIF).

Any term shorter than 30 to 45 years would also be in the interest of the state in that it would reduce the contractual period for which the state's taxes would be stable. The administration supports shortening the period of fiscal stability along the lines of the provisions included in last version of SB 3002 considered by the Senate Special Committee on Natural Gas Development during the third special session of the Twenty-Fourth Legislature. The administration acknowledges that the general public also made extensive comments on this issue.

CNSTL_02: (19 Comments)
Statement of Concern: Statements that the contract would prevent Alaskans from using the initiative process to propose new tax laws.

Response: The contract does not affect the people's power to propose new tax laws. However, pre-existing state law and the federal and state constitution may operate to delay or neutralize the effect of taxes levied by initiative. The law making powers assigned to the legislature may be exercised by the people subject to certain limitations imposed by the Alaska Constitution. Initiated laws operate in the same manner as laws passed by the legislature, except that they may not be repealed for two years after enactment. The SGDA gives the governor the power to propose a contract that grants fiscal stability to certain

taxpayers. The federal and state constitution forbids the enactment of laws that impair the obligations of contracts. This constitutional prohibition applies to initiatives as well as laws enacted by the legislature. After the effective date of the fiscal contract, a taxpayer subject to a tax levied by initiative could either decline to pay the tax, or could pay the amount assessed and seek reimbursement from the state. The tax law remains on the books and could be assessed against a taxpayer who withdraws from the fiscal contract or is otherwise not covered by the fiscal stability provisions.

CNSTL_03: (10 Comments)
Statement of Concern: Statements that the contract is unconstitutional because it does not maximize the benefit to the people of the state; and the contract will significantly infringe on the open access values in Article VIII of the Alaska Constitution.

Response: In developing a contract under the SGDA, the commissioner is directed to "maximize the benefit to the people of the state of the development of the state's stranded gas resources." This broad policy directive is similar to the policy expressed in Article VIII § 2 of the Alaska Constitution, which provides that natural resources belonging to the state be utilized, developed, and conserved "for the maximum benefit of its people."

In following the broad directive to "maximize the benefit to the people of the state", the proposed contract includes consideration involving benefits other than solely revenue. While revenue opportunities should be, and were, seriously considered, there is no requirement that the meaning of "maximize the benefit" be limited to an evaluation of revenue potential. By progressing development of Alaska's stranded gas resources, the proposed contract provides revenue benefits to the people of the state as well as additional quantifiable and qualitative benefits.

The proposed SGDA contract complies with this policy directive by providing significant benefits to the state through progressing development of the state's stranded gas resources. The three key ingredients of the proposed gas pipeline contract—fiscal certainty, state equity participation, and the state taking gas in-kind and committing to ship it on the pipeline—improve the project's internal rate of return, thus making it more likely that the gas pipeline project will be built. Under the proposed contract, the state will receive significant oil and gas revenues that will be comparable to those the state would have received under the 2005 fiscal regime.

A gas pipeline will encourage development of the vast ANS gas resources and will extend the life of the Trans Alaska Pipeline System. In addition, Alaska and Alaskans will receive significant benefits through revenues from the sale of the state's share of the gas (tax and royalty), additional jobs both during construction and after the construction phase with local hire to the extent allowed under law, and the availability of gas supplies from in-state pipeline offtake points. Alaska needs to transition from an oil based economy to a gas based economy over the next 10 to 20 years. If we are able to do so within 10 years the adverse impact to state revenues will be less than if revenue receipts from the state's gas are deferred for 20 years or more.

The state's discretionary budget is currently about $3 billion a year. Fortunately, unprecedented high oil prices have created budget surpluses in recent years. However, oil

prices are expected to decline to a long-run average of $35. At that price the State would currently be running a $1 billion deficit.

Moreover, TAPS is now running 60 percent empty, despite investment in recent years of nearly $1 billion annually. The Department of Revenue estimates that $1.8 billion is required annually to keep production at a constant level. This is nearly twice the amount being spent in recent years.

Current production is about 800,000 barrels per day and is expected to be about 100,000 less by 2015.

In addition, with 2 percent annual growth the budget would be $4 billion by 2015. Yet the two percent is conservative; increased state debt, Medicaid, unfunded pension liabilities, and government operating expenditures could very well cause higher growth.

Thus there are three major forces driving toward massive budget problems: declining oil prices, declining oil production, and a growing budget. (Non-oil revenues may add another $0.5 billion annually.) In the absence of a gasline or new budget sources, such as broad-based taxes, annual deficits will grow to $1.5 billion annually by 2015: a cumulative deficit of $10 billion from now to then. Under these assumptions the Constitutional Budget Reserve Fund (CBRF) will be depleted by 2009.

Furthermore, natural gas production would not start until 2016, were the proposed contract to be executed in 2006. In other words, the state revenue stream from gas will not occur until 10 years after the execution of the proposed contract. The delay of building the gasline would only lead to the delay of the state revenue stream from gas, which would deepen the state deficit until the first gas flows.

All discussed above underscore the need to get the gasline constructed soon. At a mid-range forecast of $5.50/mmbtu in Chicago, the proposed contract terms would generate annual revenues to the State between $2 to $3 billion.

Not only would the gasline allow the continuity of essential state services while minimizing the tax burden of its citizens, it would also extend the oil life of the ANS, bringing in additional billions of dollars over time, as well.

CNSTL_04: (33 Comments)
Statement of Concern: Statements expressing a general concern that the contract may be illegal because the SGDA must be amended in order to accommodate proposed contract terms, and thus the project may not be qualified under the SGDA and should not be approved.

Response: This is incorrect. In his letter dated October 27, 2005, to the commissioner of natural resources, the attorney general set forth a detailed analysis of this specific question and advised that the administration's course of conduct on the SGDA negotiations, including the proposal of supplemental legislation needed to implement provisions of the proposed contract, was both authorized and lawful. Further, because the contract cannot be executed without legislative authorization, no proposed contract (or accompanying implementing legislation) could violate the SGDA

CNSTL_05: (2 Comments)
Statement of Concern: Statements suggesting that the contract should be voted on by Alaskans.

Response: The state election code controls what may be placed on the general election ballot. Existing state law does not authorize a vote of the people on the execution of the fiscal contract. The legislature would need to pass a law authorizing such a vote. In the past, the legislature has authorized advisory questions on the ballot on various subjects. Other than the delay occasioned by scheduling an advisory vote, it is within the discretion of the legislature to determine whether to seek the advice of the people through a public vote. Beyond an advisory vote, it may be possible for the legislature to tentatively authorize the fiscal contract subject to it taking effect upon an affirmative vote of the people. This method carries with it a possible legal challenge that, by allowing such a vote, the legislature would be improperly delegating its legislative function to the people. In any case, as explained earlier, there is presently no authority for a vote of the people being a part of the process to authorize the fiscal contract.

CNSTL_06: (5 Comments)
Statement of Concern: Statements indicating that the contract is unconstitutional because the contract changes the lease provisions upon which the original leases were granted.

Response: Any change to an existing lease would be at the option of the sponsors of the project. They will voluntarily accept the changes in order to receive the benefits of the fiscal contract. Under the contract, the sponsors could add new leases to the contract if they desire to receive fiscal certainty as to oil and gas produced from those leases provided that a model upstream contract law in the form of Attachment 1 to the May 24 contract is enacted. Other ANS leaseholders may take advantage of the uniform upstream fiscal contract if the conditions of that program are followed. The process contemplated by the SGDA provides adequate notice to the public of the changes in existing leases necessary to implement the fiscal contract. For these reasons it is believed the Alaska Constitution would not be violated if the commissioner were allowed to negotiate terms which alter the provisions of existing oil and gas leases.

CNSTL_07: (8 Comments)
Statement of Concern: Statements concerned that the contract prohibits court action on the constitutionality of the contract and that prohibits municipalities or political subdivisions from initiating any court action with respect to the contract.

Response: The proposed contract does not prohibit court action on the constitutionality of the contract or prohibit municipalities and political subdivisions from initiating lawsuits with respect to the contract. Except for the parties to the contract, any person, including an incorporated municipality, may challenge the constitutionality of the contract as provided in AS 43.82.440 and other applicable law. For instance, under AS 09.65.080, a public corporation may bring an action in its corporate name on a cause of action accruing to it in its corporate character.

CNSTL_08: (2 Comments)
Statement of Concern: Concerns with the scope of Article 41.2

Response: Article 41.2 states that ". . . any right, privilege, or obligation of a Party in a lease, other agreement, regulation, rule, order or decision is amended for the Term only to the extent necessary to conform with the provisions of this contract. . .." Other terms of those leases, unit agreements, or other documents are not affected by the contract. The language, 'only to the extent necessary to conform' was explicitly included to limit the scope of this provision. Given that, the sponsor group was concerned that other agreements, regulations or decisions could be used to undermine commitments made within this contract. If the contract terminates, due to lack of diligence or for any other reason, this provision also terminates.

CNSTL_09: (1 Comment)
Statement of Concern: Statements concerned about third-party lawsuits that may be brought to delay or halt construction, and advocating contract language to prevent them.

Response: The proposed contract states that it does not create any third-party rights. If such a judicial challenge is filed, however, the proposed contract provides that work on project planning and development will continue. The contract provides that work on the project cannot be suspended by the sponsors until fifteen months has elapsed while the judicial challenge proceeds.

CNSTL_10: (1 Comment)
Statement of Concern: Statements suggesting that before approving the proposed contract, the legislature require documentation of ownership, governance management, and control of the state's participation.

Response: The administration intended that the legislature would have an opportunity to review the terms of the state's proposed mainline LLC agreement prior to the approval of the fiscal contract in order to fully understand how the state's decision to acquire an ownership interest in the project would be implemented in practice. The administration has acknowledged the legitimacy of this concern and worked hard to complete the LLC negotiations with the sponsor group so that the state's proposed mainline LLC agreement could be reviewed by the legislature prior to any vote approving the fiscal contract. These negotiations were not completed, but the state intends to release to the public the state's proposed LLC agreement. The proposal represents what the state believes it could accept in an ownership agreement. Although the negotiations with the sponsor group were productive and many issues were resolved, the parties could not resolve some significant final points. As a result, the sponsor group has not accepted the proposed LLC agreement.

CNSTL_11: (1 Comment)
Statement of Concern: Statements expressing concern that, in the terms of the fiscal contract, the state waives its presumption of correctness.

Response: Certain value judgments were made concerning the fairness of dispute resolution procedures. It was determined to adopt arbitration as the preferred method to achieve fairness on the side of the state and the sponsor group. It was also thought fair to remove presumptions in favor of the state that tip the scales of justice slightly in the state's favor. The

parties to the fiscal contract are sophisticated and capable of prosecuting enforcement actions and mounting effective defense without having to contend with a presumption of correctness.

All disputes under the contract are subject to arbitration according to a carefully balanced set of rules modeled on the rules of the International Center for Dispute Resolution ("CPR"). Arbitration is widely utilized in U.S. and international commercial contracts to resolve disputes. In a number of existing contracts the state has agreed to an arbitration clause and has successfully invoked it. One example is the ANS Royalty Settlement Agreement (RSA) among Atlantic Richfield Company, ARCO Alaska, Inc., and the State of Alaska.

CNSTL_12: (2 Comments)

Statement of Concern: Statements indicating that (a) the debate centers on our constitution's explicit prohibition against surrendering, suspending, or contracting away the power of taxation; (b) our courts have consistently defined "general law" to mean "statute"; and (c) two of Alaska's constitutional founding fathers have weighed in on the subject. No delegate would have considered turning over Alaska's oil and gas resources or stripping the legislature and voters of the right to control the state's tax system.

Response:

(a) See CNSTL_01 response.

(b) The Attorney General's May 10, 2006 Memorandum[7] interprets "general law" to mean a statute which authorizes a tax exemption. If that statute grants an exemption for a set period of time, then the contract Clause of the United States Constitution will likely prevent a subsequent legislature from retreating from the provided exemption. The statement concludes that a tax exemption granted by statute for a period of time necessarily means that the exemption can be repealed by any subsequent statute. The Attorney General believes the better view is that if there is no blanket constitutional prohibition against the contracting away of the power to tax and if a tax exemption is set forth in a statute in an unmistakable manner and is intended to last for a set period of time, then the exemption will not be subject to change due to the operation of the contract Clause.

(c) Over thirty years ago, the Alaska Supreme Court determined that "subsequent testimony of even the prime sponsor of a bill as to either his own understanding or the legislature's understanding of the meaning of the bill should not be considered." The Court has reiterated this position on several occasions. While statements made on the official record by delegates during the constitutional convention would be entitled to significant weight in determining the meaning of the Constitution, post-adoption comments made fifty years later are entitled to little, if any, weight. The question of the constitutionality of any Alaska law will ultimately be decided by the Alaska Supreme Court, and so it is appropriate to look to the evidence that the court would find relevant. The Court has made clear on multiple occasions, that the subsequent statements of a lawmaker about what a law was intended to do has no weight in a judicial proceeding.

[7] Attorney General's Memorandum to the Commissioner of Revenue re: *Effect of Article IX, Sections 1 and 4 of the Alaska Constitution on Proposed Stranded Gas Development Act Contract Terms*. File No: 661-03-0485. May 10, 2006

3.2.3 CNFDL: Confidentiality and Secrecy—SOC and Responses

This issue category addresses concerns regarding the openness of the contract negotiation process.

CNFDL_01: (9 Comments)
Statement of Concern: Statements expressing concern that the legislature was asked to vote on the PPT before the contract was released.

Response: PPT legislation, while related to the contract, was an independent legislative decision, and was not dependent on the release of the contract. In any event, the PPT legislation that passed in August 2006 was passed well after the contract was released in May 2006.

CNFDL_02: (72 Comments)
Statement of Concern: Statements expressing concern that the contract was negotiated in secret and that secrecy has replaced open discussions of oil and gas policies.

Response: Negotiations were conducted under the confidentiality provisions of the SGDA, which were meant to protect confidential information of the sponsors from being made public during the negotiation process. The state simply was not free to conduct public negotiations even if it wanted to.

CNFDL_03: (7 Comments)
Statement of Concern: Statements indicating that the state government did not follow a court-ordered mandate to release the contract.

Response: The contract was released in accordance with law.

CNFDL_04: (15 Comments)
Statement of Concern: Statements expressing support of how the negotiations were conducted. This SOC also includes statements indicating that negotiating the contract in secret does not necessarily mean it is not in the best interest of the state.

Response: In this case, we agree that confidential negotiations were in the best interest of the state, and they were required by the SGDA. There simply would not have been any negotiations with the sponsor group, or any other applicant, had they been in public. No negotiations would mean no contract, which would mean no gas pipeline.

3.2.4 SGDA: SGDA Concerns—SOC and Responses

This issue category covers comments and responses regarding the Stranded Gas Development Act (SGDA), particularly on issues such as legality of the contract, changes to statutes, negotiating with the sponsor group, and other legal issues.

SGDA_01: (14 Comments)
Statement of Concern: Statements that the contract may be in violation of the SGDA because it includes changes in taxes and incentives for oil production and development.

Response: The Attorney General of Alaska has examined this question and has concluded that, with certain legislative changes to the SGDA, the contract will not be in violation of the law. See response to CNSTL_04.

SGDA_02: (9 Comments)
Statement of Concern: Statements asserting that the sponsor group holds the leases and own the production infrastructure, and therefore it makes sense to develop the contract with the sponsor group.

Response: The state agrees provided that contract terms acceptable to all parties can be reached.

SGDA_03: (2 Comments)
Statement of Concern: Statements expressing concern that the laws could possibly be changed to allow the over-the-top route.

Response: Federal law presently prohibits an over-the-top route. While in theory the law could be changed, that is highly unlikely. To guard against such a change, the Fiscal contract also prohibits an over-the-top route so that even in the unlikely event that the law was changed, the sponsor group would face a strong deterrent to changing the route. A change in route would be a breach of contract that would cause the sponsor group to lose the favorable tax treatment and other incentives afforded by the fiscal contract.

SGDA_04: (2 Comments)
Statement of Concern: Statements indicating that the state should not negotiate with the oil companies because of the way they manipulated tariffs on TAPS.

Response: The FERC and RCA have overseen TAPS tariffs since the opening of the pipeline and any "manipulation" has been resolved through decisions of those agencies and tariff settlements that the state has voluntarily entered into. Further, to the extent that the state is an owner of the entity that will set the tariffs on the Alaska gas pipeline, it will be in a better position to guard against what some might call rate manipulation.

SGDA_05: (5 Comments)
Statement of Concern: Statements asserting that the oil companies are using the SGDA process/contract to change the industry's fiscal structure without any real intention to build the gas pipeline.

Response: The sponsor group has already spent more than $125 million on a pipeline feasibility study. Under the work commitments section of the fiscal contract, the sponsor group is committed to begin the planning process (the first steps to build the line) within 90 days of the effective date of the contract. A series of specifically enumerated steps will then follow such that a pipeline could begin operation some 10 years from now.

If the sponsor group signs the contract but then do not take the necessary steps to build the pipeline, the state has the right to terminate the fiscal contract. If termination occurs, the sponsor group will lose all the fiscal rights they have under that contract. In the end, no gas pipeline means no change in the industry's fiscal structure. To strengthen the contract's work

commitments clause, the state is proposing to incorporate the May 10, 2006 project summary timetable into the contract; to create a new remedy of a diligence order which gives the tribunal options in addition to termination; to require participants to provide collectively a $1 billion letter of credit and allow the state to draw on it if project sanction has not occurred by the fourth contract year; and to create a presumption within the contract that if sanction does not occur within five years of the effective date, there is lack of diligence. It should also be noted that with the passage of the PPT, the ANS producers are paying a premium for fiscal certainty that is not beneficial to them unless they move forward with the development of ANS gas.

SGDA_06: (2 Comments)
Statement of Concern: Statements expressing concern that the specifics of the Qualified Project are not defined by route, by extent, by scope, by investment, by participation, by timing, by operation, or by generally any other means.

Response: The state is proposing changes in Articles 4.1 and 39.1 to specifically reflect the qualified project plan (QPP) with respect to route, dimensions, pressure, and expandability. The state is also proposing that the timing of various phases of the project be added to Article 5.4 incorporating the May 10, 2006 project summary in the fiscal contract as Exhibit S.

SGDA_07: (3 Comments)
Statement of Concern: Statements concerned about the lack of state control over changes to the qualified project plan and the absence of any provision in the contract requiring state consent to changes in the Qualified Project Plan as part of the work commitments associated with the contract.

Response: The state does not believe that it (or any member of the sponsor group) should have veto power over changes to the project plan. This project will not be built more rapidly by giving anyone the ability to unilaterally block a plan change. The state is partnering with the sponsor group to get this line built; it is not the sponsor group's antagonist. Any veto power recommendation reflects a fundamental distrust of the sponsor group's commitment to build the project in a timely manner. The state does not share that distrust and thus does not agree that additional contractual language of the type suggested is necessary or even desirable. The present language that allows for 1) the state to initiate termination of the contract if the project has not progressed in a diligent manner, 2) the sponsor group to cure any deficiency in a timely manner, and 3) actual termination if there has been a lack of diligence and a failure to cure, is sufficient.

The work commitments contained in the contract were crafted to ensure that the next stage of the project is started promptly, and that a disciplined, thorough project management process is implemented and maintained to control development and construction of the pipeline, ensuring the most cost-effective and timely project completion possible, and minimizing the risk to both the state and the sponsor group. As a 20 percent owner of the mainline LLC and a member of the LLC's management committee, the state through Alaska PipeCo will participate in the project planning and oversight of the operator that builds the pipeline. State ownership will provide Alaska PipeCo a continuing opportunity to know what is going on inside the project company, be heard on key issues and influence the course of the project development. If, at any time, the state does not believe that the project is being advanced

diligently, it can terminate the contract. The potential for terminating the very deal that the parties have spent three years negotiating is significant leverage over the sponsor group, as the sponsor group will lose all of the benefits of fiscal certainty if this contract is terminated by the state.

SGDA_08: (2 Comments)
Statement of Concern: Statements indicating that it is unlawful to include a petroleum production tax (PPT) in the contract.

Response: As noted in CNSTL_04, it was not unlawful for the administration to include provisions in the contract that would require legislative changes to implement. See the October 27, 2005, opinion of the Attorney General. The parties included a PPT provision in the contract knowing that 1) the legislature would have to change existing law; and 2) the PPT provision in the contract would have to be changed to conform to whatever PPT law the legislature enacted. Now that the legislature has passed and the governor has signed the PPT legislation, the state expects that the contract will be revised as appropriate.

SGDA_09: (1 Comment)
Statement of Concern: Statements saying the contract is not consistent with the SGDA termination provisions.

Response: Article 5 and Article 28 together address all of the termination requirements of AS 43.82.445. Separately, each article does not cover all the statutory requirements but together they do. The specific administration termination terms were negotiated and agreed to in the contract. As part of addressing the overall dispute resolution issues, the procedure for administrative termination, however, was changed to be subject to approval by the legislature.

SGDA_10: (1 Comment)
Statement of Concern: Statements indicating that the state is disadvantaged in the negotiations because the state does not have the same breadth and depth in resource pool as the sponsor group.

Response: We do not agree with that assessment. In addition to its "in-house" talent within the Departments of Natural Resources, Revenue, Law and Labor, the state has hired various top-quality financial and legal outside experts to aid it in negotiations. The end result, in our opinion, is a fiscal contract and the state's proposed mainline LLC agreement that contain fair and reasonable terms for all parties, including the state.

SGDA_11: (1 Comment)
Statement of Concern: Statements indicating that the state should not be negotiating with the sponsor group because of their environment record on the ANS.

Response: Regardless of one's view on the sponsor group's environmental record on the ANS, the fact is that the sponsor group holds leases for approximately 98 percent of the proven ANS gas reserves. There will not be a gas pipeline without negotiations with the leaseholders of the very gas that must travel through that pipeline to get to markets in the lower 48. To make the gas pipeline become a reality, the state has chosen to become actively

involved in negotiations. Overall, over the last 40 years, the members of the sponsor group have proven to be some of the most prudent and responsible operators in the world of oil and gas exploration, production and transportation.

SGDA_12: (1 Comment)
Statement of Concern: Statements advocating the inclusion of an Appendix to the contract that specifies the project design for the "Qualified Project" as a pipeline capable of transporting between 4 and 4.5 bcf/d; initially expandable through infill compression to 6 bcf/d.

Response: The state is proposing to include in the fiscal contract itself such a description from the May 10, 2006 Project Summary. The project summary addresses pipeline dimensions and expandability, although we expect these to be refined as project engineering advances.

SGDA_13: (1 Comment)
Statement of Concern: Comments expressing concern that because the contract terms are not final and the legislature may require changes that the public may not be able to adequately comment.

Response: The public comment/legislative approval process is required by the SGDA. That process contemplated a public comment period followed by a renegotiation period reflecting the comments received, and then legislative approval of a final contract. That is the process being followed. Once renegotiations have been completed, the parties will submit the contract to the legislature for final approval. The public has a right to petition their legislators and in that manner comment on the terms of the fiscal contract.

SGDA_14: (4 Comments)
Statement of Concern: Statements concerned that the contract allows the participants (but not the state) to amend the project plan each year. (Section 5.3) page 65, "The mainline entity shall coordinate and update the Qualified Project plan....each year thereafter until the commencement of operations..."

Response: No project, especially one this large, can be expected to go exactly as initially planned and, therefore, there should be an ability to amend a project plan. The state has protected itself by contract provisions that allow it to either seek termination of the fiscal contract or to bring a dispute, depending on the circumstances, in the event that it disagrees with a change to the project plan.

The state itself cannot change the project plan. The mainline LLC that will own the main pipeline is responsible for updates and changes. The state will be a 20 percent owner of that mainline LLC, and thus will have a voice in any proposed updates/changes.

SGDA_15: (2 Comments)
Statement of Concern: Statements concerned that the contract terms have ignored the advice and expertise of many outside experts hired by both the Department of Natural Resources and the Legislative Budget & Audit Committee. Many millions of dollars were spent soliciting their guidance and to have it ignored is a travesty to the state's best interest.

Response: The advice of outside experts has not been ignored. Much of the consulting work done by experts hired by the DNR or the Legislative Budget and Audit Committee were taken into account in developing and evaluating the contract and its impact on the state. Technical changes to the contract (e.g., how the effective date is determined, better description of the project and its route) have also been made based on advice from those experts. Notwithstanding, there are substantive areas of disagreement with those experts and, while the state has not ignored them, it has chosen not to accept all of their recommendations.

SGDA_16: (3 Comments)
Statement of Concern: Comments expressing concern that the lack of material information renders the commissioner's findings, as stated in the Preliminary FIF, deficient.

Response: The commissioner determined he had sufficient information in the Preliminary FIF to satisfy his obligations under § 42.83.400 of the SGDA whether the proposed (and agreed upon) fiscal terms in the contract are in the long-term interest of the state.

SGDA_17: (1 Comment)
Statement of Concern: Statements indicating that the fiscal contract is not ripe for consideration because other related contracts have not yet been revealed.

Response: The SGDA grants the commissioner to authority to negotiate a proposed contract, the terms and scope of which are specified in AS 43.82.200. They include:

1. terms concerning periodic payment in lieu of one or more taxes;
2. terms relating to royalty pursuant to AS 43.82.220;
3. terms regarding the hiring of Alaska residents and contracting with Alaska businesses under AS 43.82.230;
4. terms regarding periodic payment to, or an equity or other interest in a project for, municipalities under AS 43.82.500;
5. terms regarding arbitration or alternative dispute resolution procedures;
6. terms and conditions for administrative termination of a contract under AS 43.82.445; and
7. other terms and conditions that are:
    a. necessary to further the purposes of this chapter; or
    b. in the best interest of the state.

The proposed contract incorporates the essential fiscal terms required by the SGDA. There are other documents that may have an impact on the project but were neither required nor contemplated by the SGDA. The project entity governance agreements are a good example of this. Although the state's proposed mainline LLC agreement will be helpful in making a determination as to whether the state should consider an ownership interest in the pipeline, it is not required to be negotiated or presented to the public in advance a decision to approve the contract as part of the SGDA process. While there are many other contracts that will be negotiated and executed by the state from the time the fiscal contract is first approved until the production of first gas, the critical step is to consider and approve a fiscal contract that

fully meets the scope and intent of the SGDA and that has been presented to the legislature and the public for review.

The other documentation that will need to be finalized in order to implement the larger project will be based on the essential principles of the deal set forth in the fiscal contract and is not anticipated to have an impact on the commissioner's findings set forth in the Preliminary FIF or the Interim.

SGDA_18: (1 Comment)
Statement of Concern: Statements indicating that the contract should be limited to only those leases and properties necessary to secure gas supplies to meet shipping commitments on the initial capacity of the pipeline.

Response: To encourage producers other than the sponsor group to explore and develop presently non-proven gas reserves, and to promote a level playing field, the state believes that it is the state's best interest to provide the fiscal benefits to anyone else willing to make a firm transportation commitment to ship gas on the pipeline. Hence, the state is asking the legislature to pass a Uniform Upstream Fiscal contract law that will accomplish that goal.

SGDA_19: (1 Comment)
Statement of Concern: Statements indicating that Chevron should be included as an additional party to the contract prior to its execution.

Response: The state is aware that Chevron has inquired about ownership in the project and is willing to consider that possibility.

SGDA_20: (1 Comment)
Statement of Concern: Statements suggesting that to avoid a debate on the separation of power argument discussed by the administration, a solution that may accommodate both the legislature's prerogatives under the Stranded Gas Development Act ("SGDA") and the administration's prerogatives to execute the legislature's directives, would be for the legislature to amend the SGDA to require that the template LLC agreement be included as an exhibit to the SGDA contract. In this way, the terms of the template LLC agreement may be reviewed and encompassed within the legislature's approval of the overall SGDA contract. The administration would then be able to finalize and execute the various required LLC agreements based upon the approved template LLC agreement without further review and approval of the legislature.

Response: The state's proposed draft mainline LLC agreement will be attached to the Interim FIF as Appendix O. An article-by-article review of the proposed draft LLC agreement will also be provided in Appendix P of the Interim FIF.

3.2.5 LEGIS: Legislative Process—SOC and Responses

This issue category covers comments regarding the legislative review of the proposed contract and the commissioner's preliminary findings and determination.

LEGIS_01: (8 Comments)
Statement of Concern: Statements expressing concern that the governor will make changes according to what industry wants without regard to the legislative process.

Response: The governor respects the role of the legislature in the public review process. He has listened to the concerns expressed by the legislature and is proposing several amendments to the fiscal contract consistent with what they recommended.

LEGIS_02: (2 Comments)
Statement of Concern: Statements suggesting that there should be an independent/bipartisan panel to ensure that Alaskan interests are addressed and not the interests of the governor.

Response: To ensure that Alaskan interests are addressed, the SGDA requires authorization by the legislature before the contract becomes binding on the state. It is up to the legislature and the governor as elected officials to assure that Alaska's interests are met.

LEGIS_03: (6 Comments)
Statement of Concern: Statements indicating that the deal does not have to be decided during this legislature.

Response: The parties have reached a tentative deal and waiting for a new administration and/or legislature can only serve to stop the momentum needed to finalize the deal. To partially start over next year could set the project back several years. Meanwhile, as the state's fiscal experts have repeatedly pointed out, any delay increases the risk that LNG imports may fill the void left by a delayed project or that escalating resource costs will dramatically raise the cost of completing a pipeline, thereby jeopardizing its very viability.

The federal government has also recently emphasized the need to get the project started immediately – not next year or even later. Our energy security hinges in part on ANS gas reserves and delay only exposes this nation to continued dependence on foreign energy sources.

In addition, any delay will further exacerbate the state's looming fiscal gap that threatens the future of the state. The state's discretionary budget is currently about $3 billion a year. Fortunately, unprecedented high oil prices have created budget surpluses in recent years. However, oil prices are expected to decline to a long-run average of $35. At that price the state would currently be running a $1 billion deficit.

Moreover, TAPS is now running 60 percent empty, despite investment in recent years of nearly $1 billion annually. The Department of Revenue estimates that $1.8 billion is required annually to keep production at a constant level. This is nearly twice the amount being spent in recent years.

Current production is about 800,000 barrels per day and is expected to be about 100,000 less by 2015.

In addition, with 2 percent annual growth the budget would be $4 billion by 2015. Yet the two percent is conservative; increased state debt, Medicaid, unfunded pension liabilities, and government operating expenditures could very well cause higher growth.

Thus there are three major forces driving toward massive budget problems: declining oil prices, declining oil production, and a growing budget. Non-oil revenues may add another $0.5 billion annually. In the absence of a gas pipeline or new budget sources, such as broad-based taxes, annual deficits will grow to $1.5 billion annually by 2015-- a cumulative deficit of $10 billion from now to then. Under these assumptions the Constitutional Budget Reserve Fund (CBRF) will be depleted by 2009.

Furthermore, natural gas production would not start until 2016, were the proposed contract to be executed in 2006. In other words, the state revenue stream from gas will not occur until 10 years after the execution of the proposed contract. The delay of building the gas pipeline would only lead to the delay of the state revenue stream from gas, which would deepen the state deficit until the first gas flows.

All discussed above underscore the need to get the gas pipeline constructed soon. At a mid-range forecast of $5.50/mmbtu in Chicago the proposed contract terms would generate annual revenues to the state between $2 to $3 billion.

Not only would the gas pipeline allow the continuity of essential state services while minimizing the tax burden of its citizens, it would also extend the oil life of the ANS, bring in additional billions of dollars over time, as well.

LEGIS_04: (6 Comments)
Statement of Concern: Statements expressing concern that the legislators are not standing up to the governor and that the contract would pass due to political pressure.

Response: To date, those concerns appear to be quite unfounded.

LEGIS_05: (1 Comment)
Statement of Concern: Statements expressing concern that the legislators with a conflict of interest with the project should recuse themselves.

Response: We are not aware of any legislators who have a conflict of interest requiring them to refrain from taking action on the fiscal contract. This is a matter for the legislature to decide.

LEGIS_06: (4 Comments)
Statement of Concern: Statements expressing concern that the legislators are not discussing contract issues with their constituents.

Response: The commissioner of revenue acknowledges these comments, but notes that this is a matter for members of the legislature to address.

LEGIS_07: (17 Comments)
Statement of Concern: Statements suggesting that information on the details and analyses of the contract are important in order for the legislature to make informed decisions; the legislature has the responsibility for due diligence; efforts should be made to share information.

Response: We agree and have made significant amounts of contract-related information available to the legislature and the public. In addition, state and outside expert personnel have appeared extensively before legislative committees and have met with legislators in public and private. We are not aware of any claims that information or personnel has been withheld.

LEGIS_08: (3 Comments)
Statement of Concern: Statements indicating the legislature will and should have the final say.

Response: That is consistent with present law and the governor has stated many times that he wants the legislature to have the final say on the contract.

LEGIS_09: (2 Comments)
Statement of Concern: Statements indicating that the contract should require that any change to the project must be subsequently approved by the legislature to be effective; otherwise it undermines the initial legislative approval process and public input.

Response: The parties have heard this concern expressed by several commenters and the administration is proposing to amend the contract so that the legislature will have an opportunity to consider certain appropriation related amendments to the contract.

LEGIS_10: (9 Comments)
Statement of Concern: Statements expressing concern that the legislature wants to increase the tax burden of the oil companies and this will cause a decrease in future investments in the state.

Response: That very issue has been debated extensively during the past legislative session and the subsequent special sessions. The legislature has now passed, and the governor has now signed, a new PPT law that is designed to create further incentives for gas exploration and development in Alaska.

LEGIS_11: (72 Comments)
Statement of Concern: Statements expressing concern that the legislature will not pass the contract due to political posturing, and/or disagreements over small differences in the PPT.

Response: To date, the legislature has not authorized the governor to execute the contract. We believe that it is neither possible nor appropriate to speculate on the motives of the legislature.

LEGIS_12: (2 Comments)
Statement of Concern: Statements indicating the governor should sign the contract even without legislative approval.

Response: Present law does not permit this and the governor has said on many occasions that he wants the legislature to have the final say on the contract.

3.2.6 XOM: Exxon Settlement and Negotiating with Exxon—SOC and Responses

This issue category deals with comments concerned about the propriety of negotiating with ExxonMobil.

XOM_01: (34 Comments)
Statement of Concern: Statements indicating that the state should not negotiate with ExxonMobil due to the oil spill and expressing concern that Exxon has yet to settle on damages from the spill.

Response: First, while the state remains concerned that the Exxon Valdez oil spill case remains open, the fact is that ExxonMobil is validly exercising its rights under our legal system. Second, members of the sponsor group control nearly 98 percent of the proven ANS gas reserves and ExxonMobil is one of them. It is not realistic to negotiate a gas pipeline contract just with the other two producers. It is equally unrealistic to stop doing business with a company on everything, including negotiating a gas contract, because of conduct over an accident that occurred some 16 years ago. Finally, the present issues with regard to BP's operation of some of the transit oil pipelines on the ANS further emphasize that it makes no sense to cease doing business with a company that has allegedly acted improperly. Together, BP and ExxonMobil control nearly two-thirds of the ANS gas reserves and the state must negotiate with both of those companies if it hopes to see a gas pipeline built.

3.3 General Comments on the Contract and the Preliminary FIF

This general area of concern included general comments that agreed or disagreed with the FIF that the proposed contract terms are in the long-term fiscal interests of the state and further the purposes of the SGDA. Also included were editorial comments on the Preliminary FIF.

3.3.1 FIF: General Comments on the Preliminary FIF—SOC and Responses

This issue category covers general comments indicating agreement or disagreement with commissioner's preliminary findings and determination.

FIF_01: (1090 Comments)
Statement of Concern: Statements in general agreement with the Preliminary FIF that the contract is in the best interest of the state.

Response: The commissioner of revenue agrees with this statement for the reasons detailed in *Section 9.2.2 Contract is in the Long-Term Fiscal Interest of the State* in the Preliminary FIF.

FIF_02: (251 Comments)
Statement of Concern: Statements in general disagreement with the Preliminary FIF that the contract is in the best interest of the state.

Response: The commissioner of revenue disagrees with this statement for the reasons detailed in *Section 9.2.2 Contract is in the Long-Term Fiscal Interest of the State* in the Preliminary FIF.

3.3.2 EDI: Editorial Comments and Corrections—SOC and Responses

This issue category covers editorial comments on the commissioner's preliminary findings and determination.

EDI_01: (1 Comment)
Statement of Concern: Statements suggesting the contract be reviewed for consistency with the governor's six principles.

Response: In the contract negotiation process, the state negotiating team was guided by the governor's six principles intended to ensure that its grand concept for the development of a natural gas industry goes beyond just a pipeline project. These principles are also used in *Section 4 Analysis of the Contract* in the Preliminary FIF to analyze the contract terms and the merits of the proposed pipeline project.

EDI_02: (5 Comments)
Statement of Concern: Statements expressing concern that the contract is being falsely portrayed as the only option Alaska has to build a gas pipeline.

Response: The basic premise of the state was to negotiate a contract, satisfying the governor's six principles, that will bring Alaska a pipeline in as timely a manner as possible and avoid litigation delays. The sponsor group, under leases granted by the state, controls the gas on the ANS that the pipeline will transport to market. Sponsor group cooperation is necessary for the pipeline to be constructed or financed because they are the parties that must take the risk of signing firm transportation agreements to ship their gas on the pipeline. They are also the parties that will pay for any cost overruns through their payment of the tariff. Without their commitment to ship gas on the pipeline, the project applicant cannot obtain the financing necessary to build the gasline.

If the state resorts to forcing them through litigation to sell or ship the gas on a pipeline owned by a third party, it will be time consuming, expensive and the outcome of the litigation will be uncertain. With this as background the state has considered all applications received under the SGDA. A review of the record shows that the state engaged in serious dialogue with all applicants and seriously considered all proposals. Based on the state's discussions and negotiations with all SGDA applicants, it became clear that because the sponsor group control the gas, were willing to negotiate and had the technical and financial capability to build a pipeline as well as market the gas, pursuing a contract with the sponsor group would be the most expeditious way to secure a project under terms favorable to the state.

MidAmerican Energy Holdings Company submitted an SGDA application and negotiations followed. MidAmerican's demanded the exclusive right to build, own, and operate the pipeline, yet it had no commitment from the sponsor group to ship on the pipeline. In the state's view, such a sponsor group commitment is essential and without it, the pipeline can not go forward. The exclusivity provision would have precluded the state from negotiating

with any other party who submitted a SGDA application. MidAmerican's demand for exclusivity was non-negotiable from its point of view and MidAmerican therefore withdrew its application when the state refused to grant such exclusivity. Given that the SGDA is supposed to provide fiscal terms with respect to ANS gas, the proposal by Mid-America—a proposal to simply build the pipeline—does not meet the standards required in a fiscal contract.

Similarly, the state engaged in numerous and serious discussions with SGDA applicant, TransCanada. While the state and TransCanada achieved a conceptual understanding on many major issues and began development of a contract, the state determined that it was in Alaska's long term interests to concentrate on the sponsor group's application because they have the rights to gas, and were intent on building their own pipeline rather than making the capacity commitment and shipping their gas on a third party pipeline. TransCanada has pipeline rights in Canada which, they claim, are essential for a pipeline to transit Canada. The state has always sought TransCanada's involvement in the Canadian portion of the project and the state believes that TransCanada's involvement in the Canadian portion will expedite project completion.

Enbridge, Inc. also submitted an application and the state held preliminary talks with it. Enbridge was not willing to incur significant expenditures related to its application and did not, therefore, enter into a reimbursable agreement with the state. A reimbursable agreement would have enabled the state to retain independent contractors to review the Enbridge proposal. Thus, negotiations with Enbridge did not advance beyond the application stage.

EDI_03: (1 Comment)
Statement of Concern: Statements suggesting that the contract/FIF should put definitions at the bottom of the pages to make reading easier for the public.

Response: In the Preliminary FIF, definitions to terms are provided as footnotes the first time the term is mentioned in the document. In addition, a glossary of terms is also provided in the front-end section of the document.

EDI_04: (1 Comment)
Statement of Concern: Statements requesting clarification on total estimated revenues from oil and gas under the proposed fiscal terms.

Response: Cumulative total state revenues (including proceeds to municipalities) from all sources under the fiscal contract, including the PPT, would be expected to range from $86 to $306 billion, depending on future sustained prices for gas and oil. This translates to between $16 and $70 billion, respectively, in discounted net present value terms. The total amount of estimated state oil and gas revenues depends on future prices for gas and oil and discount rates. For example, the estimated total oil and gas revenues of $35 billion under the proposed fiscal terms are based on $5.50 per mmBtu of gas (Chicago city gate), $35 per barrel of crude oil West Texas Intermediate (WTI) and a discount rate of 6 percent. See details in *Section 4.1.2 Total Revenue from Project* in the Preliminary FIF.

EDI_05: (1 Comment)
Statement of Concern: Statements indicating that Alaskans need to have information about the potential range of Alaska's projected total and annual cash liability for the pipeline project. It is insufficient just to have economic models that project estimates of annual revenues. The use of different discount rates as well as the mixed use of nominal and real dollars is confusing in the FIF. The public should see charts that project a reasonable range of how much the state will be required to spend/forgo/invest annually for the next 40 years. The public likewise should see charts that project a range of the total revenue the state can annually reasonably expect in return for the next 40 years. Some projection of the likelihood of such costs and revenues is also appropriate.

Response: Cost and revenues accruing to the State of Alaska are accounted for in the economic models developed during the negotiation process. These models provide year-by-year outputs of costs and revenues [see Figure 7 and Figure 8 of the Preliminary FIF for example]. The FIF document has the potential to be overrun with tables if all the scenarios were presented in tabular form. In fact, some of the most reasonable ways to understand the flow of revenue and costs – taking into account the value of time – is to compute Net Present Value [NPV] and the Internal Rate of Return [IRR]. These metrics combine 50 years of revenue, costs and time into statistics that are relatively easy to understand and can be compared to other projects. In fact, Chapter 5 presents these metrics for the gas pipeline project and other projects. In addition, various prices and costs are used in the analysis to get a sense of the potential net revenue under different scenarios.

- Analysis is done using prices of $3.50 per mmBtu [the stress case, or low price], $5.50/mmBtu and $8.50/mmBtu.
- Analysis is conducted using capital costs at six different levels – no cost overrun, cost overrun of 20 percent, 50 percent, 100 percent and 150 percent. See Table 9 page 78 of the Preliminary FIF.

The various cost overruns are combined with the different price scenarios to get a sense of the potential risk the project faces.

With respect to the use of different discount rates for the sponsor group than used for the state and municipalities, the state notes that different types of entities do have different discount rates: private business will in general require higher discount rates because they must balance the return on investments against its next highest use; governments on the other hand, will utilize a lower discount rate than the private sector because they are responsible not only for the well-being of constituents in the short-run, but also the well-being of future generations. For more information on this issue see the Preliminary FIF in *Section 4.1.1.2 Discounting Policy for Proposal Evaluation.*

EDI_06: (15 Comments)
Statement of Concern: Statements concerning various data, including the standardization of base years, how data is compared, projected commodity prices, where revenues and costs are accrued, and the importance of certain costs.

Response: The state receives oil and gas revenues from a variety of sources. The categories for oil and gas revenues are: royalties; production tax; hazardous release fund contributions;

property taxes; corporate income taxes; and combined bonuses, rents and interest. All of the annual revenue categories are presented, both historically and projected, in the Revenue Sources Book published bi-annually and available on the internet.

Studies used to support the decision have been prepared over the past several years and therefore have different base years for economic analysis. This makes standardization of costs and revenues difficult. For instance, the producers conducted a joint, multi-year study on the feasibility of transporting gas to market. This study was based in 2001 dollars. The commissioner had a comparative analysis of the sponsor group's project and the LNG proposal prepared by Information Insights. This analysis, conducted in 2005 dollars, adjusted cost estimates to be comparative and to similar base dollars. Therefore, while results from individual studies may be difficult to compare due to different reference base years, the comparison study is standardized. While 2006 has seen changes in costs and prices, they have not changed disproportionately enough to require yet another updating of the base year for the studies.

The ELF or economic limit factor severance tax system in use during most of the analysis is sometimes difficult to understand. This is particularly the case for Kuparuk, the second largest oil field in North America which, beginning in 2005, paid no severance tax at all. The reason for this seeming inconsistency of size and revenue is due to the two decade old ELF system. Through a complex mathematical formula the ELF allowed 300 tax free barrels of oil per well per day. The exemption was instituted to allow for fixed operating cost recovery before taxes were assessed. Over time, technology and well dynamics changed to the point that productive fields with many wells paid little to no severance tax. That system was revised in August 2006 with the legislature's historic approval of a new Petroleum Profits Tax or PPT. The Interim FIF will contain an analysis that shows the economic and fiscal effects of the PPT as approved.

Some of the analyses conducted to support the preliminary findings and determination used a variety of revenue prices to test outcome profitability. These prices reflect both historic and current prices. Within the past decade natural gas prices have been $2 per thousand cubic feet (mcf) while oil prices have been $12 per barrel. Relatively recent increases in prices, especially to the levels seen in the wake of Hurricane Katrina, have seen natural gas sold for over $10 per thousand cubic feet and oil topped $75 per barrel. This wide a variation in recent prices mandates a wide range for valuation when considering a 45 year time horizon. While average future prices projected by producers and the state fall in a much narrower range, sensitivity analysis requires broader consideration.

Tanker transportation costs for natural gas to the west coast are expected to be $0.40 per million Btu. This cost is based on a study conducted by PFC Energy which utilized reported operating costs for LNG tankers and extrapolated capital costs for U.S. constructed ships. PFC Energy is a worldwide consulting firm and their estimate is based on their knowledge of LNG tanker costs worldwide.

One commenter stated that high pipeline tariffs are one reason that ANS oil production is declining. TAPS tariffs are lower today than they were twenty years ago. ANS price increased from $18 a barrel in 1984 to about $70 a barrel today. The TAPS tariff of $5.63 per barrel was about 25 percent of the delivered price in 1984 compared to a tariff of less than $4.00 per barrel or 6 percent in 2006. Even with a lower tariff and higher oil prices,

production has declined as the fields mature. Technology has moderated the decline, but it has not totally compensated for field depletion.

TAPS tariffs are outside of the state's control. Oil pipeline tariffs within the U.S. are regulated (set) by the Federal Energy Regulatory Commission (FERC). Each owner in the pipeline calculates their tariff according to a settlement agreement approved by FERC. In a netback calculation the tariff reduces the value of the oil at the wellhead, but certainly this has not been a determining factor over the past few years.

When the gas pipeline is complete and gas begins to flow, all operation and maintenance (O&M) costs will be incorporated into the tariff. Similarly, O&M costs for field operations will be accrued against revenues by the producer. Additionally, under the PPT tax just enacted by the state, many O&M costs for gas operations will be deducted from gross oil revenues prior to determining production taxes.

3.3.3 ACK: Comment Acknowledged—SOC and Responses

Comments coded to this SOC were found to be irrelevant to the Preliminary FIF or to the Fiscal Contract

ACK_01: (69 Comments)
Statement of Concern: Comments that were not relevant to the Preliminary FIF or to the Fiscal Contract

***Response*:** The commissioner of revenue acknowledges these comments, and appreciates the commenter's participation in the public process.

3.4 Work Commitments and General Project Timeline

Issues in this general area of concern included work commitments from the sponsor group and the timeline for the gas pipeline project.

3.4.1 WORK_COMM: Work Commitments from the Sponsor group—SOC and Responses

This issue category deals with work commitments from the sponsor group for the gas pipeline project.

WORK_COMM_01: (124 Comments)
Statement of Concern: Statements expressing concern about the inadequacy of the work commitments provision of the contract, including concerns about a lack of milestones, a commitment to build, and penalties.

***Response*:** The state believes that the contract released on May 24, 2006 included adequate provisions requiring the sponsor group to diligently pursue the project. Nonetheless, in response to concerns of the public and the legislature, the state is proposing amendments to the work commitment provisions (Article 5) which would strengthen them. For example, the state is proposing the inclusion of the May 10, 2006 Project Summary, which contains timelines for the various steps involved in completing the gas pipeline, as a part of the

contract. The state is proposing to require the owners of the mainline LLC to place a $1 billion letter of credit in an escrow account as noted in the response to SGDA_05 above and WORK_COMM_05 below. If certain milestones are not reached, that money will be forfeited to the state.

WORK_COMM_02: (28 Comments)
Statement of Concern: Statements indicating that the work commitments provisions of the contract as agreed to by the sponsor group are adequate, require due diligence in completing the project, and protects the interests of both the state and sponsor group.

Response: While the state generally agrees with the statement, it is nonetheless proposing revisions to the work commitment provisions (Article 5) to strengthen them, as noted above.

WORK_COMM_03: (2 Comments)
Statement of Concern: Statements expressing concern that the contract inadequately defined the term "diligence."

Response: The parties negotiated long and intensely over the diligence standard. The standard is "Diligence means advancing the project as diligently as is prudent under the circumstances." This Article 5.1 definition contains core elements of the prudent operator standard that some have advanced as an alternative standard even though it is a standard that was developed for the different context of lease obligations. While the state is proposing revisions to the work commitment provisions in Article 5, it does not intend to seek changes to the diligence definition as we believe that the term is sufficiently clear and detailed.

WORK_COMM_04: (2 Comments)
Statement of Concern: Statements indicating that the sponsor group should demonstrate their commitment to the project by building the gas conditioning plant.

Response: The gas conditioning plant will be built at the same time as the other project facilities. There is no reason to single out this approximately $2 billion facility and have the sponsor group construct it in advance and without an approval from the legislature of the fiscal contract.

WORK_COMM_05: (1 Comment)
Statement of Concern: Statements expressing concern that the termination process set out in Article 5 of the contract makes it virtually impossible for the state to terminate the contract.

Response: The state disagrees with the conclusion that termination is virtually impossible under the fiscal contract. The termination standard was negotiated carefully and the standard was chosen to articulate a standard that would reflect the size and importance of the project, a standard that would make termination neither too easy nor too difficult. The standard, in fact, incorporates much of the prudent operator standard often employed in oil and gas field leases.

In light of public comment, the state is proposing several amendments to the work commitments clause to clarify and expand the remedies for failure to satisfy the work commitments. The state is proposing to create a new remedy of a diligence order to give the

Tribunal an option short of contract termination. The state is also proposing the sponsor group companies commit to a $1.0 billion letter of credit that the state could draw on if the full amount is not spent by the fourth contract year. Also, the state is proposing that if project sanction has not occurred within five years following the effective date, there would be a presumption of an absence of diligence.

WORK_COMM_06: (2 Comments)
Statement of Concern: Statements concerned that there is no obligation in the contract to commit reserves; develop fields; deliver volumes; maintain deliverability; etc. on the part of the sponsor group to the contract or to the project.

Response: The commitment of reserves and the maintenance of volumes will be part and parcel of the capacity commitment process associated with the FERC open season. That process is described in detail in Article 10. At the open season the sponsor group (and any other producer) will, through firm transportation commitments, essentially commit their reserves at specified volumes to the project.

WORK_COMM_07: (3 Comments)
Statement of Concern: Statements indicating that the contract should be amended so that sponsor group benefits do not accrue until project sanction.

Response: The state agreed in the May 24, 2006 fiscal contract to grant the fiscal certainty to the sponsor group based on the time when the sponsor group begins to incur risk in the project. The contract requires the sponsor group to initiate project planning within 90 days of execution of the contract and to pursue the development of the project with diligence. The sponsor group will spend around $1 billion prior to project sanction in moving the project forward, including activities such as the front end engineering and design, the open season, the FERC certificate and other agencies' permitting process. It was determined that it would be in the state's best interest to grant fiscal certainty from the time of execution of the contract to encourage the sponsor group to initiate project planning on the project and to move the project forward. The public expressed concerns that the sponsor group should not receive fiscal certainty until they commit to build the pipeline, that is, until project sanction. Upon review of the comments made during the public process the state is proposing revisions to the contract that would restrict certain benefits to the period following project sanction.

WORK_COMM_08: (3 Comments)
Statement of Concern: Statements expressing concern that the contract makes it too easy for the sponsor group to decide not to build a gas pipeline. Under the contract's terms no gas pipeline construction is required and no penalties are imposed in the first years of the contract if the corporations do not take action to proceed with a gas pipeline.

Response: This is not a correct reading of the contract. Within 90 days of the contract becoming effective, the sponsor group must begin project planning and then proceed through multiple pre-construction steps with "diligence". If the sponsor group "do not take action to proceed with a gasline", the state can, and likely will, bring a termination proceeding. If the sponsor group loses, the contract is terminated and the sponsor group will lose their fiscal certainty—a very strong penalty and deterrent. The state is also proposing that the sponsor

group post a $1 b. .ion letter of credit that could be drawn upon as an alternative remedy if the sponsor group fails to pursue the project with "diligence".

WORK_COMM_09: (5 Comments)
Statement of Concern: Statements indicating that work com itments in the contract have little in the way of specific commitments and dates.

Response: State is proposing several amendments to the work commitments clause to clarify and expand the remedies for failure to satisfy the work commitments. The state is proposing to include the May 10 Project Summary in the fiscal contract. This summary contains timelines for the various steps involved in completing the gas pipeline project. In addition, the state is proposing to create a new remedy of a diligence order to give the Tribunal an option short of contract termination. The state is also proposing the sponsor group companies commit to a $ 1.0 billion letter of credit that the state could draw on if the full amount is not spent by the fourth contract year. Also, the state is proposing that if project sanction has not occurred within five years after the effective date, there be a presumption of an absence of diligence.

WORK_COMM_10: (1 Comment)
Statement of Concern: Statements indicating that the diligence requirement in the contract is adequate and that the sponsor group faces huge penalties if they back out of the project after the end of the open season.

Response: While we generally agree with the statements, the state nonetheless is looking ... ways to strengthen the work commitments provisions.

3.4.2 TIME: General Project Timeline—SOC and Responses

This issue category deals with concerns about the timeline for the gas p peline project.

TIME_01: (76 Comments)
Statement of Concern: Statements expressing concern that delays in the approval of the contract could delay the project and the sooner the project is approved the sooner Alaskans would benefit from the project.

Response: We certainly concur in the view that contract approval delays will delay the project and its benefits. A delay in signing the contr... will have several implications.

First, a natural gas reserves tax would kill the gasline project should such a tax proposal be passed this November. The administration believes that a natural gas reserves tax would result in the cancellation of cooperative gas pipeline planning, a dramatic decrease in development of new oil and gas fields, and hasten the closure of the TAPS.

Second, imported LNG to the East and Gulf Coasts of the U.S. will become a stronger competitive factor as time moves on. The imminent competition will be from new LNG facilities like the Sabine Pass LNG Terminal currently being constructed in Texas, which is expected to commence operation in 2008 with an initial capacity of 2.6 bcf/d. There are existing pipelines connecting the Gulf Coast to the Midwest, so the LNG from Sabine Pass will directly compete with ANS gas.

Third, even if the contract is approved this year by the legislature and the project begins, it will not flow "first gas" until between 2015 and 2016 at the earliest. Between now and 2015, the state's discretionary budget is expected to have a cumulative deficit of $10 billion. The delay in constructing the gasline would increase the state's budget deficit until the first gas flows.

Fourth, such delay will diminish the favorable economic, fiscal and workforce impacts to the state and Alaskans from the pipeline. According to Information Insights' analysis, for each year of delay, the estimated present value revenue loss to state and local governments would be approximately one billion dollars per year. Furthermore, the state faces at least two other challenges from a delay in construction. With oil production in decline and gas revenue at least ten years off, a significant delay in project startup could result in a fiscal gap more serious than projected, forcing severe budget cutbacks unless other sources of revenue or savings are found. The second challenge stems from the aging of Alaska's skilled workforce. A five to ten year delay in the project could result in lower resident hire rates if Alaska's older skilled construction workers retire or leave the state.

In conclusion, the earlier the contract gets approved, the earlier the benefits from the development of ANS gas will be realized.

TIME_02: (27 Comments)
Statement of Concern: Statements expressing concern that the gas pipeline project is being rushed.

Response: In 2001, a $125 million feasibility study was begun. Five years later the project is still not underway notwithstanding the 2004 federal legislation encouraging the quick construction of the project and our nation's pressing need for natural gas. From that perspective, it can not be said that the project is being rushed. Further, even if the contract is approved this year by the legislature and the project begins, it will not flow "first gas" until 2015-16 at the earliest. Remember that this contract only provides the fiscal certainty under which the project itself can go forward. Project planning is committed to begin within 90 days of execution of this contract, and during that timeframe the major project management steps under which a pipeline project will be engineered, permitted and constructed will occur.

TIME_03: (1 Comment)
Statement of Concern: Statements indicating that the oil companies have every intention to move the project forward and get the gas moving.

Response: The fact that all members of the sponsor group have, in the past, indicated a willingness to sign the May 24, 2006 fiscal contract provides the best evidence of their intention to move the project forward. Delays in the execution of the contract are a function of the state's public process as required under the SGDA.

3.5 State and Local Impacts

Issues in this general area of concern included the creation of jobs for Alaskans by the gas pipeline project; anticipated benefits of the project; economic and social impacts of the project on communities; project impacts on public infrastructure; impact payments to

mitigate economic and social impacts of the project on communities; and project impacts on subsistence activities and Alaska Natives.

3.5.1 AKHire: Alaska Hire Provisions—SOCs and Responses

This issue category deals with the concerns of jobs created for Alaskans by the gas pipeline project.

AKHire_01: (42 Comments)
Statement of Concern: Statements expressing concerns regarding Alaska hire, including the impacts of U.S. Supreme court decisions on local hire.

Response: The State of Alaska's Workforce Investment Board has endorsed a construction workforce plan to prepare Alaskans for future construction jobs, including jobs associated with the Alaska gas pipeline. The Department of Labor and Workforce Development has made construction training a priority for workforce investment system funding. An Alaska hire preference must meet requirements set out by the U.S. Supreme Court in Hicklin v. Orbeck, 439 U.S. 518, a case stemming from a resident hire preference relating to construction of the Trans-Alaska Pipeline. The administration believes a method to maximize employment opportunities are through project labor agreements. *Interested readers should also see the response to AKHire_03.*

AKHire_02: (26 Comments)
Statement of Concern: Statements expressing concern about the lack of skilled workers needed for the project and the need for training programs and other ways that the state could assist Alaskans and Alaska contractors to better compete with non-Alaskans.

Response: The state is proposing a total investment in training for pipeline jobs exceeding $35 million. This significant investment in workforce development should assure that Alaskans who need and complete the training programs are able to work on the project.

AKHire_03: (19 Comments)
Statement of Concern: Statements expressing concern about the lack of a Project Labor Agreement (PLA) that promotes union hire.

Response: The state is proposing a new article in the contract requiring the parties to commence negotiations of a project labor agreement, which, subject to legal restrictions, includes provisions promoting the hiring of Alaska residents and establishing hiring halls in rural and urban Alaskan communities. Additionally, the state is proposing an article in the contract requiring the parties to enter into negotiations with the Canadian government concerning a cross-border labor agreement.

The objective of the PLA should be to ensure that every qualified, ready and available Alaskan has an opportunity to work on the project. To this end the state will not commit to a union or non-union only agreement and expects that whatever terms are negotiated are the same for all workers.

AKHire_04: (17 Comments)
Statement of Concern: Statements indicating that language in the contract appears to provide a preference for hiring non-Alaskans.

Response: Article 6, which addresses Alaska hire, was crafted to demonstrate a commitment to Alaska hire recognizing the constraints placed on an Alaska hire preference by federal law. An Alaska hire preference must meet requirements set out by the U.S. Supreme Court in Hicklin v. Orbeck, 439 U.S. 518, a case stemming from a resident-hire preference relating to construction of the Trans-Alaska Pipeline.

AKHire_05: (6 Comments)
Statement of Concern: Statements indicating that the contract exempts a failure to hire Alaskans from the conditions triggering a breach of the contract, which is contrary to the governor's sixth gas pipeline principle (jobs for Alaskans).

Response: This concern stems from the provision in the fiscal contract that... "Any failure to comply with, or breach of, Article 6 does not constitute a material breach justifying the termination of this contract." It is our understanding that there was some concern among the negotiators of this agreement that the provisions of this section, while not mandating Alaska hire, may raise legal questions at the federal level. Since this section was thought to present such issues, it was decided through the negotiation process to make this section subject to the Tribunal established under Section 26 of the contract. Language attempted to recognize the desire to exhaust the pool of resident workers while understanding that hiring non-residents is expected.

AKHire_06: (2 Comments)
Statement of Concern: Statements indicating that project employment benefits will be limited to areas close to the pipeline.

Response: The draft contract includes an agreement that all available positions will be advertised through the Alaska Job Center Network, including DOLWD's on-line labor exchange system, meaning available positions will be advertised and available to applicants statewide.

AKHire_07: (13 Comments)
Statement of Concern: Statements of concern that the Alaska hire provisions apply only to the Alaska portion of the project; the contract and the FIF should also address construction jobs for Alaskans in the Canadian portion of the gas pipeline project.

Response: The State of Alaska has begun discussions with the Canadian provincial and territorial governments about the possibility of cross-border labor agreements. We are confident such agreements will be reached and will benefit qualified Alaskan workers.

AKHire_08: (1 Comment)
Statement of Concern: Statements indicating that the $5 million provided by the sponsor group for training programs is inadequate. More work should be done to determine the optimal level of job training the state and corporations need to provide to ensure the that highest number of trained Alaskans are ready for work when planning and construction begin.

Response: The $5 million commitment will be provided collectively by the mainline entity and the individual sponsors, and will be supplemented with a significant investment by the state and federal governments. The state is proposing that the total investment in training for pipeline jobs exceed $35 million. This significant investment in workforce development should assure that Alaskans who need the training and are successful in completing training programs are able to work on the project. *Interested readers should also see the response to AKHire_16.*

AKHire_09: (1 Comment)
Statement of Concern: Statements indicating that since this is a state-sponsored project, scoring of proposals for gas pipeline project contracts should include a 5 to 10 percent bonus for Alaskan firms or individuals. This would be similar to the scoring of proposals for other state projects.

Response: The gas pipeline project will be developed by a the mainline LLC formed by the sponsors, including a state public corporation. The mainline LLC will be a nongovernmental entity, the majority of which will be owned by nongovernmental entities. It is expected that the state public corporation established to own the state's share of the pipeline will be exempt from procurement statutes that would require an Alaska Bidder Preference. It would not be appropriate to require a private entity to incur the additional cost of an Alaska Bidder preference. It is believed that Alaska firms will be able to compete against firms from outside the state without a preference.

AKHire_10: (6 Comments)
Statement of Concern: Statements expressing concern about the number and distribution of post-construction jobs for Alaskans.

Response: The state wants to be sure Alaskans are trained in advance to take the post-construction jobs associated with operation of the gas pipeline. Furthermore, the additional state revenue associated with operation of the gas pipeline will indirectly create thousands of jobs, across many industries for the life of the system.

AKHire_11: (2 Comments)
Statement of Concern: Statements requesting information about the number of Alaskans currently employed by the sponsor group.

Response: Following are the most recent data from DOLWD's Research & Analysis Section: British Petroleum employs 1,185 resident workers and 493 nonresident workers (29.4 percent nonresident). ConocoPhillips employs 828 resident workers and 151 nonresident workers (15.4 percent nonresident). ExxonMobil employs 21 resident workers and 7 nonresident workers (22.6 percent nonresident). Residency is calculated by matching workers reported by

these employers with the two most recent Permanent Fund Dividend files (2004 and 2005). Workers shown include all workers employed at any time during the year with that employer. NOTE: As is the case today on the ANS, the vast majority of construction workers on the gas pipeline project will not be employees of the sponsor group; instead, they will be employed by contractors and subcontractors of the mainline entity.

AKHire_12: (38 Comments)
Statement of Concern: Statements requesting training and/or work on the gas pipeline.

Response: Anyone interested in working in construction of the pipeline should contact their local Alaska Job Center or go to the Alaska Department of Labor and Workforce Development website, "Alaska Gas Pipeline Jobs," at www.jobs.state.ak.us/energy.htm.

AKHire_13: (1 Comment)
Statement of Concern: Statements asking that veterans be provided a hiring preference during construction of the gas pipeline.

Response: The Alaska Department of Labor and Workforce Development has in place a priority of service for veterans. This provision means that veterans are given priority for training services from the state's Job Centers through dedicated staff and job search preference. DOLWD also has an agreement with labor unions through which veterans are given priority for apprenticeship opportunities.

AKHire_14: (28 Comments)
Statement of Concern: Statements expressing support of (and need for) the Alaska hire provisions that currently exist in the contract.

Response: The administration agrees that the contract must ensure that a large proportion of new positions—especially during gas pipeline construction peaks—can be filled with Alaska residents. Article 6 of the contract includes several terms that would enhance Alaska employment and content. See details in *3.3 Project Labor Agreement/Alaska Hire and Content* in the Preliminary FIF.

AKHire_15: (9 Comments)
Statement of Concern: Statements supporting the lack of clauses in the contract that would require a project labor agreement.

Response: The state is proposing that parties to the contract commence the negotiation of a project labor agreement and a cross-border labor agreement following the effective date of the contract. *Interested readers should also see the response to AKHire_03.*

AKHire_16: (1 Comment)
Statement of Concern: The contract should provide for Alaska hire training in each of the municipalities affected by gas pipeline development, including training facilities in the North Slope Borough and personnel offices in the Borough that can work with local residents to improve their job opportunities.

Response: The Alaska Department of Labor and Workforce Development planned for the potential of a mega project when it made the decision to open job centers in rural communities like Barrow. The job centers connect Alaskans with training and employment opportunities. To design, build and operate the Alaska gas pipeline will require skilled workers in many fields, including welders, heavy equipment operators, truck drivers and general laborers. Preparing Alaskans for these occupations requires specialized facilities and equipment. Congress allocated $20 million for training workers for gas pipeline jobs. Another $3 million in federal funding and $3 million in state funding has been earmarked for a specialized training facility in Fairbanks. Fairbanks was chosen because of the extreme temperatures that are similar to those experienced along the proposed route and its reliable access to transportation and other infrastructure.

Alaska Job Center employees are prepared to help rural residents get training from the Fairbanks facility and elsewhere to prepare them for work on the project. Additionally, the department is developing alternative training strategies that will bring training to rural communities but still provide the same level of quality. Examples of the new training strategies are the construction academies recently held in several rural communities and regional hubs. Training provided through the Denali Commission has also been extremely effective in preparing rural Alaskans for construction jobs.

AKHire_17: (1 Comment)
Statement of Concern: Statements indicating that the contract's Alaska hire provision (Article 6.3) allowing a participant, affiliate, or midstream entity to bring personnel in on a non-competitive basis violates the purpose and intent of "Alaska hire."

Response: This language was crafted to demonstrate a commitment to Alaska hire recognizing the constraints of federal law. An Alaska hire preference must meet requirements set out by the U.S. Supreme Court in Hicklin v. Orbeck, 439 U.S. 518, a case stemming from a resident hire preference relating to construction of the Trans-Alaska Pipeline.

AKHire_18: (1 Comment)
Statement of Concern: Statements indicating that Alaska Native hire provisions and quotas need to be included in the contract similar to the TAPS agreement.

Response: The contract is designed to provide all workers in the State of Alaska with equal opportunities to work on the pipeline. This is accomplished through Alaska hire provisions for pipeline contractors and sub-contractors, funding for training centers (in both rural and urban locations), and providing apprenticeship opportunities for graduates coming out of the training centers. Specifically in regards to TAPS, there have been significant changes in Alaska's economic environment since construction of the oil pipeline. We learned from that experience that we must have a trained workforce ready to go to work on the day construction begins. Numerical requirements without an adequately trained workforce do not benefit either the worker or employer. All of the energy of the negotiating team went into obtaining the three elements mentioned at the beginning of this paragraph with the deep belief that all Alaskan's will receive maximum jobs benefit from this strategy.

The Alaska Native hire provisions and quotas referred to rely on federal law and clauses within the right of way grant for TAPS for their validity. To the extent that Congress

undertakes to authorize these provisions for the gas pipeline project, it will be possible to provide for similar Alaska Native hire under federal authority. The state constitution does not permit state law that requires jobs to be allocated based on a racial classification.

AKHire_19: (2 Comments)
Statement of Concern: Statements indicating that the last lines in the contract's *Section E.3 Recruitment* should be removed because they circumvent Alaska hire provisions.

Response: This language was crafted to demonstrate a commitment to Alaska hire recognizing the constraints of federal law. An Alaska hire preference must meet requirements set out by the U.S. Supreme Court in Hicklin v. Orbeck, 439 U.S. 518, a case stemming from a resident hire preference relating to construction of the Trans-Alaska Pipeline.

AKHire_20: (1 Comment)
Statement of Concern: Statements requesting clarification on how the $5 million amount specified in the contract's Alaska hire provision (Article 6.3) was determined and whether the amount is expressed in 2006 dollars.

Response: This amount was derived through extensive negotiations. The commitment is for the participants in the mainline entity, either as a part of the mainline entity or collectively as a group, to spend a combined total of $5 million dollars in funding workforce training programs in Alaska that could include:

1. informing Alaska's students about potential jobs and apprenticeship programs;
2. employing apprentices and interns;
3. working with teachers in Alaska school districts in developing curricula for courses relevant to jobs on the gasline project;
4. working with the Department of Labor in upgrading technology and equipment for training centers and developing training standards for jobs on the gasline project; and
5. providing on the job training for employees hired on the gasline project

AKHire_21: (2 Comments)
Statement of Concern: Statements advocating that training programs be developed in locations other than at existing VocTech centers.

Response: Construction of Alaska gas pipeline will require skilled workers in many fields, including welders, heavy equipment operators, truck drivers and general laborers. We envision the total investment in training for pipeline jobs to exceed $35 million. This significant investment in workforce development should assure that Alaskans who need the training and are successful in completing training programs are able to work on the project. For example, $3 million in federal funding and $3 million in state funding has been earmarked for a specialized training facility to be located in Fairbanks. The Alaska Legislature also appropriated $1.0 million this year to the King Career Center in Anchorage to expand its construction training program, to include an after-school program for out of school youth and young adults. In addition, the Alaska Works Partnership is engaged with numerous apprentice training providers to deliver construction training throughout the state.

Finally, the University of Alaska and numerous private training providers offer specialized training in Anchorage and throughout the state. For a list of eligible training providers, visit the following Department of Labor and Workforce Development Web site: http://almis.labor.state.ak.us/cgi/databrowsing/traProvidersSelection.asp?menuChoice=traProviders.

AKHire_22: (1 Comment)
Statement of Concern: Statements recommending that the State of Alaska re-negotiate the Alaska hire sections of the proposed contract to strengthen local hire provisions. The Municipal Advisory Group recommends the contract should include strong wage protections for Alaska workers to ensure that Alaska workers benefit foremost from the economic growth brought on by developing Alaska's natural gas reserves.

Response: The State of Alaska, Workforce Investment Board, has endorsed a construction workforce plan to prepare Alaskans for future construction jobs, including jobs associated with the Alaska gas pipeline. The Department of Labor and Workforce Development has made construction training a priority for workforce investment system funding. We envision the total investment in training for pipeline jobs to exceed $35 million. An Alaska hire preference must meet requirements set out by the U.S. Supreme Court in Hicklin v. Orbeck, 439 U.S. 518, a case stemming from a resident hire preference relating to construction of the Trans-Alaska Pipeline. The Department of Labor and Workforce Development is analyzing strategies to stimulate the industry to maintain their high wage standards.

AKHire_23: (1 Comment)
Statement of Concern: Statements encouraging the state to ensure that only American drivers carry freight from Alaskan ports.

Response: The State of Alaska in cooperation with the entities that will be involved during the construction phase will explore to the maximum extent practical under state and federal laws, use of Alaskans or U.S. citizens to carry freight from Alaskan ports.

3.5.2 GENBEN: General Benefits of the Pipeline—SOCs and Responses

This issue category addresses anticipated benefits and the creation of jobs for Alaskans by the gas pipeline project.

GENBEN_01: (171 Comments)
Statement of Concern: Statements in general agreement that the project will: 1) generate new needed revenues for the state and provide for the future; and 2) promote local and/or state-wide economic development, new industries, and general diversification of the economy.

Response: The administration agrees with these comments. See details in *Section 4 Analysis of the contract* and *Section 9.2.2 contract is in the Long-Term Fiscal Interest of the state* in the Preliminary FIF.

GENBEN_02: (236 Comments)
Statement of Concern: Statements in general agreement that the project will generate new jobs in Alaska and provide jobs for future generations.

Response: Alaska can expect thousands of indirect jobs through the revenues associated with a gas pipeline.

GENBEN_03: (11 Comments)
Statement of Concern: Statements asserting that regardless of the number of short-term jobs for Alaskans, the long-term jobs and benefits are more important.

Response: The state wants to be sure Alaskans are trained in advance to take the post-construction jobs associated with operation of the gas pipeline. The state revenue associated with operation of the gas pipeline will indirectly create thousands of jobs in Alaska every year for the life of the system.

GENBEN_04: (13 Comments)
Statement of Concern: Statements suggesting that a new fund be established with gas revenues. It was alternately suggested that the fund be used to benefit individuals and communities, that it be kept separate from the Permanent Fund and managed using a percent of market value payout schedule, and that it be an entirely new fund.

Response: These suggestions have great merit and deserve wide public debate. Revenues from gas pipeline ownership, production taxes, and royalties will not flow to the state for a minimum of ten years. Therefore, we feel that there is more than enough time for this discussion to take place and a satisfactory solution found before income accrues. By separating the discussion of a revenue fund from pipeline ownership and development we will all be able to focus on them separately and give each the thoughtful attention and analysis they deserve.

To get a sense of the relative amount of revenue that will accrue to the state should the gas pipeline be developed, see the Preliminary FIF, *Section 1.1 Alaska's Long Run Fiscal Outlook*.

GENBEN_05: (76 Comments)
Statement of Concern: Statements in general agreement that the project will strengthen existing oil and gas industry and attract new investments in oil and gas exploration or production industry.

Response: Agreement is acknowledged. See details in *Section 9.2.2 Contract is in the Long-Term Fiscal Interest of the state* in the Preliminary FIF.

GENBEN_06: (16 Comments)
Statement of Concern: Statements indicating that, while the contract may not be perfect from the state's perspective, a negotiated deal is always a compromise, and waiting to get a perfect deal may mean years of delay or no deal at all.

Response: Time is not on our side on the pipeline. We need the pipeline to commence operations in order to address the state's fiscal situation. Imported LNG to the East and Gulf

Coasts of the U.S. will become a stronger competitive factor as time moves on. Alaska must lock up its markets before the competition gets too strong. If we wait for a perfect deal, there will be delay to the natural gas pipeline, and such delay will diminish the favorable economic, fiscal and workforce impacts to the state and Alaskans from the pipeline. Information Insights, Inc. provided a 102-page report, which includes in-depth analysis on such impacts.

According to Information Insights' analysis, for each year of delay, the estimated present value revenue loss to state and local governments would be approximately one billion dollars per year. Furthermore, the state faces at least two other challenges from a delay in construction. With oil production in decline and gas revenue at least ten years off, a significant delay in project startup could result in a fiscal gap, forcing severe budget cutbacks unless new sources of revenue or savings are found. The second challenge stems from the aging of Alaska's skilled workforce. A five to ten year delay in the project could result in lower resident hire rates if Alaska's older skilled construction workers retire or leave the state.

GENBEN_07: (110 Comments)
Statement of Concern: Statements indicating the project will provide benefits for the U.S. as a whole including a stable supply of natural gas, improved overall environmental quality, lower energy costs, security, and jobs.

Response: More than 50 percent of all heated U.S. households have natural gas heat and natural gas meets one-fourth of the country's total energy needs. It is increasingly popular for use by U.S. homeowners, schools, businesses, and electric power-generation plants because it is efficient, clean, and reliable. High prices for natural gas, fueled by an inability to keep up with growing demand, has had a direct effect on American households' disposable income, and consequently on the economy as a whole. Cheaper supplies of natural gas in other countries put the United States at a competitive disadvantage and history shows that sustained economic growth and job creation depends on stable and competitive energy prices. Adding Alaska's enormous supply of natural gas to the domestic market will go a long way towards stabilizing domestic gas prices.

Currently, 20 percent of U.S. natural gas production comes from the Gulf of Mexico, production that was significantly reduced in 2005 by Hurricane Katrina. Having additional major sources of production, such as Alaska's fields, reduces the impact of temporary shutdowns in the Gulf and has a stabilizing effect on the economy. Obtaining a larger percentage of the nation's growing demand for natural gas from domestic sources also reduces U.S. dependence on supply from less stable foreign sources.

GENBEN_08: (15 Comments)
Statement of Concern: Statements indicating that the project will lead to improvements in public infrastructure; including roads, ports, schools, training programs, etc.

Response: Whichever gas pipeline route is chosen, the "leave behind" infrastructure improvements are likely to be sizeable. Just as the development of Prudhoe Bay oil fields and the oil pipeline established the Yukon River Bridge and the Dalton Highway as new infrastructure for long-term state benefit, the gas pipeline project is likely to have similar

benefits. For the past two years, the state has been targeting highway development funds to projects that will better facilitate the construction of the gas pipeline. These include upgrades to substandard bridges, passing lanes and other highway improvements. The benefits of this work will flow to the general economy over the long-term as well as the pipeline project. Similar improvements are likely in a number of areas including ports, railroad improvements, highways, trade school training facilities and other improvements.

Details regarding this topic are discussed in *Section 4.7.9 Transportation Issues and the Highway Use Agreement* of the Preliminary FIF.

GENBEN_09: (1 Comment)
Statement of Concern: Comments asking for clarification on the time period over which benefits from the contract and the pipeline can be expected to accrue.

Response: The contract would bring multiple benefits to the state and to the people of Alaska. Some benefits could take place right after the execution of the contract, while others start to accrue once commercial operations commence.

One benefit is that the contract would create employment and training opportunities for Alaska residents and increase economic opportunities for Alaska business. Alaska hire policies in the contract deal with prioritizing and maximizing the hiring of state residents and the contracting with state businesses during the construction of the portion of the project located in the state, as well as after the commencement of commercial operations. The contract also requires the mainline entity spend a combined total of $5 million in funding workforce training programs and activities in Alaska. Additionally, the ANGPA provides grants of up to $20 million for an Alaska pipeline training program to recruit and support this training. Those benefits could start right after the execution of contract.

Once commercial operations commence, the contract will generate significant state and municipal revenues over the project's life. New revenues would be from not only gas production, but also extended life of TAPS and other related oil production properties. These additional oil and gas revenues accruing to the state would be used to support education, health facilities, and other public services for Alaska residents. Another important benefit to Alaskans would be access to supplies of low-cost gas. Many areas of the state are not presently served by natural gas utilities, and several potential and current industrial uses could be served by natural gas if the project is developed. This gas could be used for commercial, industrial and residential heating needs, as well as for additional electricity generation capacity.

3.5.3 COMM: Community Impacts—SOCs and Responses

This issue category covers economic and social impacts of the gas pipeline project on Alaska communities.

COMM_01: (1 Comment)
Statement of Concern: Statements indicating support for the contract as long as the future of Valdez is secure. This SOC includes comments indicating that with oil production in decline, the Valdez economy will be under increased stress.

Response: With declining oil production the economy for the entire state is in jeopardy, not just Valdez. Construction of a gas pipeline develops the natural gas resource base and thereby expands the tax base. By expanding the resource base, the development of existing and future oil supplies is enhanced. Increased oil production will improve the longevity of TAPS and the municipalities that receive tax revenues from TAPS will benefit. Without a gas pipeline, TAPS throughput, as well as oil revenues to Valdez, are expected to decline steadily, and are likely to end sometime between 2018 and 2030. With a gas pipeline, the oil pipeline would continue to have an economic level of throughput and revenues are generated for Valdez beyond 2050.

COMM_02: (4 Comments)
Statement of Concern: Statements indicating that the contract and the project give the state control over its future economic development.

Response: Ownership of the gas and an ownership position in the pipeline afford the State of Alaska the maximum amount of control over its own future and the use of its resources. This statement will hold true from the day of first gas until depletion of the resource decades in the future.

COMM_03: (8 Comments)
Statement of Concern: Statements indicating that communities along the pipeline route are likely to see relatively high levels of economic development and benefits from the project.

Response: This is a comment that all too often seems to be lost in all the concerns over the negative impacts of the pipeline development. It is certainly the goal of all involved in the project to see as much positive economic development in the communities as possible. Besides the economic activity generated by the jobs and services created for construction of the pipeline, the infrastructure development and economic growth along the pipeline corridor should benefit the people of Alaska for decades to come.

COMM_04: (8 Comments)
Statement of Concern: Statements expressing concern about the adverse impacts on Alaska residents and affected communities of a pipeline construction boom.

Response: The need to address specific impacts during construction is why the impact payment was included in the contract, with the flexibility for funds to be allocated to the areas of greatest need. Article 18.1 of the contract establishes $125 million in impact payments to economically affected communities.

COMM_0. : (8 Comments)
Statement of Concern: Statements identifying business start-up ideas based on resources and supplies the pipeline construction project will require.

Response: The governor encourages the development of business start-up ideas based on resources and supplies the pipeline construction project will require. A primary goal of the governor is to increase economic opportunities for Alaska businesses. The proposed contract furthers that goal by providing that the owners of the pipeline and their subcontractors employ state residents and contract with businesses in the state to work on construction and

operation of the project to the extent these residents and businesses are available, competitively priced and qualified.

See *Section 9.2.3.3 Maximize Benefits* in the Preliminary FIF.

COMM_06: (3 Comments)
Statement of Concern: Statements expressing concern that communities not on the pipeline route will not benefit from the project, particularly in terms of infrastructure development, impact payments, and property tax benefits.

Response: Certainly the impacts and benefits will be much more apparent in the areas of direct construction. However, direct and indirect benefits will be seen throughout the state, in areas like jobs and job training. As the pipeline begins producing revenue for the state, all communities within the state will benefit from the project. Whether the benefits are derived through some form of revenue sharing, increased Permanent Fund dividends, reduced taxes, or some other legislative program, the people of the state will have many opportunities to share in the economic benefit associated with the pipeline development.

COMM_07: (1 Comment)
Statement of Concern: Statements suggesting that the distribution of revenues from the project should include direct payments to communities without going through the appropriation process every year.

Response: The contract cannot direct the payments to affected municipalities or to specific types of impacts since we do not now know which communities will feel what effects or how the impacts may manifest themselves. There was also a great deal of concern that a process that directed payments to specific municipalities or impacts would be subject to challenge as circumventing the constitutional process for the appropriation of funds. By allowing for the legislative appropriation process to function unaffected by contract requirements, the legislature can look at and balance relative needs and coordinate those funds with other programs and spending. With the addition of proposed legislative amendments that would allow for input by the Municipal Advisory Group in the determination of "impacts," the legislative process should be less chaotic and more accountable in allocating funds.

COMM_08: (1 Comment)
Statement of Concern: Statements encouraging the state to hold communities harmless should the project be delayed, suspended or terminated.

Response: While the project is under construction, it is anticipated that local governments will incur costs for addressing local economic and social impacts resulting from construction activities, temporary population increases, and other factors. Local governments will receive an impact payment from the mainline entity to cover these increased costs associated with these economic and social impacts. The state, as a 20 percent equity owner in the project will contribute $25 million for impact payments.

Impact payments will be paid over a 6-year period with the first payment to be made by the Mainline entity at the end of the calendar year following project sanction. Under the contract, if the Mainline entity suspends its obligations, the Mainline entity may suspend making

impact payments for the remainder of the suspension period beginning one year after a *Judicial Suspension Notice* or a *Notice of Force majeure*. If the contract is terminated before the final impact payment is made, the obligations of the mainline to make unpaid impact payments are terminated.

The state believes that because it is unlikely that significant negative impacts would occur early on in the project process it is therefore expected that the initial impact payments will suffice to cover the impacts in the event of early termination of the project.

COMM_09: (9 Comments)
Statement of Concern: Statements advocating the use of new revenues from the project to enhance public infrastructure, including education, healthcare, roads, etc.

Response: The key to this statement is opportunity. Absent a pipeline project there is little chance under the current fiscal system to expand these types of programs throughout the state. It is only with the addition of $100 billion in revenue generated from the gas pipeline and gas development that the opportunity even exists to take on infrastructure and road projects, or increase education and healthcare funding.

3.5.4 INFRA: Local Infrastructure Needs—SOCs and Responses

This issue category covers the impacts of the gas pipeline project on public infrastructure.

INFRA_01: (2 Comments)
Statement of Concern: Statements indicating that the project will have a negative effect on transportation or other local infrastructure.

Response: The concern for adverse impacts to infrastructure is quite valid. During construction of the oil pipeline between Prudhoe Bay and Valdez, the state's infrastructure was severely taxed. This included both physical deterioration, and an extreme burden on the operations of schools, police and fire services, local government functions and other actions of government. Such services were burdened by a high level of service needed and the loss of employees attracted by the high wages related to construction of the pipeline.

The report prepared by the Municipal Advisory Group identified about $125 million (2003$) in costs for local governments and others to address the potential impacts from the project. In response to these costs, the draft contract calls for $125 million in impact payments paid over a six-year period beginning in the year of project sanction.

In response to a concern for impacts to the transportation system the Department of Transportation and Public Facilities has conducted negotiations with the sponsor group on a Highway Use Agreement. In these negotiations a required upfront investment in transportation infrastructure of approximately $400 million has been identified, including cost sharing principals to be used to allocate this cost. Likewise the cost of system rehabilitation after construction may approach $800 million and again cost sharing principals have been discussed.

Details regarding this topic are discussed in *Section 3.2.8 Article 18 – Impact Payments*, *Section 4.1.6 Impact Payments*, *Section 6.3.2 Social Impacts*, *Section 4.7.1 Transportation*

Issues and the Highway Use Agreement, and the *Transportation Issues Section* in the Executive Summary of the Preliminary FIF.

INFRA_02: (1 Comment)
Statement of Concern: Statements expressing concern that the project will create construction jobs but not manufacturing jobs.

Response: Most of the direct jobs associated with the construction of the gas pipeline will be in the construction and oil and gas industries. The trade and service industries will be the primary beneficiaries of indirect and induced jobs associated with the project. Longer term jobs associated with operation of the gas pipeline will likely occur in the transportation and oil and gas industries.

Alaska's manufacturing sector currently includes workers in the seafood processing, lumber and petrochemical industries. If additional gas-related petrochemical facilities are developed as a result of the availability of gas, those jobs will likely occur in the manufacturing sector.

Longer term, the tax revenue derived from the gas could support thousands of jobs through state and local government expenditures.

INFRA_03: (3 Comments)
Statement of Concern: Statements expressing concern that the state needs supporting infrastructure (i.e. roads, ports, etc.) before building the pipeline.

Response: The Alaska Department of Transportation and Public Facilities (DOT&PF) has been engaged in an analysis of transportation infrastructure needs required to support the construction of the gas pipeline beginning in 2005. This analysis was done in a broad fashion and considered all possible pipeline alternatives, all modes of transportation (marine, air, highway, rail), and all possible ports of entry for the logistics of the pipeline construction. From Delta Junction northward to Fairbanks and Prudhoe Bay, all pipeline alternatives will rely on the Richardson, Steese, Elliott and Dalton Highways in that corridor. Consequently, the DOT&PF has undertaken several needed improvements on these highways including reconstruction of substandard bridges, installation of passing lanes and highway reconstruction.

The DOT&PF has also been engaged in the negotiation of a Highway Use Agreement (HUA) which sets forth the principals of how the construction of the pipeline can proceed in a manner that does not unduly impact other users and ensures that the highway network is kept in good condition both during and after construction. This agreement has identified a list of projects that are needed prior to construction that will cost in excess of $400 million dollars. It has also identified that the follow-up repair work to transportation infrastructure that is damaged due to the pipeline project's construction activity will be a responsibility of the pipeline builder to repair.

Details regarding this topic are discussed in *Section 4.7.9 Transportation Issues and the Highway Use Agreement* of the Preliminary FIF.

INFRA_04: (1 Comment)
Statement of Concern: Statements encouraging the state to provide infrastructure development at the Haines Port to facilitate the industry needs for the project.

Response: The Alaska Department of Transportation and Public Facilities (DOT&PF) has been engaged in an analysis of transportation infrastructure needs required to support the construction of the gas pipeline beginning in 2005. This analysis was done in a broad fashion and considered all possible pipeline alternatives, all modes of transportation (marine, air, highway, rail), and all possible ports of entry for the logistics of the pipeline construction including the Haines Port.

Haines is likely to be a major port of entry for pipeline construction that takes place in Yukon Territory and perhaps northern British Columbia. By some estimates, it would be the largest port of entry for the entire project and most certainly the largest port of entry among Alaska ports. Though Skagway is a potential alternate port for this traffic, the steep highway grades and relative congestion in the downtown port area especially during the cruise ship season suggest that Haines is likely to be the selected port of entry.

Through negotiations between DOT&PF and the sponsor group on the Highway Use Agreement, it is clear that the firms have identified the need for improvements in Haines as a clear priority. A logistics analysis done for the sponsor group in 2002 suggested that truck traffic on the Haines Highway would be significant and identified the Chilkat River Bridge as the top priority project to facilitate this traffic. Their analysis has also identified a need to possibly relocate the state ferry terminal at Haines in order to enlarge the Haines Port.

At this time, while no clear responsible entity for paying for improvements to the Haines Port has been identified, in all likelihood, the mainline LLC and/or the sponsor group would have primary responsibility.

Details regarding this topic are discussed in *Section 4.7.9 Transportation Issues and the Highway Use Agreement* of the Preliminary FIF.

3.5.5 IMP_$: Impact Payments—SOCs and Responses

This issue category covers concerns regarding the impact payments to mitigate economic and social impacts of the gas pipeline project on communities.

IMP_$_01: (3 Comments)
Statement of Concern: Statements expressing concern that impact payments in the contract may be insufficient to cover all the costs in communities affected by the construction of the pipeline.

Response: To alleviate as much of the burden as possible on the communities economically affected by the gas pipeline project, the contract calls for $125 million in impact funds to be paid by the project sponsors during the construction period. The state based the $125 million estimate on a 2004 report by Information Insights that determined likely impacts to communities. The contract schedules payments to be made periodically through the construction period. If there are significant delays during construction it is possible that impact payments could be paid out prior to the pipeline being completed. In order to limit that risk, the contract allows for cessation of impact payments if construction on the project is

halted for more than a year. Since the contract does not direct the allocation of funds, the legislature can look at and balance relative needs, and coordinate those funds with other programs and spending, including funding for impacts to communities that might occur after contract impact payments cease.

IMP_$_02: (6 Comments)
Statement of Concern: Statements advocating that the state develop a plan or guidelines for use of the impact payments and advocating the use of impact payments for training and education and to support housing prices in years following the construction. Statements expressing concern that the contract subjects impact payments to municipalities to appropriation and debate by the legislature.

Response: The contract does not direct the payments to affected municipalities or to specific types of impacts since we do not now know which communities will feel what effects or how the impacts may manifest themselves. There was also a great deal of concern that a process that directed payments to specific municipalities or impacts would be subject to challenge as circumventing the constitutional process for the appropriation of funds. By allowing for the legislative appropriation process to function unaffected by contract requirements, the legislature can look at and balance relative needs and coordinate those funds with other programs and spending. With the addition of proposed legislative amendments that would allow for input by the Municipal Advisory Group in the determination of "impacts," the legislative process should be less chaotic and more accountable in allocating funds.

IMP_$_03: (1 Comment)
Statement of Concern: Statements indicating that socio-economic impact mitigation plans for the Upper Tanana Region are needed as this region will be affected by the segment of the pipeline that does not parallel TAPS.

Response: The project planning phase will begin within 90 days of contract execution. Appropriate impact mitigation plans will be completed as a part of that planning phase, prior to the beginning of actual pipeline construction activities.

IMP_$_04: (1 Comment)
Statement of Concern: Statements suggesting the need to create an organized borough for the Upper Tanana Region so that this affected region can generate benefits and collect impact payments.

Response: Proposed legislative changes to the stranded gas act will allow for impact payments to communities regardless of whether they are incorporated or not, however there is no provision in the contract for the distribution of revenue Payments in Lieu of Taxes (PILT) to unincorporated areas of the state or to municipalities that do not levy a property tax. In order for the Upper Tanana Region to benefit directly from the PILT payments they would need to form a borough and levy a property tax. In that instance the contract provides a mechanism for new boroughs to receive a portion of the PILT associated with the gas pipeline and TAPS.

IMP_$_05: (3 Comments)
Statement of Concern: Statements expressing concern that the contract bases impact payment amounts on 2001 prices, with no accommodation for inflation.

Response: The state fully understands that all parties take certain risks in locking in the Payments in Lieu of Taxes (PILT) structure prior to completion of the pipeline. If the pipeline experiences cost overruns, the PILTs might not meet the goal of equivalent net present value (NPV). Conversely, if major expansions occur that require less capital investment per mcf than the original project, the PILT revenue could exceed the NPV of a status quo tax structure. The state was fully aware of the concerns of impacts on communities during construction. The need to address specific impacts during construction is why the construction impact PILT was included in the contract with the flexibility for funds to be allocated to the areas of greatest need. Article 18.1 of the contract establishes $125 million in impact payments to be appropriated by the legislature to economically affected communities. The construction impact payments are based on the estimates contained in the Municipal Impact Analysis study conducted by Information Insights. They are reported in 2004 dollars with a total impact payment of $120.6 million. The $125 million-figure reflects inflation of the original sum to the time this provision was negotiated. The statement is correct that there is no provision for further inflation adjustment in the contract unless the project construction period exceeds the six year estimate. Although it is easy to argue that this should be considered a fiscal concession it is important to realize the general nature of the estimates makes determining the actual future costs of impacts difficult to predict at best. By allowing for the legislative appropriation process to function unaffected by contract requirements directing the allocation of these funds, the legislature can look at and balance relative needs, and coordinate those funds with other programs and spending to make sure funds are available to mitigate impacts.

IMP_$_06: (1 Comment)
Statement of Concern: Statements that recommend that Sec. 43.82.505 of the Stranded Gas Development Act (SGDA) be amended to read:

Sec. 43.82.505. Payments to economically affected municipalities and communities. If the commissioner executes a contract under AS 43.82.020 that will produce one or more economically affected municipalities and communities, the commissioner shall include a term in the contract that provides for a portion of the periodic impact payments to the state that may be appropriated to the Alaska gas pipeline construction impact fund established in (c) of this section to benefit the economically affected municipalities and communities under the principles in AS 43.82.520.

Statements also recommended that impact payment funds be available both to municipal governments that extraterritorially serve areas of the unorganized borough, and to nonprofit organizations that serve areas of the unorganized borough, and recommended an amendment to the SGDA to that effect.

Statements also recommended that the SGDA be amended to prohibit grant money received under AS 43.82.505 from being used for the retirement of municipal debt unrelated to gas pipeline impacts.

Response: We agree and have supported the addition of similar language in amendments to the SGDA in order to put into place the mechanism for the distribution of impact payments.

IMP_$_07: (1 Comment)
Statement of Concern: Statements recommending an amendment to the SGDA conforming amendments. The proposed amendment calls for the establishment of a special account (AK Natural Gas Pipeline Construction Impact Fund) in the general fund into which the Department of Revenue shall deposit impact payments received by the state. The proposed amendment also describes the arrangements for appropriating funds to municipalities and communities.

Response: Article 18 of the contract establishes that not less than $125 million dollars in impact payments will be made to the state by the sponsors. It is the state's job to then use, either through distribution to economically impacted communities or through other devices to mitigate those impacts. Although we must be mindful of the prohibition on dedicated funds in our constitution, current legislative practices allow for the establishment of special non-dedicated accounts. In the third special session, the governor introduced SB 3002 which included such an account. However, that provision was not included in the bill that was reported out of committee.

3.5.6 SUBST: Subsistence—SOCs and Responses

This issue category deals with concerns regarding subsistence issues.

SUBST_01: (1 Comment)
Statement of Concern: Statements indicating that the contract will enable the continued ability of rural residents to participate in subsistence activities and lifestyles.

Response: The contract is designed to get a gas pipeline built as soon as possible while obtaining the maximum value of gas to the state. When this is accomplished the state will have the ability to assist all Alaskans in maintaining a way of life that is important to all of them.

SUBST_02: (2 Comments)
Statement of Concern: Statements indicating that the state should require specific protection measures to preserve aboriginal lands and hunting grounds; an item that is noticeably absent from the proposed contract.

Response: The contract as it now stands is a fiscal agreement designed to establish the economic framework upon which a gas pipeline can be built. Environmental protection standards will be addressed in the various federal environmental impact statements and State of Alaska Best Interest Findings that will follow during the project permitting phase. That is the appropriate place for those important issues to be addressed.

3.5.7 AK_NATV: Alaska Native Issues—SOCs and Responses

This issue category addresses Alaska Native issues.

AK_NATV_01: (3 Comments)
Statement of Concern: Statements expressing concern about the lack of dialog between the state and Alaska Natives with respect to the contract and the project.

Response: The fiscal contract was designed to set the fiscal structure under which the sponsor group's tax and royalty regime would be set for a specific period of time. It was an agreement negotiated between the State of Alaska as sovereign and three private companies under the terms and conditions set down in the Stranded Gas Development Act (passed by the Alaska Legislature). The process was pursued with the goal of providing all the people of Alaska with a contract that resulted in construction of a pipeline and provided the maximum economic benefit to the state. Those entities directly affected by the contract (Boroughs and communities through which the pipeline passes) were provided with seats on the Municipal Advisory Group (MAG) Board which provided the negotiating team with their views and opinions throughout the process. In addition, the state designated the Tanana Chiefs Conference (TCC) as representative of the unorganized borough on the MAG. It was anticipated that Alaska Native and rural concerns would be represented through the TCC.

AK_NATV_02: (1 Comment)
Statement of Concern: Statem[illegible] indicating if Alaska Natives are for the pipeline then the state should approve the contrac[illegible]

Response: The contract is desig[illegible]ed specifically for the benefit of all Alaskans. Because it sets the stage for the majority of financial benefit coming into the state for a long period of time, the majority of Alaskans must feel confident that the contract is in the best interest of the entire population. By getting a pipeline without lengthy litigation and protecting the maximum wellhead value of the gas being produced, we believe it serves both native and non-native Alaskans.

AK_NATV_03: (1 Comment)
Statement of Concern: Statements expressing concern that there is not enough discussion of appropriate language representing the interests of Alaska Natives.

Response: By getting a pipeline as soon as possible and placing in the contract provisions that protect the maximum value of the gas at the wellhead, it is believed all interests are protected. Specific division of the benefits derived from the pipeline can and should be addressed when we know how much is available and the timeframe in which it will be available. It is important to remember that if the state pursues a course of action that leads to protracted litigation or a diminishment of the value of the gas produced, all Alaskans (both native and non-native) will have to deal with the consequences.

AK_NATV_04: (1 Comment)
Statement of Concern: Statements indicating that Alaska Native hire provisions and quotas need to be included in the contract similar to the TAPS agreement.

Response: The contract is designed to provide all workers in the State of Alaska with equal opportunities to work on the pipeline. This is accomplished through Alaska hire provisions for pipeline contractors and sub-contractors, funding for training centers (in both rural and urban locations), and providing apprenticeship opportunities for graduates coming out of the training centers, and the proposed Project Labor Agreement. Specifically in regards to TAPS, there have been significant changes in Alaska's economy since construction of the oil pipeline. We learned a lot from that experience, principal of which is that we have to have a trained workforce ready to go to work on the day construction begins. Numerical requirements without an adequately trained workforce do not benefit either the worker or employer. All of the energy of the negotiating team went into obtaining the three elements mentioned at the beginning of this paragraph with the deep belief that all Alaskan's will receive maximum jobs benefit from this strategy. *Interested readers should also see the response to AKHire_21.*

AK_NATV_05: (1 Comment)
Statement of Concern: Statements advocating inclusion of "Section 29" in the pipeline contract not just as an agreement. This will ensure adherence to Section 29 for all Alaskan Natives as an equal opportunity for those distressed communities. Section 29 should encompass the whole State of Alaska and not just the geographical areas of operation.

Response: "Section 29" within the TAPS Federal Right-of-Way specifically refers to quotas for native hire. The Stranded Gas Development Act contract is designed to provide all workers in the State of Alaska with equal opportunities to work on the pipeline. This is accomplished through Alaska hire provisions for pipeline contractors and sub-contractors, funding for training centers (in both rural and urban locations), and providing apprenticeship opportunities for graduates coming out of the training centers. Specifically in regards to TAPS, there have been significant changes in Alaska's economic environment since construction of the oil pipeline. We learned a lot from that experience principal of which is that we have to have a trained workforce ready to go to work on the day construction begins. Numerical requirements without an adequately trained workforce do not benefit either the worker or employer. All of the energy of the negotiating team went into obtaining the three elements mentioned at the beginning of this paragraph with the deep belief that all Alaskan's will receive maximum jobs benefit from this strategy.

3.6 Gas for In-state use

Issues in this general area of concern included the provision of natural gas for in-state use; off-take point locations to meet in-state needs; and provision of natural gas to support future in-state industrial uses.

3.6.1 AK_DMD: In-State Demand—SOCs and Responses

This issue category covers concerns about the provision of natural gas for in-state use.

AK_DMD_01: (123 Comments)
Statement of Concern: Statements expressing concern about the availability and cost of ANS gas for in-state use, ensuring all Alaskans benefit, calling for priority to be placed upon availability of ANS gas for in-state use, and unavailability of information for potential in-state users for planning purposes.

Response: Providing for in-state gas demand will be strictly a state decision in accordance with the provisions of the federal ANGPA legislation, FERC regulatory requirements, the provisions of the fiscal contract, in-state utility and commercial interests, and state policies regarding development of in-state infrastructure and in-state gas pricing.

The state's concerns about ensuring access to the pipeline for needs within Alaska were addressed in ANGPA in three ways. Working with the U.S. Congress, the state made sure that the ANGPA created special provisions directed at in-state service. First, ANGPA requires that a pipeline project study in-state needs, "including tie-in points along the Alaska natural gas transportation project for in-state access" (Section 103(g)). Second, ANGPA requires that the commission provide for "reasonable access" to the pipeline for transportation of royalty gas of the state "for the purpose of meeting local consumption needs within the state" (Section 103(h)). Third, in section 109, ANGPA confirms that a lateral (spur line) from the mainline serving in-state needs shall be regulated by the RCA, not FERC. Section 109 also states that FERC will consult with the state regarding mainline rates that transport gas for delivery within Alaska.

FERC built upon this foundation in the open season regulations. FERC requires the pipeline to offer an intrastate transportation rate in the open season and in its tariff, based on mileage, separate and apart from any interstate rates. The intrastate rate is to be constructed without reference to the costs of making deliveries outside of Alaska. In-state users who commit at an open season to take gas deliveries will not subsidize deliveries outside of Alaska. Second, FERC requires the pipeline to propose in-state delivery points as determined by the required study of in-state needs. The pipeline must also include an estimate of how much capacity will be used in state (18 CFR Section 157(b) and (c) (1), (8), and (14)). In addition, the FERC authority provided specifically for the Alaska gas pipeline project to mandate an expandable pipeline design to further enhance the ability to obtain future increments of in-state gas capacity during expansion open seasons.

Within the terms of the fiscal contract are eight specific provisions which ensure the availability of gas for in-state needs at reasonable costs. To begin with, the contract ensures that the pipeline traverses Alaska, providing cost-effective, local access to the gas – but that provision alone adds almost 20 percent to the length of the pipeline (and about 13 percent to the total cost), compared with a route directly into Canada to Chicago. The fiscal contract also sets a timetable for the pipeline to complete its study of gas consumption needs and offtake points in Alaska and requires consultation with the state on the location of these off-take points. The contract requires the mainline LLC to construct and pay for facilities at four

offtake points agreed with the state. It confirms that in the open season, the pipeline will offer mileage sensitive service and offer segmented capacity to facilitate in-state service.

The contract requires the mainline LLC to cooperate with any person wanting to connect facilities to the pipeline for in-state service. The contract also requires the mainline LLC to conduct a study of NGL processing opportunities in Alaska before the open season. Alaska will gain useful knowledge of the feasibility of processing natural gas liquids in Alaska because of this study. The contract also provides that the state – and any other party – can bid separately at an open season for in-state capacity, and that these bids will be evaluated separately from bids for capacity beyond the state.

Finally, all parties can sell gas within Alaska. Concerns have been raised by the fiscal contract provision (Article 9.4) which states, ". . . no party is required to sell Gas to an Alaska Purchaser." When reading this, it is important to include the preceding clause: "Any Party may supply Gas to Alaska purchasers. . ." In the interests of clarification however, the state proposes to delete the language "but no Party is required to sell Gas to an Alaska Purchaser." The proposed revision reads "The State and each Producer may supply Gas to Alaska purchasers, and may establish terms for the sale of its Gas for in-state use."

The purpose of this provision is twofold; first, to ensure competition will exist, ensuring the best competitive prices are available in-state; and second, to protect the companies from a legal doctrine known as "implied covenants". This provision was carefully crafted to provide a predictable, competitive, level playing field for both Alaskans and the members of the sponsor group.

The Alaska portion of the Alaska gas pipeline project is the Mainline through the state, including the four offtake points, and the upstream elements delivering gas to the Mainline. The infrastructure necessary to deliver gas from the Mainline to Alaskans will be developed by in-state interests developing projects in parallel with the Alaska gas pipeline project. In-state interests include private concerns, public corporations and utilities. In all cases, an economic business case must be developed to ensure that the proposed project is economically justifiable, provides the expected in-state benefits, and is in the best interests of all Alaskans. Individual proposals must be reconciled to arrive at optimum economic solutions. In particular, the role of public entities, such as ANGDA, as aggregators of gas purchase commitments or as developers of in-state infrastructure must be clarified. In addition, the role of such agencies as AIDEA, APA, AVEC, and the Denali Commission in encouraging development of instate infrastructure or in meeting commercial credit and capital requirements should be evaluated.

Taking of state gas in-kind provides the state with policy options to meet Alaskan needs and to provide Alaskan job opportunities and economic growth. Both direct and indirect benefits from Alaska gas must be considered when developing in-state gas use policies. Such policy decisions critical to ensuring availability of ANS gas for these in-state uses include: 1) setting pricing policy for in-state deliveries of state gas; 2) providing creditworthiness supports necessary to allow in-state shippers to bid for firm capacity; and 3) planning for and encouraging infrastructure development.

The state's in-state gas pricing policy must be designed to meet the constitutional requirement to use state resources to maximize the benefit to all Alaskans. Various pricing policies and their impacts on Alaskans and the Alaska economy can be considered – from

simply allowing market forces to dictate prices, to tracking lower-48 prices, to ensuring users benefit from the transportation cost differences between the lower-48 and Alaska ("netback pricing"), to direct subsidies for some or all Alaskan users. In addition, the health of the in-state projects undertaken is likely to be affected by the in-state gas pricing policy developed.

Availability of in-state gas holds the promise of ensuring Southcentral's long-term energy supply, of drastically reducing energy costs for the Fairbanks area, and providing Alaska's many rural areas with reasonable energy alternatives. The result is likely to be greatly reduced costs of living in the interior and in rural Alaska, and the development of economic opportunities previously unavailable to Alaskans due to energy costs.

The administration has drafted the following gas policy as a guideline for the state's policy makers to use as they decide upon an in-state gas use policy for Alaska:

In-State Gas Use Policy:
It is the policy of the state to take its gas royalties and production taxes in-kind for the general welfare of the state and to encourage construction of the Alaska gas pipeline. In accordance with Article 8 of the Alaska Constitution, the state's in-kind gas will be used for the maximum benefit of Alaskans. In particular, Alaska's in-kind gas will be used:

- To ensure availability of adequate gas and energy resources to South-Central Alaska
- To provide cost-effective gas and energy supplies to the Fairbanks-North Star region
- To provide dependable energy supplies to rural Alaska at reasonable costs
- To grow the Permanent Fund, on behalf of all Alaskans
- To ensure availability of gas and energy resources to meet in-state needs, and to foster economic opportunity and diversity

Toward these policy goals, it is also the policy of the state to foster in-state infrastructure development and creditworthiness support, as well as to ensure gas and energy supplies are available and distribution infrastructure is dependable and adequate to provide access to those supplies.

In terms of pricing of gas for in-state use, the State of Alaska has two options: 1) to ensure pricing of in-state gas and gas-liquids supplies at levels which do not exceed the actual netback value of ANS reserves plus costs of delivery to Alaskan markets; or 2) to price in-state gas at the cost of alternative fuels (prevailing market price of alternative fuels). This policy decision depends on whether the state would like to offer favorable prices for in-state use in areas proximate to the pipeline or to maximize the returns to the state by selling gas at the highest achievable price. This policy decision will be made by a future administration.

FERC and mainline LLC-mandated creditworthiness standards will require that those entities taking in-state deliveries have the financial stability to make long-term transportation commitments. State policy must be considered and developed to ensure that appropriate in-state entities exist with such adequate credit capabilities.

Finally, the ability for in-state users to make commitments to take long-term deliveries from the Alaska gas pipeline depends upon the infrastructure available within the state, and the ability to dovetail development of needed infrastructure with Alaska gas pipeline development. Needed in-state infrastructure is likely to include a spur line to Southcentral,

additional pipeline capacity in Southcentral, pipeline and distribution capacity to other in-state markets, additional power generation and expanded distribution capacity, gas storage capabilities in both the Fairbanks area and in Southcentral, in-state compression and distribution facilities for service to remote areas, and a gas liquids operation for in-state distribution and export purposes. As specified in Section 108(a) of ANGPA, regulation of facilities in Alaska downstream of the Alaska gas pipeline offtake points would be the responsibility of the RCA.

Currently, due to lack of a gas pipeline, all ANS gas produced is consumed as fuel or re-injected. ANS producers have never been allowed to flare ANS gas, except to meet operational and emergency needs. Once the Alaska gas pipeline is operational, some of the re-injected gas will be diverted to sales via the pipeline, along with gas from other ANS, and possibly other Alaskan sources. The remainder of Prudhoe Bay Unit (PBU) gas will continue to be re-injected to maintain pressures for oil operations.

Information concerning the Alaska gas pipeline project was made available by the sponsor group in their application under the SGDA, and was updated in their 2006 Project Summary. Once this fiscal contract has been approved, further information will become available as the project progresses. Ultimate control will be exerted by FERC in ensuring adequate information availability for conducting the open season – including FERC's authority under ANGDA to require the pipeline owners to consider late bids after the open season. Such a prospect will serve to ensure the pipeline owners can demonstrate early and easy access to information, in order to forestall being forced to accommodate late comers.

AK_DMD_02: (1 Comment)
Statement of Concern: Statements indicating that it would be appropriate for economic models to be created to project at least the range of costs Alaskans may reasonably expect to pay to use any of its gas in-state. Several issues need to be addressed including (1) loss of revenue to the entire state from gas used in-state; (2) the likely differences in cost of subsidizing use of Alaska's gas in Fairbanks, or Anchorage bowl, or rural Alaska or Southeast; (3) should Alaska's public policy be to make cheaper energy available to all or parts of the state or to maximize its rate of return on its investment; or (4) should the state make its gas available for in-state use at the same netback wellhead value as gas delivered to Alberta or Chicago? These policy issues must be resolved before Alaska makes its first open season commitment as to how much gas it will ship how far along the pipeline.

Response: The idea of selling natural gas to Alaska residents at a discount is a policy decision and not part of the contract. If and when ANS gas is developed, there will be ample opportunity for the Department of Revenue and other organizations to conduct analysis and determine the benefits and costs of subsidizing natural gas usage in the State of Alaska.

3.6.2 OFFTAKE: Off-take Points—SOCs and Responses

This issue category addresses the off-take point locations to meet in-state needs.

OFFTAKE_01: (79 Comments)
Statement of Concern: Statements indicating that offtake points at Fairbanks and for gas distribution to southeast Alaska and Valdez will require development of other infrastructure in order for Alaskans to benefit.

Response: The fiscal contract provisions include a commitment, in Article 9.1, to support funding of four gas offtake points in Alaska at locations selected after consultation with the state, to be included in the initial construction design. This commitment includes incorporating the offtake points in the original pipeline design; and including in the base pipeline cost, the costs of offtake point piping and flanges to the point of allowing a downstream project to connect to the Alaska gas pipeline and divert gas from the mainline to in-state deliveries. The fiscal contract provisions also include commitment on the part of the pipeline owners to cooperate in planning and design with sponsors of downstream facilities.

With these provisions, the contract assures offtake points will be available and best located to meet in-state needs. The state will need to determine where each of those offtake points should be located, although initial presumptions have been that those points would likely be located at the Yukon River, Fairbanks, Delta or Delta Junction, and in eastern Alaska toward the Canada border. In response to concerns that an offtake point may be needed in Canada to serve Southeast Alaska and in recognition that the state's proposed mainline LLC agreement contains a voluntary expansion clause, the state proposed changes to the definition of "offtake point" and to Article 9.1 to alleviate that concern. The proposed change clarifies that one of the four offtake points could be in western Canada near the Alaska border in order to serve Alaskan communities on the other side of that border.

Incremental costs downstream of the offtake points will be part of separate projects developed and implemented by entities separate from the Alaska gas pipeline owners. The state may or may not participate in those entities, and the state will determine the policies under which those in-state projects will be allowed to progress. These decisions are separate from considerations relative to the Alaska gas pipeline project itself. Taking of state gas in-kind provides the state with policy options to meet Alaskan needs and to provide Alaskan job opportunities and economic growth. The state must be actively engaged in establishing the policies and implementing efforts to plan for and encourage infrastructure development.

The ability for in-state users to make commitments to take long-term deliveries from the Alaska gas pipeline depends upon the infrastructure available within the state, and the ability to dovetail development of needed infrastructure with Alaska gas pipeline development. Needed in-state infrastructure is likely to include a spur line to Southcentral, additional pipeline capacity in Southcentral, pipeline and distribution capacity to other in-state markets, additional power generation and expanded distribution capacity, gas storage capabilities in both the Fairbanks area and in Southcentral, in-state liquids compression and distribution facilities for service to remote areas, and possibly a gas liquids operation for export purposes.

FERC and mainline LLC-mandated creditworthiness standards will require that those entities taking in-state deliveries from the mainline have the financial stability to make long-term

transportation commitments. State policy should be considered and developed to ensure that appropriate in-state entities exist with such adequate credit capabilities to both make long-term transportation commitments and to finance construction of needed in-state gas, liquids, and power distribution infrastructure.

In-state interests which will build these in-state gas distribution projects include private concerns, public corporations and utilities. In all cases, an economic business case must be developed to ensure that the proposed project is economically justifiable and that it provides the expected in-state benefits. Individual proposals must also be reconciled to arrive at optimum economic solutions. In particular, the role of public entities, such as ANGDA, as aggregators of gas purchase commitments or as developers of in-state infrastructure should be considered. In addition, the role of such agencies as AIDEA, APA, AVEC, and the Denali Commission, in encouraging development of instate infrastructure or in meeting commercial credit and capital requirements should be evaluated. Finally, successful state policy development, particularly with respect to credit support and infrastructure development, requires that it be integrated with planning of commercial development projects.

3.6.3 INDST: Future Alaska Industrial Uses—SOCs and Responses

This issue category covers the provision of natural gas to support future in-state industrial uses.

INDST_01: (1 Comment)
Statement of Concern: Statements expressing concern about preserving the option for the separation of natural gas liquids in Alaska.

Response: Both the sponsor group and the state will own its share of the gas liquids. Each owner retains the opportunity to commercialize the gas liquids in a way that best suits their purposes. Once separated, liquids and gas are treated as two different products. The contract calls for a study to be completed before open season. The results of that study will influence what each party chooses to do with its liquids. The state can choose to market its liquids in Alaska or elsewhere. We will control our own economic future if we own the gas.

INDST_02: (13 Comments)
Statement of Concern: Statements advocating development of a gas liquids industry in Alaska and/or that gas liquids from the project be reserved for use in Alaska. Comments included statements advocating development of a propane distribution system for rural Alaska.

Response: The contract provides for four off-take points, mileage sensitive rates, and state ownership of the gas. These three things will allow the state to do anything it wants with its gas and liquids. The governor has advocated on many occasions for using a portion of our gas to establish a propane distribution system at the Yukon River crossing and down on the Kenai. He has also indicated a desire to establish a liquids processing capability in Alaska. Each of these desires can be achieved. Each, however, will have a cost. It will be up to the serving governor and legislature to determine the economics of such proposals and make the decision as to how to proceed.

INDST_03: (1 Comment)
Statement of Concern: Statements indicating that the state should extract value from the "impurities" in natural gas—these impurities include CO2, sulfur, and sulfur-coated urea.

Response: Because the state will own its gas, it can use it (and its components) in any way it chooses. It is safe to assume that each component will be utilized in the best interest of the state.

3.7 Regulatory Issues

Issues in this general area of concern included the regulations of the Federal Energy Regulatory Commission (FERC) relating to the gas pipeline project and the role of the Regulatory Commission of Alaska (RCA) with respect to the project.

3.7.1 FERC: FERC Process—SOCs and Responses

This issue category addresses concerns regarding FERC jurisdiction, FERC and RCA interactions, FERC and NEB interactions, federal takeover of the pipeline, open season commitments, expansion and rate structure, and tariff terms.

FERC_01: (7 Comments)
Statement of Concern: Statements questioning the scope of FERC and RCA jurisdiction and concerns over a possible regulatory gap.

Response: With regard to the scope of RCA jurisdiction, neither the state nor the sponsor group envision RCA rate regulation of any project facilities. Unquestionably, FERC will exclusively regulate the main pipeline (mainline). It is essentially certain for several reasons that FERC will also regulate the $2 billion plus GTP. First, in its open season regulations for the Alaska gas pipeline, FERC made clear that the gas treatment service and the transportation service must be unbundled and offered separately in an open season. Order 2005-A at §87-88. Were FERC not contemplating regulating the GTP, it would not have made such a statement.

Second, FERC's general jurisdictional test is whether a treatment plant is used primarily to render raw gas fit for transmission or to extract liquids and liquefiables for their economic value. Venice Gathering Co., 97 FERC §61,045 (2001); Columbia Gas Transmission Corp., 79 FERC §61,041 (1997). Plants that are used to treat or condition gas to bring it up to pipeline quality so that it can be transported safely and efficiently are classified as jurisdictional transportation facilities, while plants that operate principally to extract liquids and liquefiables for their economic value (i.e., gas processing plants) are classified as non-jurisdictional facilities. 79 FERC at 61,185. Northern Natural Gas Co., 69 FERC §61,264, at 62,016-17 (1994); Texas Eastern Transmission Corp., 43 FERC §61,044, at 61,129 (1988). The GTP will be a plant that will be used to treat or condition gas to bring it up to pipeline quality, and thus a jurisdictional facility subject to FERC's regulation.

Third, the Alaska Natural Gas Pipeline Act (ANGPA), Section 102(2), defines the term "Alaska natural gas transportation project" as "any natural gas pipeline system that carries Alaska natural gas to the border between Alaska and Canada (including related facilities subject to the jurisdiction of the Commission)...." And, while President Carter's 1977

Decision selecting the Alaska Highway route defined the Alaska Natural Gas Transportation System ("ANGTS") as beginning at the discharge side of the conditioning plant facilities, in 1981 then-President Reagan signed six waivers of law, one of which included the conditioning plant within the ANGTS. The administration synopsis accompanying the waivers said that "[a]s a practical matter, the economic effect of including the conditioning plant in the system is the same as treating the plant as a separately certificated facility and providing a conditioning cost allowance sufficient to provide for the recovery of the gas conditioning cost." Report of the Senate Committee on Energy and Natural Resources November 10, 1981, at 33 (No. 97-272, 97th Congress, 1st Session.

With regard to gas transmission lines that will feed into the GTP or the Mainline, the definition of non-jurisdictional gathering lines versus jurisdictional transmission lines has turned on an examination of various physical and operational factors, which have changed over time. Because several of these lines are yet to be built, one cannot say with certainty that they will be FERC-regulated. The parties contemplate that those facilities qualify as jurisdictional transmission lines. For example, it would be highly likely that the large diameter transmission lines from Pt. Thomson will be determined to be FERC-jurisdictional as well as lines feeding from the NPRA. If, however, any lines are not determined to be FERC-jurisdictional, nothing in the contract bars the RCA from regulating those lines if it has the power to do so under its jurisdictional statutes.

FERC_02: (2 Comments)
Statement of Concern: Statements indicating that the FERC process precludes the transportation system from controlling the oil and gas activities in the basin.

Response: FERC over the past two decades has put in place increasingly stringent regulations to separate the transportation functions from the production and marketing functions, and to provide everyone fair and equal opportunity to access pipelines and related facilities. The Alaska Natural Gas Pipeline Act of 2004 and the subsequently enacted FERC open season regulations provide even further equal access protections for all ANS producers.

For a detailed discussion of FERC's extensive powers to ensure access and preclude basin control, see "Access to Alaska Gas Pipeline and 'Basin Control'" by Robert Loeffler, dated July 13, 2006 in Attachment 3. This was a presentation made by Mr. Loeffler to the Senate Special Committee on Natural Gas Development in response to basin control concerns raised by legislative counsel from Greenberg Traurig. Interested readers should also see the administration's response to concerns regarding this issue in Attachment 2 of this document in the letter dated August 23, 2006 from Jim Clark, Chief of Staff to Senator Seekins and Senator Therriault.

FERC_03: (1 Comment)
Statement of Concern: Statements indicating concern that if the contract is not signed by a certain date, the federal government could take over the development of the pipeline.

Response: The state shares this concern and for good reason. Under Section 109 of ANGPA, if no application for a FERC certificate has been made within 18 months of the passage of ANGPA, the DOE Secretary must conduct a study of alternative approaches to the construction of the project, including establishing a federal government corporation to do the

construction. The 18 month timetable elapsed in April 2006 and the DOE Secretary is presently conducting such a study. The Bush administration has made the development of ANS gas a highest priority energy policy and the state cannot rule out the possibility of the federal government moving forward unilaterally in the event the contract is not approved by the Alaska legislature.

FERC_04: (3 Comments)
Statement of Concern: Statements indicating that the contract should specify detailed ratemaking terms such as capital structure, cost of debt, and rolled-in tariff rates, so as to eliminate ambiguity and avoid future disputes.

Response: The state and the sponsor group did discuss several detailed ratemaking terms and conditions during negotiations. However, the parties were unable to agree upon either the need to include those terms and conditions in the contract or the parameters of such terms and conditions. The contract therefore is silent on them, leaving it open for future resolution. It should be kept in mind that Article 8.4 fully protects the state's right to intervene in any proceeding and argue for whatever terms and conditions it advocates. While FERC will have the final say, the state will have the opportunity to get a full and fair hearing before that agency. In any event, it is FERC's duty to ensure that all tariff terms and conditions are just and reasonable.

FERC_05: (2 Comments)
Statement of Concern: Statements expressing concern that the open season be fair to all, and that shippers must commit to pay for a specific volume of pipeline capacity for a term of years and must do so long before the first piece of pipe is laid or compressor is installed.

Response: In order to allocate pipeline capacity in a fair and non-discriminatory manner, FERC policy requires that all interstate gas pipelines hold an open season where prospective shippers, pursuant to non-discriminatory criteria, can bid on the available capacity. With regard to the Alaska gas pipeline, FERC codified the open season requirements in detailed regulations issued last year. The proposed regulations were changed in several aspects to ensure that the final regulations are fair to all prospective shippers.

The lead times necessary to build the Alaska gas pipeline require that an open season be held several years in advance of the commencement of commercial operations. However, payments for the capacity won in an open season do not begin until that first operational date.

FERC_06: (4 Comments)
Statement of Concern: Statements questioning whether previously used assets that will be used on the project will be valued for rate purposes at their original cost or at their depreciated original cost.

Response: The answer to those questions is that it will depend upon the facts and circumstances surrounding the assets. Article 8.6 requires the sponsor group to follow FERC policy regarding the treatment of previously used assets for ratemaking purposes. Under present FERC policy, the issue of whether previously used assets should be valued at 1) their original cost, 2) an even higher cost if the assets were acquired in a purchase, or 3) depreciated original cost is very fact specific. That policy has also changed over time. The

parties to the contract found it difficult to consider all the hypothetical previously used assets that might become a part of the project and therefore determined that the most even-handed way to address the issue now was to simply require conformity with FERC policy. FERC will then decide what rate treatment is in the public interest.

FERC_07: (1 Comment)
Statement of Concern: Statements indicating that contract commitments on expansion and rate structure should not intrude upon FERC jurisdiction.

Response: Some commenters suggest that the fiscal contract or the entity governance agreements should address the topics of expansion generally, and rate design (rolled-in vs. incremental pricing) in particular, and that addressing these issues in the contract is not at odds with FERC's duties. With regard to the rate design issue, neither the contract nor the state's proposed mainline LLC agreement resolves that issue. It is no secret that the state and the sponsor group have been unable to agree on this issue and have debated it publicly. Hence, the contract leaves the issue open for future resolution. However, Article 8.4 fully protects the state's right to intervene in any expansion proceeding and to argue for rolled-in pricing and, therefore, the state will be able to get a full and fair hearing before the FERC. FERC, of course, will have the final word on the type of pricing. Hence, if the state's argument for rolled-in pricing convinces FERC, that will be the result regardless of what is said or not said in the contract. If it doesn't, then FERC will hold in favor of incremental pricing regardless of what is said or not said in the contract. It should also be remembered that FERC has created a presumption in favor of rolled-in pricing for expansions.

With regard to voluntary expansion, it is correct that the contract does not set forth the terms and conditions under which a voluntary expansion can be undertaken by the mainline LLC. The reason is that those terms and conditions are a part of the proposed mainline LLC agreement. That agreement provides for a series of Management Committee votes to approve the various steps of an expansion, including authorization of a feasibility study, filing of a FERC certificate, and actual construction of the expansion.

FERC_08: (1 Comment)
Statement of Concern: Statements concerning whether in the interactions between FERC and the Canadian regulators which organization would have precedence.

Response: FERC will have exclusive jurisdiction over rate regulation for those portions of the pipeline in the United States, and the NEB will likewise have exclusive rate jurisdictio over those portions of the pipeline in Canada. That said, the state expects that there will be extensive consultation and close coordi tion between the two agencies over rate and other (e.g., environmental) matters. In addition, memoranda of understanding exist between the NEB and FERC concerning how trans-border pipeline regulation is coordinated. Several historical examples exist of gas pipelines which cross the border between the lower-48 US and Canada – so, the precedents exist for NEB and FERC cooperation and coordination of trans-border pipeline regulations such as will be necessary for the Alaska gas pipeline.

FERC_09: (1 Comment)
Statement of Concern: Statements asking whether, if the State is not satisfied with some aspect of the system design submitted to FERC, it can object to that design at FERC, and that there should be advance notice of the terms for open season.

Response: Under the FERC's open season regulations, a prospective applicant must file, for FERC approval, a detailed plan for conducting the open season, and do so no later than 90 days prior to providing the notice of its open season. Interested person can then comment on that plan which necessarily will include detailed design information. Hence, if the State (or anybody) is not satisfied with the proposed design, it can communicate that concern directly to FERC and do so well before the open season takes place. FERC will be in a position to then order design changes before the open season begins.

With regard to the advance notice point, the detailed plan that must be filed at least 90 days prior to the open season notice, will serve as that advance notice. Then when the open season is noticed, there will be another advance notice. A still further opportunity to voice concerns about the system design will occur when the pipeline files its application to FERC for a certificate of public convenience and necessity.

FERC_10: (1 Comment)
Statement of Concern: Statements and questions about miscellaneous FERC and RCA jurisdictional matters.

Response: The contract's regulatory clauses, particularly those concerning the role of the RCA, have been misunderstood and misinterpreted. First, the RCA is not bound by the terms of the contract. The contract binds the state and the RCA is excluded from the definition of the state and hence the contract's obligations. To make this absolutely clear, the state is proposing to amend the contract to state that the regulatory powers of the RCA are not affected by the terms of Article 8. In addition, the state proposes to amend the contract to exempt from its provision any public corporation of the state such as ANGDA. Thus, ANGDA will be free to take any position that its Board decides.

1. The RCA would be free to review gas transmission charges if an Alaskan utility proposed to include such charges in its rate base for two reasons. First, the FERC does not have direct jurisdiction over the rate base of local distribution companies in Alaska or elsewhere; this is a matter reserved to the states under the Natural Gas Act. This also is not an issue under the contract which concerns the project. The project definition does not include local distribution companies. Section 8.4 preserves the right of the state as the owner of a large amount of gas to be shipped through the pipeline to protest tariffs and participate in regulatory proceedings regarding the project despite its ownership interest. Only Alaska PipeCo would be restricted from taking such actions. Thus, there is no contradiction.
2. The Department of Law represents the state in federal regulatory proceedings; the Regulatory Affairs and Public Advocacy's role is limited to participating in state proceedings and providing support to the Department of Law in federal proceedings. The Department of Law is part of the state and would be bound by the state's obligations under the contract.

3. Section 108 of the Alaska Natural Gas Pipeline Act confirms the RCA's authority over any lateral that serves in-state needs. Such a lateral is not part of the project as Section 9.3 of the contract makes clear. The mainline LLC must, however, cooperate with interconnection arrangements with instate laterals.

4. NGL straddle plants are not normally subject to FERC regulation. If an NGL plant is built in Alaska, it would be part of the Project and the state would own a 20 percent share. As a part owner of the NGL plant the state will possess contractual and statutory privileges, rights and obligations with respect to the development, construction and operation of the NGL plant. ANGDA would have none since it is not a party to the contract and does not want to be bound by it per its comments. If an NGL plant is built elsewhere, it is not part of the Project. ANGDA would have such rights as it could negotiate in any such plant.

3.7.2 RCA: Regulatory Commission of Alaska—SOCs and Responses

This issue category covers the role of the Regulatory Commission of Alaska (RCA) with respect to the gas pipeline project.

RCA_01: (18 Comments)
Statement of Concern: Statements indicating that there is no legitimate reason to eliminate regulatory protections for shippers, that the GTP, if not regulated by FERC, should be regulated by the RCA, and that there is no benefit to allowing arbitrators to determine just and reasonable rates which are established according to commercial agreements no one will see.

Response: The contract does not prohibit the regulation of the project by the RCA. If the FERC does not regulate a portion of the project, the contract does not prohibit (nor could it) the RCA from asserting jurisdiction. However, as stated in Articles 8.1 and 8.2, the parties expect that the entire project will be regulated by the FERC (or by the NEB in Canada). With regard to the unlikely situation where rates would be set through commercial agreements, the state is proposing to add language to the contract that would require rates to be set consistent with FERC ratemaking principles.

RCA_02: (7 Comments)
Statement of Concern: Statements expressing concern that the contract requires the state to reimburse other participants if RCA takes certain regulatory actions.

Response: As presently drafted, Article 8.3 requires the state in certain circumstances to reimburse each participant for a loss caused by RCA action inconsistent with the principles of FERC policy for jurisdictional facilities or the principles of commercial agreements for non-jurisdictional facilities. Loss is a defined term under the contract and because of that definition, the state's obligation to reimburse does not include lost profits or consequential damages. The state is proposing to amend the requirement of Section 8.3 to limit reimbursement to circumstances where there is a loss caused by RCA action inconsistent with the principles of FERC policy for jurisdictional facilities or commercial agreements consistent with FERC principles for jurisdictional facilities. See proposed contract amendments in the Interim FIF.

3.8 Capacity Management and Access

Issues in this general area of concern included access to the gas pipeline by future explorers and gas pipeline expansion, and use of gas to increase oil production.

3.8.1 ACC: Access for Other Companies—SOCs and Responses

This category issue deals with concerns about the access to the gas pipeline by future explorers and the gas pipeline expansion.

ACC_01: (27 comments)
Statement of Concern: Statements expressing concern that the contract does not require expansion of the pipeline.

Response: The contract does not require expansion of the pipeline for two primary reasons: 1) such a commitment transfers a significant amount of risk to the pipeline owners, and 2) under the Alaska Natural Gas Pipeline Act of 2004, FERC was granted unprecedented powers to order expansions. FERC also has adopted especially friendly open season rules, specifically a presumption favoring rolled-in pricing of expansion capacity. Pipeline expansions will be subject to FERC rules, regardless of whether there is a contractual commitment. Independent producers and explorers provided strong feedback that they are willing to rely upon FERC's mandatory expansion powers. It is the responsibility of FERC to balance the interests of pipeline owners, shippers, explorers and the public.

ACC_02: (4 comments)
Statement of Concern: Statements expressing various concerns about Article 8.7, State-Initiated Expansion.

Response: Concerns about Article 8.7 may best be resolved by deleting this article. The original intention of Article 8.7 was to provide a third avenue to expansion, in addition to FERC mandated expansion (established under ANGPA), and voluntary expansion by the mainline LLC (the terms of which are contained in the state's proposed mainline LLC agreement). The specific provisions within Article 8.7 were intended to apply only to state-initiated expansion, and to not affect either FERC mandated or voluntary expansions. Acceptance of Article 8.7 in the first place was strenuously opposed by the sponsor group during negotiations. Deletion of Article 8.7 seems to be generally supported by non-sponsor group producers and explorers, and by legislative consultants.

ACC_03: (6 comments)
Statement of Concern: Statements suggesting that Article 10 be revised to provide for state transportation capacity to be reserved for common transport by intrastate independent shippers, to allow unused state capacity be made available on a priority basis to independent shippers, and to post all unused state capacity on a bulletin board service.

Response: These comments contemplate arrangements clearly inconsistent with FERC and NEB regulation. The goal of Article 10 is to achieve equity in the transportation risks incurred by the state in accepting shipping commitments. Article 10 provides this equity to the state with respect to both the sponsor group and with any additional producers who sign

up for open season shipping commitments and sign the Uniform Upstream Fiscal contract. The contract also specifies that open seasons must be held for in-state service, and that these open seasons must be separate from the full-haul open seasons. By this, both intrastate and other independent shippers are guaranteed equal access to transportation capacity. All unused capacity will be posted according to FERC regulations. If Article 10 is found acceptable by FERC and if unused capacity exists which is subject to Article 10 provisions, that reallocation will occur first.

ACC_04: (3 comments)
Statement of Concern: Statements that the state should provide capacity for the independents/explorers.

Response: This suggestion is a major transfer of risks and costs to the state from independents/explorers. These companies make their living by managing risk. The fiscal contract and the upstream contract provide these companies a level playing field to explore, enjoy the fiscal benefits of the contract, and to obtain capacity at open seasons or on the secondary markets. The suggestion that the state should pick up the risk of obtaining and holding capacity for these companies is a proposal that the state underwrite these companies' activities. We question whether this would meet the public purpose requirement for the expenditure of state money imposed by the Alaska Constitution.

ACC_05: (5 comments)
Statement of Concern: Statements arguing the merits of 52" pipe vs. 48" pipe vs. dual 36" pipes.

Response: This discussion of the merits of various pipe diameters or pipe configurations is premature. This contract is a fiscal contract, intended to set the stage for project planning to begin. Project planning will result in an open season being held, to identify the magnitude of gas delivery commitments shippers are willing to make. Only then can a final decision be made concerning gas pipeline diameter and configuration. Regardless of the final decision, FERC retains authority to mandate that the pipeline design be expandable, that it accept gas deliveries from all qualified shippers, and that in-state needs be met.

ACC_06: (1 comment)
Statement of Concern: Statements indicating that there should be parity with the Canadian system on mandatory pipeline expansions and rolled-in tariffs.

Response: Expansions and tariffs for the Canadian portion of the Alaska gas pipeline are under the jurisdiction of Canada's National Energy Board (NEB), just as expansions and tariffs for the Alaskan portions are under the jurisdiction of FERC. No contract language can override those authorities. NEB regulations include a strong preference for rolled in tariff pricing. The state, as well as all shippers, and other interested parties will have the opportunity to respond before the NEB, as well as FERC, to all filings by the pipeline entity, or to attempt to obtain pipeline expansions. In addition, memoranda of understanding exist between the NEB and FERC concerning how trans-border pipeline regulation is coordinated. Several historical examples exist of gas pipelines which cross the border between the lower-

48. U.S. and Canada—the precedents exist for NEB and FERC cooperation and coordination of trans-border pipeline regulations, such as will be necessary for the Alaska gas pipeline.

ACC_07: (5 comments)
Statement of Concern: Statements indicating that the pipeline should be sized bigger so that non-affiliated explorers and producers have motivations to explore, and that front-end engineering and design be completed before an open season is held.

Response: The first portion of this comment serves to shift a significant amount of risk onto the pipeline owners – including the state. The tool for properly sizing the pipeline system is the open season. Until open seasons are held, total expected deliveries to the pipeline are a matter of conjecture. The project documentation to-date includes an updated project summary which includes a timeline, estimating open seasons will be held two years after contract execution. Only at that time will firm data and commitments be available with which to size the pipeline and complete final design. In addition, FERC has the authority to require the pipeline owners to consider latecomers who miss the open seasons – an authority which motivates the pipeline owners to ensure clear information is available early to all potential shippers. FERC also has the authority to mandate pipeline expansions to accommodate future exploration by third parties.

ACC_08: (1 comment)
Statement of Concern: Statements indicating that commitments on expansion and rate structure not intrude upon FERC.

Response: FERC will have the final authority in the U.S. on pipeline expansion and rate structure issues, regardless of the provisions in the contract. The negotiating teams believe the contract provisions will be acceptable to FERC.

ACC_09: (2 comments)
Statement of Concern: Statements expressing concern that pipeline ownership by the sponsor group will result in antitrust issues and anti-competitive behavior.

Response: FERC has acknowledged that antitrust issues must be addressed. Much of the development and transition in FERC regulation over the last two decades has been directed at ensuring that such anti-competitive behaviors do not occur. The state, by having a seat at the table with pipeline ownership, will have greatly enhanced ability to identify and prevent anti-competitive behaviors from occurring.

ACC_10: (1 comment)
Statement of Concern: Statements expressing concern that there is no provision in the contract for sole-risk expansions.

Response: A sole-risk provision was not included in the contract. For the state, existence of a sole-risk provision could be viewed as a predisposition in the contract of the state to do sole risk expansions—a serious transfer of risk onto the state. In addition, it is believed the FERC's mandatory expansion powers protect all explorers, shippers, and the state adequately.

ACC_11: (5 comments)
Statement of Concern: Statements indicating that the provisions of Article 10 inhibit access to initial and expansion capacity, particularly to non-owner shippers. In addition, the sponsor group is not liable to the state for losses arising from failure to perform obligations regarding capacity.

Response: The terms of Article 10 do nothing to inhibit access to initial and expansion capacity by any party. Access to capacity is regulated exclusively by the FERC, and any contract terms affecting such access would be overridden by FERC authority. The provisions of Article 10 were demanded by the state negotiators in order to ensure that the state, by taking royalty and payment in lieu of production tax in the form of gas, does not bear disproportionate risks due to the fact that the state is not a producer of gas and does not make exploration or development decisions. The fact is that the gas delivered to the state is a share of the gas produced by each producer. The state has no direct control over these volumes delivered. The terms of Article 10 ensure that, throughout the term of fixed transportation commitments, the state obtains shipping capacity to transport state gas to market when it is produced, and that the state does not hold a share of shipping commitments disproportionate with the state's share of production. Mechanisms are defined within Article 10 which adjusts shipping commitments between the state and a producer to maintain this equity. Although complex, the terms of Article 10 are clearly and specifically constrained to ensure that parity is maintained individually between the state and each member of the sponsor group delivering in-kind gas to the state. The terms of Article 10 specifically do not provide the state or any member of the sponsor group with 'first-call' to capacity rights beyond maintaining this parity.

The state and the sponsor group have acknowledged that the provisions of Article 10 are unique, and will require scrutiny by FERC. Precedent suggests that FERC will be responsive to the state's position as a shipper, as well as our very different upstream position with respect to the sponsor group, when they deliberate to ensure an 'even playing field' exists for capacity rights. If FERC fails to approve all of the Capacity Management provisions, it is expected that it will provide the state and sponsor group guidance to satisfy both FERC requirements and state needs. The sponsor group is committed in Article 10.8 to negotiate in good faith in an attempt to develop a mutually acceptable alternative provision that remedies the defect.

The argument that sponsor group is not liable to the state for losses arising from failure to perform obligations regarding capacity arises from the language of Article 10.10. This argument represents a failure to comprehend the full context of the statement. The sponsor group does have a commitment to perform in Article 10. Failures can be remedied through arbitration or through court if fraud occurs; however, the sponsor group will be making their capacity management decisions based on their own business interests and expectations. Their individual business interests may at times be perceived as not coinciding with the state's interests regarding capacity management issues. They may also simply make a capacity management decision which proves to be wrong. By the sponsor group's commitments to Article 10, the state has agreed to 'ride their coattails' regarding capacity management decisions, and accept the state's share of the benefits and costs of those decisions – no more and no less. In return for that benefit, the sponsor group insisted on being indemnified against further action by the state over individual decisions or the results of those decisions.

Furthermore, as time goes on, the state always retains the unilateral right to cancel Article 10 and manage capacity on our own if we decide circumstances are such that the state benefits more from that independence.

ACC_12: (1 comment)
Statement of Concern: Statements indicating that the state must ensure fair and reasonable terms on all facilities.

Response: All facilities which are part of the Alaska gas pipeline project are expected to be regulated by FERC and the NEB. The terms of access will be determined by each. The FERC has already adopted a comprehensive set of open access regulations that apply to all of the project. As a shipper of gas, and separately as a sovereign, Alaska has unfettered rights to litigate at the FERC over any issue of access, including tariff terms. (See Article 8.4 of the fiscal contract). Also, the Alaska member of the entities that own the facilities will participate in the internal processes that set the tariff and terms of access that will be submitted to the FERC for approval. Any facilities of the project that are not subject to FERC or NEB jurisdiction are to be governed by commercial agreements that are consistent with FERC policies for jurisdictional facilities. To the extent that the RCA has jurisdiction over any element of the project, which is not anticipated, its jurisdiction is undisturbed by the contract.

ACC_13: (1 comment)
Statement of Concern: Statements expressing concern that the fiscal terms will not be available to all shippers.

Response: The administration has drafted a Uniform Upstream Fiscal contract (Attachment A to the fiscal contract). The UUFC ensures that all shippers who commit to ship on the Alaska Gas Pipeline enjoy equitable upstream fiscal terms. It is entirely under the purview of the Alaska Legislature to ensure that this legislation is implemented with provisions which provide for this equitable treatment of all producers and shippers.

ACC_14: (1 comment)
Statement of Concern: Statements indicating that the rights of first refusal for existing shippers impair access to new shippers.

Response: Rights of first refusal are subject to FERC regulation. Offering of rights of first refusal by pipeline companies to holders of firm transportation capacity at the end of that FT term is normal in the pipeline business. It is unreasonable to expect that those shippers who have made the initial financial pipeline transportation commitments—in addition to the upstream investments necessary—should be denied rights of first refusal to continue to deliver gas and monetize their investments. New shippers are protected by FERC's power to mandate expansions if voluntary expansions cannot be accommodated and fiscal contract expansion terms are not implemented.

ACC_15: (1 comment)
Statement of Concern: Statements advocating AOGCC authorizations prior to holding of an open season.

Response: This is a practical issue, not a concern which should be addressed contractually. The issue in the contract is establishment of fiscal certainty, which will allow project planning to go forward. Part of that planning process will be obtaining AOGCC offtake authorizations in time to commit PBU and PTU reserves at the open season.

ACC_16: (1 comment)
Statement of Concern: Statements suggesting that Articles 8 and 10 of the Gas contract may be modified to require (a) that the owners have a contractual obligation to undertake an economic expansion based upon a clear definition of an economic and uneconomic expansion, (b) that expansion shippers have the right to contribute the necessary funds to make an uneconomic expansion meet the definition of an economic expansion, (c) that the owners acknowledge the right of either the FERC or the RCA to require an expansion deemed to be in the public interest, (d) that the State of Alaska have the clear and unrestricted right to require an expansion if it contributes the funds necessary to make that expansion an economic expansion.

Response: This concern requires a four-part response:

1. Contract provisions requiring "clear definition of an economic expansion" are very difficult to agree upon, and resulting obligations are more difficult to impose on an unwilling party. Even if agreement is obtained under such provisions, how is cooperation to complete such an expansion to be measured? It is much clearer to rely upon FERC jurisdiction to mandate expansions, and to require that they be completed.

2. Contribution of funds is not foreclosed by the voluntary expansion provisions of the state's proposed mainline LLC agreement, and could certainly be included as a requirement by FERC prior to mandating an expansion. Inclusion of such a provision in the fiscal contract begs the question of how the magnitude and timing of contributions should be determined, and what should happen if the expansion scenario changes or goes awry. The value of such a provision in the fiscal contract is, at best, questionable.

3. FERC has the authority to mandate expansions, whether the owners acknowledge that authority in the fiscal contract or not. Presently, RCA does not have that authority – one more reason the state wants to ensure the entire Alaska project is under FERC jurisdiction.

4. This answer is the same as in (2) above. In addition, contribution of funds by the state to a pipeline expansion—to which apparently neither explorers nor the pipeline owners were willing to contribute—transfers the risk related to that expansion to the state. Such an action is a policy decision which the state should carefully consider prior to making such a decision.

3.8.2 OIL_Px: Oil Production Issues—SOCs and Responses

This issue category covers the use of gas to increase oil production.

OIL_PX_01: (12 comments)
Statement of Concern: Statements indicating that gas production will result in lower oil recovery and that there are alternatives to gas injection to enhance oil recovery. In addition, oil companies are intentionally reducing oil production and exaggerating their intent to leave in order to enhance their bargaining position for the pipeline contract.

Response: Production from ANS oil fields is declining but we have already produced more oil than was originally projected with years of recoverable reserves still present. An axiom of oil production is that as soon as a reservoir is tapped its production rate begins to decline. This relates to the physical aspects of oil reservoirs including pressure, interspatial flow, and other factors. Over time, petroleum engineers have developed techniques to recover more and more of the oil present. Some of the methods consist of lateral drilling while others consist of injecting gas, water, or CO_2 to maintain reservoir pressure (referred to as EOR). The use of CO_2 for carbon sequestration is being used more and more around the world and the technology is improving yearly. The results of all these EOR methods has been increased recovery from about 35 percent to 45 percent or more of in-place reserves. Techniques that were impossible years ago became doable, but expensive and now they are commonplace and an expected normal cost of operations.

The state monitors oil field production and reserve status on an ongoing basis. We have found no reason to believe that production rates are being purposefully reduced or reserves underestimated. We have found that technically recoverable reserves are increasing as a percentage of total reserves and that more and more oil is economically recoverable. While there is discussion about total technically recoverable reserve volumes twenty years from now, there is also total agreement that recovery rates will be higher than they are now.

We all agree that at some point ANS oil fields will no longer be economic. In the end, total oil production will be related not only to technology, but also to the price of oil. At a higher price, more oil will be recovered. The length that a company will go to for an additional barrel of oil from a reservoir depends on the price of the barrel relative to the cost of recovering the barrel. A major factor will be the economic viability of the oil pipeline (TAPS). Current estimates suggest about 200,000 barrels per day is the minimum flow necessary to keep the line in operation. If this volume can be reduced, then oil production will continue for a longer period.

Without the development of the gas reserves, oil production declines to an uneconomic level by 2030 and the volume will be below the minimum necessary to keep TAPS flowing. If the gas reserves are developed oil production and TAPS operation are expected to extend beyond 2050. When gas production begins (that is transporting to market rather than re-injection) we expect increased oil production from new fields. In addition, some existing oil fields will have lower production due to reduced pressure from gas removal but they will produce oil economically for a longer time (the same amount of oil may well be produced, it will just take longer). Also, with gas production some production costs such as the natural gas handling facility will no longer be borne by oil, making it more economic to produce.

In addition, any delay in the gas project will further exacerbate the state's looming fiscal gap that threatens the future of the state. The state's discretionary budget is currently about $3 billion a year. Fortunately, unprecedented high oil prices have created budget surpluses in recent years. However, oil prices are expected to decline to a long-run average of $35. At that price the state would currently be running a $1 billion deficit.

Moreover, TAPS is now running 60 percent empty, despite investment in recent years of nearly $1 billion annually. The Department of Revenue estimates that $1.8 billion is required annually to keep production at a constant level. This is nearly twice the amount being spent in recent years.

Current production is about 800,000 barrels per day and is expected to be about 100,000 less by 2015.

In addition, with 2 percent annual growth the budget would be $4 billion by 2015. Yet the two percent is conservative; increased state debt, Medicaid, unfunded pension liabilities, and government operating expenditures could very well cause higher growth.

Thus there are three major forces driving toward massive budget problems: declining oil prices, declining oil production, and a growing budget. Non-oil revenues may add another $0.5 billion annually. In the absence of a gas pipeline or new budget sources, such as broad-based taxes, annual deficits will grow to $1.5 billion annually by 2015-- a cumulative deficit of $10 billion from now to then. Under these assumptions the Constitutional Budget Reserve Fund (CBRF) will be depleted by 2009.

Furthermore, natural gas production would not start until 2016, were the proposed contract to be executed in 2006. In other words, the state revenue stream from gas will not incur until 10 years after the execution of the proposed contract. The delay of building the gas pipeline would only lead to the delay of the state revenue stream from gas, which would deepen the state deficit until the first gas flows.

All discussed above underscore the need to get the gas pipeline constructed soon. At a mid-range forecast of $5.50/mmbtu in Chicago the proposed contract terms would generate annual revenues to the state between $2 to $3 billion.

Not only would the gas pipeline allow the continuity of essential state services while minimizing the tax burden of its citizens, it would also extend the oil life of the ANS, bring in additional billions of dollars over time, as well.

For additional detail see *Section 1.2.2 Impacts of Gas Production on Oil Production* in the Preliminary FIF.

OIL_PX_02: (3 comments)
Statement of Concern: Statements indicating that oil need not be that important to the economic wellbeing of Alaska.

Response: Petroleum taxes provide 86 percent of state Unrestricted General Fund revenues and almost all Permanent Fund contributions. Petroleum is vitally important to the economic wellbeing of this state. It is true that this has not always been the case. Many remember that until the first payments from Cook Inlet and certainly until the first lease payments from the ANS, petroleum played a relatively minor role in state finances and wellbeing. It is likely

that some day this will be the case again. However, petroleum related revenues have allowed Alaska to develop infrastructure, jobs and culture. It also provides its citizens with dividends and the option of living free of state taxes. Diversification of state revenues and economy is important; and development of our gas resources is the critical next step toward that diversification and growth of our economy.

3.9 Taxes and Incentives

Issues in this general area of concern included establishing fiscal terms for the duration of the contract (fiscal certainty); the petroleum profits tax (PPT) legislation; state provision of investment incentives to industry; gas pipeline project impacts on local taxation; incentives for exploration and development of new sources of gas and oil in Alaska; development of the Point Thomson unit (PTU); the Uniform Upstream Fiscal Contract (UUFC); and a tax on certain leases having known resources of natural gas.

3.9.1 FISC: Fiscal Certainty—SOCs and Responses

This issue category deals with the establishment of fiscal terms for oil and gas for the duration of the contract (fiscal certainty), worldwide comparisons of fiscal certainty terms, and concerns on the effect of higher oil taxes.

FISC_01: (142 comments)
Statement of Concern: Statements expressing concern about the proposed fiscal certainty terms, including the duration and lack of a re-opener clause.

Response: The Alaska natural gas pipeline project will be the highest capital cost project ever proposed to be constructed in North America. It is by far the largest, most costly project in the portfolios of any of the members of the sponsor group. In enacting the SGDA, the legislature recognized that it could facilitate development of the gas pipeline and encourage the significant benefits that result by providing a stable and certain fiscal environment for a term of years. In AS 43.82.250 the legislature set the boundaries they determined were appropriate for a contract of this magnitude. The term "may not exceed 35 years from the commencement of commercial operations of the approved qualified project, excluding suspensions of contract obligations that are covered by *force majeure* terms of any contract developed under this chapter. However, the term of contract may not exceed 45 years from the effective date of a contract . . ." The term of the fiscal contract is consistent with the requirements of the SGDA.

The term for fiscal certainty has been identified as an important issue in the legislative and public hearing process. The state is proposing to amend the contract. The administration supports a proposal adopted in the Senate that would shorten the general term for fiscal certainty to 25 years from the commencement of commercial operations and provide that the term of the contract will not to exceed 35 years in total. The administration also supports a proposal that would divide the certainty term for the petroleum production tax (PPT) into three parts. Up to the date the project is sanctioned the tax laws in effect at the time would govern. From the date of project sanction and for the ensuing 14 years, the PPT PILT payments would be paid based on the tax rates and related regulations in effect as of the later of (i) the last day of the 2011 legislative session, or (ii) the date of the FERC application. For

the remaining period out to the 25th year from project sanction, there would be a stability period during which the petroleum tax laws could change, but the sponsors could receive offsets that maintain their tax obligations as of the date their tax obligations were fixed. The term of fiscal certainty for ad valorem taxes (Article 17) and SCIT (Article 19) also would be shorter than the general term.

FISC_02: (84 comments)
Statement of Concern: Statements indicating agreement with the fiscal certainty terms.

Response: We agree with the comment. In addition, the state is proposing an enhancement to the fiscal certainty terms as indicated in FISC_01 response.

FISC_03: (2 comments)
Statement of Concern: Statements indicating that the tax terms (and Alaska's total take) should be stable and should not be changed when petroleum prices change or when there's a budget deficit.

Response: The legislature recently changed the petroleum production tax law. It provides for higher rates and an upward adjustment in the tax rate when petroleum prices rise above a certain reference point. The state proposes to change the scope of fiscal certainty in the fiscal contact to freeze the tax rates and related regulations for the PPT as they stand as of the later of (i) the last day of the 2011 legislative session, or (ii) the FERC Application Date. The companies would then begin payments at those rates as of the calendar year that includes project sanction. They would pay those rates for a period of 14 years. After that 14 year period and up to twenty-five (25) calendar years from the effective date of the contract, their tax obligations would be determined by the law of the day subject to an overall ceiling that their tax obligation, individually determined, would be the same as it was at immediately before the date the tax obligations were fixed.

FISC_04: (1 comment)
Statement of Concern: Statements indicating that locking in the oil tax structure is unacceptable and that the oil tax rate is too low.

Response: In August 2006, the legislature passed the PPT that changed the oil tax structure. In addition, the state is proposing to revise Article 3.2 (Fiscal Certainty Term) to reflect the length of fiscal certainty terms recommended by the Alaska Legislature. The state is further proposing that the term for fiscal stability related to oil taxes would be adjusted as outlined in FISC_01 above.

FISC_05: (1 comment)
Statement of Concern: Statements that the contract imposes too many fiscal obligations on the state and that all fiscal obligation provisions should be revisited to limit the state's liability as much as possible.

Response: The state has carefully considered and evaluated the fiscal obligations and risks that it has assumed and weighed them against the fiscal benefits it will receive. The state believes that a fair balance has been reached. This issue is more extensively discussed in the Interim FIF.

FISC_06: (1 comment)
Statement of Concern: Statements expressing concern about the state's comparison between Alaska's oil and gas arrangements with other jurisdictions' oil and gas arrangements.

Response: There are two parameters to compare Alaska's oil and gas arrangements under the contract with other oil and gas jurisdictions: (1) from the Producer's prospective, are the economics of the gas line project under the terms of the contract competitive with other investment opportunities around the world available to them and (2) how does total government take (Federal, State and municipal) compare with other foreign government oil and gas regimes. Section 5 of the Preliminary FIF analyzes each question. In Section 5.12 seven profitability indicators (internal rate of return, present value of cash flows, profitability ratio, undiscounted net cash flow, net present value per equivalent barrel of oil, net present value of undiscounted capital expenditures and net cash flow per equivalent barrel of oil) of the gas line are compared with similar information for 60 other projects around the world over a range of gas prices to see if they exceeded the target value. The target value indicators are those which fall in the upper 80 percent of those 60 projects. The conclusion was that the project was generally competitive on a non-risk adjusted basis. When risks such as cost overruns are introduced into the comparison, the project does not fare so favorably. In Section 5.17 the total government take was compared the Northwest Territories of Canada, Australia, Indonesia, Qatar, Trinidad & Tobago and Venezuela. Comparatively, Alaska comes out in about the middle over a wide range of gas prices as shown in Table 32 and Figure 33 of the Preliminary FIF. Thus, the Administration feels comfortable with the basic oil and gas arrangements or terms included the contract.

FISC_07: (2 comments)
Statement of Concern Statements indicating that the contract contains no fiscal certainty (or predictability) for the state.

Response: This is incorrect. The contract provides complete certainty that the state will receive from the sponsor group the multiple payments that have been agreed to (*Section 3 Fiscal Terms of the Deal* of the Preliminary FIF provides more detail about these payments). In addition, political subdivisions will also have stability in the portion of PILT payments made directly to them.

FISC_08: (1 comment)
Statement of Concern: Statements that long-term fiscal stability is not necessary as even large increases on production taxes have no impact on the internal rate of return by the 15th year of operations.

Response: In considering the investors' economics, the upstream and midstream elements of the project have to be jointly considered for profitability and risk analysis. The upstream elements consist of the development and production of the ANS gas fields. The PTU and other gas fields that will come on line in the future will be the most important upstream investments. The midstream elements of the project consist of the transmission lines from the fields to the GTP, the GTP, the Mainline (Alaska to Alberta project) and the Alberta to Chicago project in case that pushes through. The midstream elements are going to require huge upfront capital investments. Based on an analysis conducted by Pedro van Meurs (the state's fiscal advisor), on a real basis the midstream internal rate of return (IRR) is only 4.5

percent. This IRR is not sensitive to the Chicago city-gate price because the IRR is only created through the transmission line, GTP, and pipeline tariffs. The upstream IRR on the other hand is highly attractive—above 20 percent even at a gas price of $2.50 per mmBtu (Chicago city-gate). The IRR improves significantly with higher price levels. The reason for this is that the investments required for this element are low. Prudhoe Bay requires very minimal incremental investment to make the gas available to the project; PTU requires full development but this initially only represents about one-third of the gas volumes.

The sponsors (and the state) have to make large firm transportation (FT) commitments to sell the gas downstream at the outlet of the pipeline. These commitments have a "ship or pay" nature. These commitments relate to the capacity charge of the gas for a lengthy period of time, possibly 20 years. The sponsor group may have to commit for the transportation of 24 tcf of gas at a capacity charge of $2.5 per mcf; this represents a $60 billion commitment. The sponsor group, will have to make this commitment and this commitment has to be reflected in the upstream economics—for IRR purposes, this commitment is capitalized. For instance, van Meurs' analysis notes that for the stress price of $3.50 per mmBtu, the upstream IRR of 37.2 percent is now averaged by the midstream IRR of 4.5 percent. The upstream and midstream cash flow are combined in a single cash flow and results in an IRR of 13.5 percent. *Section 6.1.13* of the Interim FIF will also address the issue of investor economics for both the upstream and midstream elements.

The sponsor group is seeking fiscal certainty due to the risks involved in the Alaska gas project. This project is two to three times larger in capital costs and is higher risk than most international projects. Specific risks associated with the Alaska gas project include: (1) the inherent size and cost of the project and its impact on labor and material markets, (2) the distance from market, (3) the rugged terrain and harsh construction conditions, (4) the limited infrastructure support, (5) the required coordination with multiple government jurisdictions, and (6) the volatility of gas prices. In fact, at an assumed investment of $20 billion, the Alaska pipeline project would be the largest private investment in North America and is significantly larger than most "model" worldwide oil and gas projects.

Fiscal certainty on a $20 billion-plus gas pipeline project is critical to the advancement of the project. If everything goes according to the success-based plan contained in the project summary provided to the commissioner on May 10, 2006, the gas pipeline project is anticipated to take 9-10 years from the start of project planning until the commencement of commercial operations. The term of the contract would then remain in effect for an additional 35 years for a maximum of 45 years. The hard line of 45 years accomplishes two things. First, it ensures that if the construction phases of the project extend beyond ten years, the fiscal terms, including fiscal stability, are not extended. This is one more reason that the sponsor group will advance the project as diligently as is prudent under the circumstances. Any delay results in a shorter fiscal stability period following commencement of commercial operations. Second, since the fiscal contract cannot extend beyond 45 years, it makes clear that the fiscal stability is temporary, not permanent. Thirty-five years of fiscal certainty during production is not uncommon in large oil and gas related projects. Dr. Pedro Van Meurs, analyzed a number of international agreements and noted that many countries offer contracts for fiscal stability that include 30 years or more of production.

The term provided for in the Fiscal contract will facilitate many years of continued investment and exploration. It could mean the development of a new gas exploration business

and the corresponding upstream developments. The project itself is based on having at least 50 tcf of gas produced on the ANS. Production of this gas will take the full term of the Fiscal contract. In fact the project is dependent on those gas volumes to ensure that the economies of scale are achieved.

Furthermore, in light of concerns voiced by members of the legislature and the public, the State is proposing to shorten the fiscal stability period both for gas and oil, with the latter being shortened even more as explained in FISC_01.

FISC_09: (1 comment)
Statement of Concern: Statements that higher oil taxes will discourage development of new oil reserves and thus the associated gas reserves to fill the gas pipeline.

Response: In August 2006, the legislature made its judgment that a new PPT law should contain higher taxes than the previous law. The new PPT law is based upon net revenues, rather than gross severance, and it includes credits intended to create an incentive for north slope producers and explorers to reinvest in oil and gas exploration and development in Alaska. If the new investment occurs, this should lead to new oil and gas reserves being discovered which will extend the life of existing oil fields and extend the life of the oil pipeline and gas pipeline.

FISC_10: (1 comment)
Statement of Concern: Statements that there should be no fiscal certainty terms for oil in the contract and that the gas fiscal certainty terms should be limited to no more than 5 to 15 years after the pipeline becomes operational.

Response: The fiscal contract is designed to give the sponsor group stability on both their oil and gas ANS production. Stability on just gas would leave the sponsor group vulnerable to future oil tax increases in the event a future legislature felt that the locked-in tax rates were too low. In other words, stability on gas alone really is no stability at all.

The original term of fiscal stability was comparable to the term in other international contracts and also reflects the long lead time necessary to develop the project and the likely duration of the FT commitments and term of the financing for the mainline. See Preliminary FIF at 115-117.

With regard to the period of fiscal stability, the legislature and the public have questioned the need to have the time period be as long as it is in the contract. The state proposes to change the scope of fiscal certainty in the fiscal contract by shortening the overall term of the contract by ten years with the exception of certain tax items and by freezing the tax rates and related regulations for the PPT as they stand as of the later of (i) the last day of the 2011 legislative session, or (ii) the date of the FERC application. The companies would then begin payments at those rates as of the calendar year that includes project sanction. They would pay those rates for a period of 14 years. After that 14 year period and up to twenty-five (25) calendar years from the effective date, their tax obligations would be determined by the law of the day subject to an overall ceiling that their tax obligation, individually determined, would be the same as it was at immediately before the date the tax obligations were fixed. After the 25 year period, the law of the day will determine all PPT obligations. The time when fiscal stability for state corporate income tax (SCIT) commences also would be altered.

Members of the sponsor group have not agreed to this change and opposed the concept when it was raised in the Senate Special Committee; therefore, this issue would have to be negotiated with the sponsor group.

3.9.2 PPT: PPT Legislation—SOCs and Responses

This issue category covers issues regarding the petroleum production tax (PPT) legislation.

PPT_01: (86 comments)
Statement of Concern: Statements indicating that the PPT tax rate is too high or too low or the rate should increase over time or in conjunction with higher oil prices. Comments also indicated that the tax rate of 20 percent was too low; and that tax rates higher than 20 percent would adversely impact the gas pipeline project or would impede future oil industry investments.

Response: The PPT plan proposed by the governor in the regular legislative session, as well as in the two special sessions, set the production tax rate at 20 percent. This is because the governor believed that 20 percent was the appropriate level of taxation that would maximize revenue to the state, while not hampering industry investment.

As the PPT measure worked its way through committees in the House and in the Senate, the tax rate changed from its original value of 20 percent to as high as 25 percent (Senate Resources Committee), before it was finally enacted at a rate of 22.5 percent. Many members on both sides of the legislative aisle thought that the rates chosen were either too high or too low. It remains to be seen what effect the tax rate will have on industry investment, if any. The tax rate appeared to be, however, a compromise between those who preferred a tax rate of 25 percent and those, including the governor, who lobbied for a tax rate of 20 percent. A progressive surcharge of 0.25 percent for every dollar that the "production tax value" exceeds $40 was added to the bill to capture additional revenues when oil prices are in the range of $55 or higher.

PPT_02: (11 comments)
Statement of Concern: Statements asking how the PPT tax rate compares to other countries and how it compares to tax rates on other natural resources.

Response: As a petroleum-producing state, Alaska competes with other jurisdictions all over the world for oil company investments in exploration, development and production. When making investment decisions, oil companies consider a variety of costs that can impact profitability of their projects. The fiscal system, including taxes on oil and gas, is a major cost that companies must consider.

In December 2005, Dr. Pedro van Meurs, an internationally recognized petroleum expert and consultant to the State of Alaska, reviewed the fiscal systems of major petroleum-producing jurisdictions. Dr. van Meurs found that profits-based taxes are widely used in other jurisdictions that compete with Alaska for oil company investment, including Norway, the United Kingdom, Alberta and the Gulf of Mexico. A brief summary of the key elements of the fiscal systems of these jurisdictions follows.

- In Norway, there is a 28 percent corporate income tax and a 50 percent hydrocarbon tax. The effects of Norway's fiscal system on development decisions for hypothetical oil fields was compared to the effects of Alaska's fiscal system, with the former ELF-based production tax and with a change to a PPT production tax. It was found that implementation of the PPT increases Alaska's competitiveness relative to Norway by increasing the internal rate of return on development projects. The PPT makes Alaska particularly more attractive for new investments in small fields.
- The fiscal system of the United Kingdom is one of the most attractive in the world, with a corporate income tax, rentals and a corporate income tax surcharge amounting to a tax rate of about 50 percent. In general, the U.K. would still be more attractive than Alaska under the PPT. However implementation of the PPT will raise Alaska's attractiveness in relative terms, bringing Alaska closer to the U.K. especially for small fields.
- In the deep waters of the Gulf of Mexico, a direct alternative to Alaska within the United States, companies pay a 12.5 percent royalty as well as federal corporate income tax, rents and bonuses. Based on analysis of hypothetical fields, the Gulf of Mexico is much more attractive than Alaska and will remain so under the PPT. However the PPT will help narrow the gap in attractiveness between Alaska and the Gulf of Mexico.
- Alberta's oil sands require the higher of a 25 percent profit share or a 1 percent royalty, in addition to a total federal/state corporate income tax of 33.62 percent. With the PPT enacted, Alaska would be more attractive for small fields, but still less attractive for large fields.

To summarize, even with the PPT, Alaska still lags behind other jurisdictions in terms of attractiveness, partly because of the high fixed costs and lower oil value in Alaska. However, according to Dr. van Meurs, the PPT is an improvement for Alaska in terms of attractiveness for oil company investment. The PPT generally makes the most difference in attractiveness when considering small, high-cost fields, which could be significant sources of new production in Alaska in the future.

PPT tax rates compare favorably to tax rates on other natural resources, such as fishing, mining and timber. The oil and gas industry in Alaska pays a state corporate income tax with a maximum rate of 9.4 percent. Effective oil and gas industry state corporate income tax rates are in the 4 to 5 percent range. There are also royalties of 12.5 percent (on most leases), a petroleum property tax and the production tax.

The fishing industry is subject to either the Fisheries Business Tax or Landing Tax on the value of fisheries resources processed or landed in the state at tax rates of 1 percent to 5 percent. There are also various seafood assessments that are self-imposed by the industry for marketing or management of the industry. Corporations in the fishing industry are subject to corporate income taxes. The mining industry in Alaska pays a royalty for mines that are on state land as well as a mining license tax of up to 7 percent based on net income. Corporations in the mining industry are subject to corporate income taxes. The timber industry does not pay any targeted taxes to the state; however corporations in the timber industry are subject to corporate income taxes.

It is more accurate to view Alaska's fiscal system for oil and gas as consisting of several components, one of which is a royalty and one of which is a production tax. All petroleum

producing properties in the state are subject to both of these fiscal components, in one form or another.

PPT_03: (130 comments)
Statement of Concern: Statements indicating that a profit-based tax is a bad idea because companies will overstate costs to reduce tax liability; that credits should not be allowed; and that the PPT terms are too generous.

Response: Over the past several years, the governor, lawmakers and the public have become increasingly aware that Alaska's production tax system, based on the Economic Limit Factor (ELF), was in need of repair. The production tax system in place was broken for a number of reasons, among them the fact that it was not responsive to recent high oil prices, and that it did not provide incentives for exploration and increased oil production. There was general consensus among policymakers that the oil production tax system needed an overhaul.

The governor enlisted the assistance of a world renowned petroleum fiscal systems expert, Pedro van Meurs, to advise the state on the restructuring of Alaska's production tax. Dr. van Meurs strongly encouraged the state to adopt a profits-based tax system, very much like production tax systems that exist in many petroleum-rich countries throughout the world. It was suggested that a profits-based system would reap substantial benefits for the state when prices are high and would encourage re-investment within the state.

The PPT as proposed by the governor was a tax at a rate of 20 percent on profits, and a credit of 20 percent on capital expenditures. The credit portion of the PPT was a necessary component to encouraging further investment. In comparison to the ELF-based tax system, the nominal PPT tax rate of 20 percent is 5 percent higher than nominal tax rate on the ELF-based system; this comparison, however, has little merit since the base to which the tax applies is different. A more fair comparison is that of effective tax rates: whereas the ELF-based tax was projected to return an average effective tax rate of 4.9 percent from 2007-2016, the PPT was projected to return 10 percent when prices average $40 per barrel and 14.5 percent when prices average $70 per barrel. Effective tax rate is a better measure of the tax revenue that can be expected under certain oil price and production conditions, and the revenue estimates under the governor's PPT plan show significant increases in production tax revenue over the ELF-based tax when prices are $30 per barrel or higher.

Other tax mechanisms, such as a standard deduction and transition provisions, were added to the tax system to ease the tax burden on small producers and producers who had made substantial investments over the past several years. A progressive surcharge was added to the bill by the legislature in order to capture more tax revenues when oil prices are unusually high.

The PPT will require additional auditing staff to monitor the upstream costs claimed by oil companies. Auditors from both the Departments of Natural Resources and Revenue already audit downstream costs, such as pipeline and marine transportation costs, and these costs are currently deductible from sales price of oil for tax and royalty payment purposes. Upstream costs, while requiring additional scrutiny from the Department of Revenue, are also independently monitored by oil companies that partner with oil field operators. Oil field operators regularly bill joint interest owners through statements that detail costs for operating

oil fields. The use of these statements, which are audited by joint interest partners, will assist greatly in the auditing of PPT deductible upstream costs.

PPT_04: (2 comments)
Statement of Concern: Statements asking about production tax value and how it relates to other measurable values such as market price and government take.

Response: The production tax value is a value calculated by deducting all costs (both th upstream capital and operating lease expenditures, and the downstream transportation costs, as well as state royalties and property taxes) from the market price. It is roughly equivalent to the term "net income."

The value to which a production tax may be applied as a percentage of market price will depend on the market price. For instance, if costs are $15, and the market price is $25, the production taxable value will be $10, or 40 percent of the market price. If the market price is $60, the production taxable value will be $45, or 75 percent of the market price. Since costs (except State royalties) are relatively fixed regardless of price, as market prices go up, the production taxable value as a percentage of market price goes up more.

Government take is the state and federal governments' share of the "economic rent," (the net income before taxes). This will include state royalties, and production, property, conservation, and state income taxes, as well as federal income taxes.

Again, government take will depend on costs, tax rates, and market prices. However, because many of the taxes themselves depend on price, government take increases only very slowly with price. We estimate that the government take is 60 percent at a $30 market price, and 63 percent at $80.

PPT_05: (2 comments)
Statement of Concern: Statements expressing concern that a federal tax increase may reduce Alaska revenues.

Response: The Alaska statutes that the contract adopts by reference do not allow corporations to deduct federal income tax. Therefore, increases in a corporation's federal income tax liability will have no effect on the payments in lieu of Alaska corporate income tax under the contract.

PPT_06: (3 comments)
Statement of Concern: Statements indicating that the members of the sponsor group will still have a profit at lower gas prices while having a negative profits tax.

Response: The PPT provides incentives for capital investment. At low gas prices this can result in credits and credit carried forward combined with no tax liability. Although the state may not receive revenue due to the credits, the members of the sponsor group will invest more in Alaska with the potential for additional production and revenue – which implies jobs in Alaska, and additional potential state revenue from additional production. Thus, this additional investment has the potential to increase overall state revenues – and analysis reveals this is likely to occur at most foreseeable gas prices. By encouraging producers to have a profit, even at lower gas prices, we will encourage additional investment in the state.

The PPT legislation recently enacted differs somewhat from that contained in the contract. However, the changes are not material in providing positive economic incentives for exploration and development and allocating a fair share of resource revenues to the state.

PPT_07: (1 comment)
Statement of Concern: Statements expressing concerns with the PPT payment in lieu of taxes.

Response: In its recently completed special session, the legislature enacted a new PPT law, and the governor has signed it. The contract PPT terms will be revised to conform to the new law.

3.9.3 INCNT: Investment Incentives in the Contract—SOCs and Responses

This issue category covers the state provision of investment incentives to industry.

INCNT_01: (78 comments)
Statement of Concern: Statements asking about the need for incentives.

Response: The gas on the ANS is stranded. It is not marketable at this time because it is too expensive to bring it to market (see STRND_01). The pipeline will cost well over $20 billion, making it the most expensive single construction project in North America. Such a large financial undertaking contains great financial risk. To date, no private sector consortium has shown a willingness to undertake the project without government support in the way of incentives to reduce that financial risk.

There are many, many types of fiscal incentives given to oil producers across the nation and many more that can be imagined. A list of current incentives is titled *Making a Wise Investment: The Economic Impact of Oil and Gas Incentives* compiled by the Interstate Oil and Gas Compact Commission (IOGCC) in 2004. The list of incentives includes corporate income tax credits, income tax write offs, reductions in property tax, reductions in royalties, reductions in production taxes on new wells, reductions on production taxes on old wells, and many more.

Incentives are always given with the intent of creating even greater revenues from increased oil and gas activity. Sometimes the objective is to increase employment and sometimes just to increase government revenues. These increased revenues come from employment taxes, sales taxes, property taxes, royalties, production taxes, lease fees, and other sources. The IOGCC report states that the cumulative return on incentive investment is as much as 28 to 1.

This negotiation was not about dividing up the economic rent of an already viable project. It was an attempt to create conditions under which a pipeline was more likely to be built than not. If the project is built, as the Preliminary FIF demonstrates for example in Table 6 on page 73, the government has given up no revenues. How does the contract make the project more likely? Government take is already the biggest single cash draw on this project: If prices stay high and the pipeline comes in under budget, the contract lets investors know that the state will not unilaterally up its take. If prices correct downward and there is a significant cost overrun the contract lets investors know that the state is taking on a share of those risks. This makes the project more likely to be built. People may argue about whether too much or

too little incentive was given- but we believe we have gone as far as the state should without actually reducing the state's take from the project. If, contrary to the events of the past several decades, someone believes this project was about to built anyway, then they can argue that the state ought to have upped its take of the economic rent. We believe such an increase would make the project less likely, not more likely to be built, and therefore that is not a good starting premise.

INCNT_02: (6 comments)
Statement of Concern: Statements expressing concern that the contract allows tax breaks to apply to the sponsor group, their affiliates and subcontractors.

Response: Because this is a total contract covering midstream and upstream, the production companies and the pipeline companies must both be subject to the contract. Because of the way work gets done on projects like this, to make the contract meaningful it has to apply to contractors and subcontractors.

The contract minimizes taxes on the project while under construction, recapturing that value in Payments in Lieu of Tax (PILTS) once the project is up and running and producing cash flow. To do that effectively, (and not make it less advantageous for the project sponsors to use local contractors and subcontractors) the contract is structured where a tax might increase the cost of the project, whoever is paying it in the first instance gets the "tax break." A contractor will only have the exemptions in this contract if they can demonstrate that the costs were directly passed on to the project or the properties.

INCNT_03: (2 comments)
Statement of Concern: Statements indicating that the state should only provide tax breaks for Alaskans.

Response: The SGDA provides that the commissioner may develop contract terms with a qualified sponsor or sponsor group. It does not specify that an applicant must be an Alaska resident in order to qualify.

INCNT_04: (5 comments)
Statement of Concern: Statements indicating that the state should not be the guarantor of oil company profits beyond a certain point.

Response: The state is never a guarantor of company profits. If the pipeline has cost overruns and the commodity price falls, the company may make no profits from the gas pipeline, and the state is not obligated to reimburse any of those losses.

INCNT_05: (2 comments)
Statement of Concern: Statements indicating that the term "affiliates" is too broad in the contract, and the member of the sponsor group can be in a position to "grant" exemptions to various companies.

Response: The contract minimizes taxes on the project while under construction, recapturing that value in Payments in Lieu of Taxes (PILT) once the project begins producing revenue. To do that effectively (and not make it less advantageous for the project sponsors to use local

contractors and subcontractors) the contract is structured so that if a tax might increase the cost of the project, whoever would be paying that tax gets the "tax break." A contractor would only receive that "break" if they can demonstrate that the costs were directly passed on to the project or the properties.

The contractual provisions for tax certificate exemptions and affiliates are not as broad as the expressed concerns and are necessary to create a straightforward, easy to administer system for enforcing the negotiated tax exemptions. In any event, the commissioner of revenue retains control of the scope and terms of the Certificate of Exemption pursuant to Article 11.9. The definition of affiliate is properly tied to any entity that a participant controls directly or indirectly.

The term "affiliate" is broad because this is a total contract, covering midstream and upstream, and the production companies as well as the pipeline companies should be beneficiaries of the contract. The term "affiliate" is limited in the definition. To be an "affiliate", the entity must possess either "(a) more than fifty percent of the voting rights of a Person; or (b) the power to direct or cause the direction of the management and policies of a Person, through ownership of voting shared, by contract, or otherwise."

INCNT_06: (1 comment)
Statement of Concern: Statements indicating that the terms "Participant's Interests" as specified in the contract are too broad and ambiguous; this could be interpreted to include gas stations, refineries, construction companies, engineers doing oil and gas work, drilling anywhere in the state.

Response: While "Participants Interests" is broad, as that phrase is used in Article 11, fiscal certainty is only provided for those interests "on its oil and gas related activity in Alaska." Thus, a gas station would not be covered. There are other restrictions - for example in Article 14, where the production tax is converted to a PILT, only production from leases pertinent to the project is included, which for example would exclude Cook Inlet production from the contract.

INCNT_07: (1 comment)
Statement of Concern: Statements suggesting that paragraph 38.3 of the contract, which eliminates all presumption that might favor the state and precludes strict interpretation against tax exemptions, should be eliminated.

Response: Under Article 19.10, presumptions established by federal or state tax law adopted as part of the contract under Article 19.1, continue to be applicable. To the extent that the sponsor group's payments in lieu of taxes are based on tax provisions, therefore, any presumptions arising from those tax provisions continue to apply, including any presumptions attaching to general tax exemptions. Specific contract terms, such as exemptions that are explicitly listed in the contract, however, are construed under contract law, rather than tax law, and Article 38.3 recognizes that no presumption favors either party under general contract law.

INCNT_08: (5 comments)
Statement of Concern: Statements indicating that indemnification provisions in the contract are questionable from a constitutional point of view and have the potential to cost Alaska millions of dollars without any control by Alaskans.

Response: The Attorney General has considered concerns regarding various indemnification provisions in the gas pipeline contract during the course of the Stranded Gas Development Act (SGDA) negotiations. Like the fiscal certainty provisions in the contract, the indemnification provisions arguably raise constitutional issues that have not been finally decided by our Supreme Court. However, the Attorney General believes that the contract provisions will withstand constitutional challenges.

The Attorney General's Office has, over the years, interpreted art. IX, sec. 13 of the Alaska Constitution as imposing a limitation on a state official's ability to enter into indemnification agreements. Art. IX, sec 13 provides that "no money shall be withdrawn from the treasury except in accordance with appropriations made by law. No obligation for the payment of money shall be incurred except as authorized by law." These restrictions taken together have been construed as prohibiting a state official from agreeing to an indemnification term in a contract that is not funded by, and limited to, an appropriation for such purpose or that is not otherwise made subject to the appropriation authority of the legislature. The most recent opinion on this subject is to the same effect. Alaska AG OP. Aug. 2, 2005.

The answer to the question of whether the offset provisions in Article 22 of the proposed contract unconstitutionally interfere with the legislature's appropriation authority will depend on whether the Alaska court ultimately views each individual stream of payments due the state under the contract as subject to the appropriation power, or whether the court will view only the net revenue stream due the state under the contract as subject to the appropriation power of the legislature.

INCNT_09: (2 comments)
Statement of Concern: Statements indicating that investment tax credits will essentially be a direct subsidy on marginal projects with no increase in tax revenue and therefore a direct loss of state tax dollars.

Response: If these projects are marginal and the tax credit makes it more likely that they will be built, then in fact there will be an increase in tax revenue resulting from production that would otherwise not occur. We estimate that this increase is likely to more than offset any loss of tax dollars from the credit.

INCNT_10: (1 comment)
Statement of Concern: Statements expressing concern that the gas treatment plant (GTP) is over-subsidized by the state.

Response: The GTP receives no more or less of a "subsidy" under this project than any of the other midstream infrastructure. In the Preliminary FIF on page 177, Section 5.1.11 describes a "PPT credit of 35 percent on the GTP and feeder lines". No such credit was in either the governor's proposed PPT legislation or the version of the PPT that passed the legislature and was signed into law or the contract. The closest item in the contract is the commitment allowance under Article 20.3. Even with this incentive, as discussed above, the

state's financial take will be better with this project under the contract than under current rules if they carried forward unchanged for the period of the contract. And of course, the state is better off with a project than without a project and so if the commitment allowance is an important aspect of getting the pipeline, it is no subsidy at all.

3.9.4 LCL_X: Local Taxation—SOCs and Responses

This issue category covers concerns on the impacts on local taxation from the gas pipeline project.

LCL_X_01: (4 comments)
Statement of concern: Statements indicating that it is unclear what businesses would be eligible for "tax breaks" under the contract.

Response: The fiscal contract addresses this concern as described below:

- In Article 11 of the fiscal contract a number of criteria are established identifying 1) who is required to pay a tax in the first instance and 2) who is required to bear the tax and who is not.
- Article 11.8 establishes that participant's affiliates are treated the same as the participant. While the determination of who is and isn't an affiliate in law is often complex, the definition of affiliate in the contract is a two part test, which we believe will be fairly straight forward. Whenever a participant is exempt from the payment of a tax, the affiliate is exempt from the payment of the tax. Whenever the affiliate pays the tax, the participant is deemed to have paid the tax.
- Article 11.10 is more complex and deals with contractors and subcontractors. If there are disputes about this provision, the general principle is set forth first: contractors and subcontractors receive no tax benefits under the contract. Generally contractors and subcontractors will be subject to taxes on their business activities just like anyone else. But if the contractor pays a tax relating to the project and bills the tax to a participant or its affiliate, that participant or affiliate is deemed to have paid the tax.

LCL_X_02: (5 comments)
Statement of concern: Statements expressing concern that under the contract terms the state would have to pay the participants' municipal tax above a certain cap.

Response: This is potentially correct: there are situations in which the state would reimburse companies that had paid certain municipal taxes above a cap, and as such the state would essentially have "paid" those taxes. In short, the fiscal regime designed by the contract essentially leaves municipalities in control of their fiscal regimes - and the impact on the project is more than bargained for when the state makes up the difference. Of course if such payments were persistent or always paid on account of certain municipalities, the state might also change the law under which municipalities are granted their taxation rights.

LCL_X_03: (2 comments)
Statement of Concern: Statements asking for a way to tax non-local pipeline workers (e.g. income tax) to help offset local infrastructure costs of the pipeline.

Response: Economic growth comes with certain costs and the decisions to pay for the associated costs are best made at the level where the costs are incurred. Tax schemes like sales tax, income tax, and excise tax, user taxes, tolls, etc. can be used to recoup the costs and should reflect the user base for the services. The required infrastructure for economic growth is easily outweighed by the costs of unemployment to the community if there is no economic growth. The income multiplier of additional jobs increases the economic base for a community and thereby provides both income and tax opportunities.

LCL_X_04: (1 comment)
Statement of Concern: Statements indicating that if the gas pipeline project losses money Alaskans will pay more taxes.

Response: It is almost certain that without the project or some other means of transporting ANS gas to market, Alaskans and Alaska communities will pay more taxes. It is clear that even with the newly enacted petroleum profits tax (PPT), revenues from oil production will decrease over time until they virtually disappear at the time of the closure of TAPS.

The project offers a higher probability of continuing oil taxes for many more years and, more importantly, of adding gas revenues. The additional state and municipal revenues generated by the project far exceed such revenues without the project.

LCL_X_05: (4 comments)
Statement of Concern: Statements expressing concern that municipalities, rights to tax the industry are undermined by the contract.

Response: Property used for oil or gas exploration, production or pipeline transportation is exempt from local assessment but subject to a state property tax of 20 mills. The state estimates the value of this property. The state does prorate taxes for municipalities that have oil and gas property located within their boundaries. The pro-ration factors are calculated from the proportionate share of the value and are taxed at the mil rate that other property within the municipality is taxed. Property tax payments made to a local government may be credited against the state. This applies to oil and gas related property that is assessed by the state and the borough, municipality or city in which the property is located. Oil and gas property is assessed by the state and the taxpayers calculate the property tax credit based on what they have paid to the local government.

LCL_X_06: (1 comment)
Statement of Concern: Statements indicating that the PILT distribution to communities is unsatisfactory.

Response: Revenue from the PILT is prorated to the political subdivisions based on the pipeline mileage within the subdivision and the respective mill rate relative to the maximum 20 mill rate assessed by the state. This method reflects the approach used for property tax on TAPS.

LCL_X_07: (5 comments)
Statement of Concern: Statements indicating that the communities should be held harmless from the perspective of local tax revenues by recommending the removal of oil tax concessions that lowers the 2006 value of the TAPS; if changes in oil taxation remain in the contract, the value of TAPS in the contract should be increased to the value established by the State Assessment Review Board (SARB) of $4.3 billion.

Response: SARB recommended that the Division of Revenue adjust their $3.6 billion assessed valuation for TAPS to $4.3 billion to include capitalized interest, ad valorem tax cost and the cost of the program manager profit during construction. A rate of $0.251 is consistent with a $4.3 billion value. Using the $0.251 rate for TAPS instead of the $0.204 in the gas contract assumes that the sponsors will adjust the contract value to be consistent with the current SARB decision. Taxes will be based on the new valuation but the determination is under appeal. To be consistent, the SARB valuation of $4.3 billion is used in both scenarios analyzed in the FIF.

In addition to the PILTs made in the contract there are also the impact payments. Together, the net present value (NPV) of the PILTs and the impact payments should combine to equal local tax revenues that were generated under the "old system" of taxation.

LCL_X_08: (2 comments)
Statement of Concern: Statements expressing concern that the sponsor group can require audits to be done on municipalities to make sure that taxes imposed are not "targeted taxes."

Response: Article 11.7 allows a participant to request an audit of the "relevant records" of the state or a political subdivision for the sole purpose of determining whether a tax is a targeted tax. To ensure that this contractual obligation is fairly applied, a participant is given the right to request an audit through a third party auditor of the relevant records subject to certain procedural protections. Note that the state is contractually obligated to repay any "targeted tax" pursuant to the terms of Article 11.3. Conversely, a participant is obligated to pay the tax to the political subdivision and may exercise its exemption only by seeking reimbursement to the state. Thus if a tax is properly classified as a targeted tax, the financial burden of that tax falls upon the state. The political subdivision collects the tax independent of the state's obligation and any audit. As explained, because of the absence of economic impact on a political subdivision, it properly has no concern with the audit of an obligation between the state and a participant.

LCL_X_09: (2 comments)
Statement of Concern: Statements indicating that the contract should include provisions that true up the assessments and resultant PILT payments based on actual costs of construction of the mainline, gas treatment plant, gas transmission lines, and any subsequent improvements thereto.

Response: The Stranded Gas Development Act gave the commissioner the authority to modify the current tax system within any gas pipeline contract developed under the Act. There is no specific language in the Stranded Gas Development Act that dictates the level of payments to municipalities that the contract must provide. The state in negotiating the contract language as it relates to municipal revenues attempted to maintain an income stream

of equivalent NPV during the life of the contract. Although the state acknowledges that the revenue stream from the GTP PILT is not equivalent to the income stream generated from a property tax on the GTP, the state estimates that the contract will make available to the North Slope Borough (NSB) an additional $80 million in annual gas related revenues once the pipeline is completed. The contract also provides a mechanism for new boroughs to receive a portion of the PILT associated with the gas pipeline and TAPS. If in the future the gas pipeline PILTs are insufficient to fully fund payments to new boroughs the payments would be prorated under the contract but the legislature could still act to make up the difference. TAPS' PILTs are sufficient to fully fund payments to new boroughs.

LCL_X_10: (1 comment)
Statement of Concern: Statements indicating that the contract should ensure the North Slope Borough and other municipalities do not experience a huge loss to the net present value of property taxation due to the contract, but instead receive at least equivalent net present value to current tax law.

Response: The North Slope Borough is correct in pointing out that the contract does not replace all traditional tax payments with PILTs of an equivalent Net Present Value. This issue will be addressed in more detail as it relates to specific comments of the NSB. They are also correct in pointing out that under the current contract they potentially stand alone as the only local government that will sacrifice revenues during the operation of the pipeline. However the North Slope Borough is not alone in experiencing a reduction in revenues during construction of the pipeline.

Although there is no specific language in the Stranded Gas Development Act that dictates the level of payments to municipalities, the state in negotiating the contract language as it relates to municipal revenues attempted to maintain an income stream of equivalent NPV during the life of the contract. In order to determine whether the contract language met that goal, it is necessary to look at the entire PILT revenue stream rather than individual PILTs in determining the equivalency of the payments.

It is clear that the calculation of the NPV equivalency is directly related to the assumptions used in determining inflation rates, production rates, and discount rates and as such is open to debate. However, it is reasonable to estimate that the contract will make available to the North Slope Borough an additional $80 million in annual gas related revenues once the pipeline is completed. In addition, the PILT structure for the oil related assets generates as much as $1.5 billion in additional revenue over and above the status quo tax structure during the life of the contract.

LCL_X_11: (1 comment)
Statement of Concern: Statements indicating that the definition of "Targeted Tax" should be modified to allow local governments to enact taxes at rates not above those reasonable and customary for local governments in Alaska, regardless of any arbitrary percentage of effect on gas pipeline constructors or operators.

Response: Both the sponsor group and the municipalities acknowledged early on in the process the need to protect the project against targeted taxes. The state was also aware that the use of the 20 percent threshold as a measure of targeted taxes could create a situation

where an otherwise typical tax might be classified as targeted. To eliminate the financial risk on the municipalities while still giving fiscal certainty to the sponsor group, the state agreed in the contract to require that these taxes be paid to the municipalities regardless of whether they are targeted or not. The local taxing jurisdictions are kept whole, and can make sure they are kept whole under their own ordinances, boards of equalization and other democratic institutions. Then under the contract, if those payments have exceeded certain amounts or other tests, the state will reimburse the taxpayer. Under this contract provision, the North Slope Borough will be able to recover the revenue from the Economic Impact Assistance Payment (EIAP), but it will require the implementation of a sales and use tax to do so.

LCL_X_12: (1 comment)
Statement of Concern: Statements indicating that the contract should include provisions to re-evaluate the Oil Unit of Production method of assessment and the Gas Unit of Production method of assessment on a periodic basis.

Response: The state agrees that the "per barrel rate" cannot remain fixed and must adjust over time. Rather than provide for re-openers that would result in fiscal uncertainty to both producers and the North Slope Borough the state included annual inflation adjustments within the contract. A review of the cash flows from the PILT indicates that the inflation adjustment is sufficient to account for changing costs anticipated during the life of the contract.

LCL_X_13: (2 comments)
Statement of Concern: Statements indicating that any contract re-opener provisions should ensure there is no opportunity for municipalities to lose the NPV equivalency anticipated by the agreement, or for payment of all revenues foregone during the construction and capital recovery period.

Response: The re-opener discussed by the governor was in reference to the oil tax provisions of the contract, and most specifically the production taxes. There has been no discussion related to the renegotiation of municipal PILTs.

LCL_X_14: (1 comment)
Statement of Concern: Statements indicating that the contract should ensure that municipal tax departments have the right to audit and inspect records of producers and the state relevant to municipal PILT and tax payments.

Response: Technically, the contract is between the state and the industry sponsors. Municipalities are not third party beneficiaries under the contract. However, when the contract is read along with current law concerning mill rates, quite a bit of cash will flow to municipalities as PILTs, primarily the North Slope Borough. If the borough believes that it has not been paid appropriately, it must raise that issue with the state which will then act under the contract.

To be able to raise the issue though, the borough needs to have the information upon which payments are based. The vast majority of the NSB's payments will be driven by volumes and a close examination of the definition of "Non-confidential information" should reassure the NSB that volumetric and ownership information will be available. The only case where other

information (property valuation records) is required would be for an oil pipeline under construction under Article 17.2 (a). As that material is under the con ol of the commissioner there should be no problem in making it available to the borough.

LCL_X_15: (1 comment)
Statement of Concern: Statements indicating that the contract's inflation provisions should be adjusted to rates in line with oil and gas and construction inflation, rather than indices based on consumer prices.

Response: Different indices were considered and the CPI was selected because the intent is to price a commodity and maintain the earning power of the revenue stream in fact. The rate of change in the CPI is factored downward so the rate is lower but the path or trend will reflect consumer spending rather than producer prices or construction costs. Construction cost escalators are more appropriate for cost components and producer price indices are more appropriate to measure real levels of output by producers over time. The CPI is a standardized, uniform measure published by the Bureau of Labor Statistics on a regular basis and is available to the public. Construction and oil and gas indices do not meet the timely and rigorous standards required for a price index in a contract.

LCL_X_16: (1 comment)
Statement of Concern: Statements indicating that the contract should be amended to accommodate new local government formation by fully assessing mainline values in the unorganized borough.

Response: Our analysis uses a pro-ration factor of 24 percent for new political subdivisions. This factor is based on the estimated pipeline mileage and a 20 mill rate which is equal to the maximum mill rate. As described in the response to LCL_X_09, the contract also provides a mechanism for new boroughs to receive a portion of the PILT associated with the gas pipeline and TAPS. If in the future the gas pipeline PILTs are insufficient to fully fund payments to new boroughs the payments would be prorated under the contract but the legislature could still act to make up the difference. TAPS' PILTs are sufficient to fully fund payments to new boroughs.

LCL_X_17: (7 comments)
Statement of Concern: Statements expressing concern about the effect on tax revenues and school funding of changes in the valuation of oil property in municipalities.

Response: It was not the intent of the draft contract to result in diminishment of the school funding mechanisms. As this potential effect became clear, the administration requested a change in law to make sure the assets that, though tax free, had associated PILTs, would remain in the tax base at full and true value. While the bill did not pass out of the legislature in the special session, both the bodies of the legislature accepted it.

LCL_X_18: (2 comments)
Statement of Concern: Statements indicating that the contract changes how property taxes will be assessed on TAPS and other existing oil facilities. This change will possibly lead to reduced property taxes and therefore reduced municipal revenues.

Response: The contract does change the manner in which property taxes will be assessed on existing and future oil and gas infrastructure. The intent of this action is to bring property valuation in-line with production rather than construction costs. Commercial property is often valued based on the revenue it generates rather than its cost of construction. This is a valid property assessment method that recognizes the vicissitudes of business cycles and adjusts value accordingly. This works both ways in that an inexpensive property could pay more tax than an expensive one if it generated more business revenues.

TAPS property tax value and taxes increased greatly in the past year. This was related to valuation of the line. However, a change in statute could increase the mill levy above the current 20 mills. The sponsor group is cognizant of this and negotiated to forestall any such possible increase by the state in the future.

LCL_X_19: (1 comment)
Statement of Concern: Statements supporting the removal of oil tax concessions that specifically target taxes being collected by the City of Valdez; the statement suggests that all reference in the contract related to personal property tax on vessels over 95 feet be stricken in its entirety from the proposed gas contract.

Response: Since the purposes of the contract is to deal effectively with all known incidences of taxation of the sponsors oil and gas business on the state, then it is entirely appropriate to include the so called "vessel" tax from the city of Valdez. To strike all reference to it in the contract would leave an ambiguous situation - a further playground for the litigious minded.

3.9.5 EXPLR: New Exploration for Oil and Gas—SOCs and Responses

This issue category addresses incentives for exploration and development of new sources of gas and oil in Alaska.

EXPLR_01: (4 comments)
Statement of Concern: Statements expressing concern that the timing of the fiscal contract will discourage exploration; and that the existence of in-state off-take points may adversely affect natural gas exploration in other areas (i.e., Cook Inlet).

Response: The state's negotiating team has negotiated the best opportunity for the state to get a sound, economic pipeline project constructed and operating in a timeframe which avoids ruinous state revenue gaps from occurring. The existing level of in-state exploration, over the last decade or more, has proven inadequate to maintain oil production levels high enough to prevent an inexorable decline in state revenues. Opening markets for Alaska gas by delivering it into the interior North American markets via a gas pipeline, as well as providing for in-state deliveries, greatly expands the economic resource potential upon which Alaska revenues are based.

For explorers, the certainty that a gas pipeline will be built allows them to attribute value to the chance that they will find marketable quantities of gas – without that certainty, potentially discoverable gas reserves have no value to explorers. As a result, exploration projects with a high likelihood of finding gas, rather than oil, are currently likely not to be drilled – and potential oil opportunities, as well as gas opportunities, are deferred.

Early oil exploration resulted in a series of major gas discoveries in Cook Inlet, providing Southcentral Alaska with a 50-year supply of very cheap gas. Low gas prices eliminated until recently the financial incentive to explore for gas in Cook Inlet. Even today, the isolated nature of the Southcentral gas market results in only lower cost (and lower potential) Cook Inlet gas prospects being drilled. Large, high cost prospects continue to be neglected because of the lack of short term, significant market potential. A spur line from the gas pipeline to Southcentral Alaska would connect Cook Inlet gas supplies to the North American gas markets. If major new Cook Inlet gas discoveries were then made, Southcentral could become a supplier of gas into the North American gas markets, as well as providing for our own Southcentral needs. The spur line has the potential of stimulating higher cost and higher potential Cook Inlet gas exploration, rather than discouraging it.

EXPLR_02: (1 comment)
Statement of Concern: Statements expressing support for a $25 million credit for exploration.

Response: The exploration development credits discussed as part of the contract were contained in the petroleum profits tax (PPT). This tax was signed into law in August 2006. We agree that exploration and development credits are important and now they are available as additional incentives.

3.9.6 PTU: Point Thomson Issues—SOCs and Responses

This issue category deals with the development of the Point Thomson unit (PTU).

PTU_01: (17 comments)
Statement of Concern: Statements indicating that the contract allows the PTU leaseholders to default on their lease obligations to develop PTU (or prohibits the state from enforcing the lease requirements).

Response: Historically, continuance of the PTU and its leases has, until the latter half of 2005, been with the concurrence of commissioners of natural resources of several administrations of varied political perspectives. The companies have invested significant amounts of money over several decades in exploring this acreage and in addressing major technical issues. In recognition of those facts, each of these administrations has been a party to extending these leasehold interests. Under the amended DNR decision of October 27, 2005 the PTU Agreement was declared in default. That decision did not call for the return of the PTU leases to the state, but it did call for "a plan to bring the PTU into commercial production within a reasonable time frame" and provided dates for initiation of development operations, commencement of drilling, and commencement of production. Since those deliberations have now ended, the companies are back to dealing directly with DNR to develop an acceptable POD which will lead to field development. On September 8, 2006, the Commissioner of the Department of Natural Resources issued a final extension of time to submit a cure to the October 27, 2005 decision placing the unit in default. That cure, with all supporting documentation, must be submitted to DNR no later than October 20, 2006. In addition, any party wishing to submit an appeal on the subject must submit all appeal documentation to the DNR offices by November 3, 2006. The commissioner of natural

resources will hold an appeal hearing on November 13, 2006. Any decision concerning the cure and any appeals will be made by the commissioner of natural resources subsequent to the November 13 hearing.

The PTU reserves and gas deliveries will play an integral part in the proposed project and the contract provisions concerning PTU provide a specific context for its development. The contract provides for a PTU development schedule which is consistent with and which supports development of the mainline.

The contract imposes specific requirements upon the producers with respect to development of the PTU:

- Each producer must commit PTU gas reserves to the project; and
- The producers must apply to the AOGCC within 6 months for issuance of pool rules.

In addition, the contract requirement that the gas pipeline project be pursued "with diligence" applies to PTU development, as well as the rest of the mainline – if the contract is terminated for any reason the producers' rights to Pt. Thomson expansion leases terminate unless they initiate alternative development of the PTU within one year of the contract termination. In addition, DNR can also pursue other steps, including termination of the unit, and initiating procedures to revoke the leases.

Finally, nine months after startup of the mainline, obligations to DNR Plans of Development resume which will allow DNR to continue to manage development of PTU oil and gas reserves.

PTU_02: (1 comment)
Statement of Concern: Statements indicating that without PTU development there will be a shortage in gas resources.

Response: This is a correct statement. Because Prudhoe Bay will not be able to provide all the gas necessary for the project to be successful, the PTU's high pressure gas reservoir is critical. Without it there would be no way to achieve the benefit of scale associated with the proposed project.

PTU_03: (2 comments)
Statement of Concern: Statements indicating that PTU should be developed now and that the contract prevents this development to happen.

Response: Nothing in the contract prevents PTU from being developed today should the leaseholders propose that action. The statement that PTU should be developed now ignores the current situation with the PTU that is described in PTU_01 above. Without a gas pipeline in existence, the only production scenario that could work is a liquids gas recycling project. The PTU is an extremely high pressured reservoir. This means the very large very expensive compressors will be necessary to re-inject the gas after the liquids have been stripped out. There is also uncertainty about the distribution of PTU reserves and whether or not additional production platforms will be necessary. A liquids stripping project will also require the immediate construction of a liquids pipeline to Prudhoe Bay. In addition, it is unclear how the additional liquids could be further marketed from Prudhoe since TAPS is already

carrying as much natural gas liquid as it will hold. All of these issues must be fully evaluated before a statement about the appropriate production plan for PTU can be made.

PTU_04: (1 comment)
Statement of Concern: Statements indicating that the pipeline project will encourage exploration, development, and production of gas resources in the PTU and other areas in the ANS.

Response: We agree.

PTU_05: (2 comments)
Statement of Concern: Statements expressing concern that the delay in PTU development means that the gas pipeline project is not going to happen.

Response: Since the vast majority of the resource value of the PTU lies in its natural gas content, without a pipeline all of this value will be lost. Capturing this value can only happen when a gas pipeline is built. Therefore, the sooner we get a gas pipeline built the sooner we can realize the bulk of the value contained in the PTU.

PTU_06: (3 comments)
Statement of Concern: Statements indicating that PTU should not be part of the contract.

Response: PTU must be part of the contract because it will play an integral part in building the proposed project. Because Prudhoe Bay will not be able to provide all the gas necessary to operate a project with approximately 4 bcf/d of throughput, the PTU's high pressure gas reservoir is critical. In addition, production from the PTU will allow lower offtake rates from Prudhoe Bay during the early years, allowing for greater oil recovery from Prudhoe Bay. The contract recognizes that fact and provides certainty that PTU will be produced when the gas pipeline comes into service. There are specific contract terms that require the operators at PTU to go immediately to the Alaska Oil and Gas Conservation Commission for an authorized off-take rate and that gas is committed to the project. Under terms of the contract, failure to take these steps will result in immediate loss of expansion leases. Specific contract provisions summarized in PTU_01 above will require the operators to develop PTU gas and will penalize the producers for a failure to do so.

PTU_07: (2 comments)
Statement of Concern: Statement indicating that Chevron, as a PTU property owner, should receive written commitments from the state and sponsor group that the gas at PTU will be developed in a manner that allows each of the PTU owners to participate in the open season process without assuming risks disproportionate to the sponsor group members.

Response: Because the open season will be carried out under the authorities and responsibilities of FERC, it will be done in an open and evenhanded manner. It will be conducted in such a way as to afford "all" participants with an equal opportunity to produce and market their gas. In so far as Chevron is raising issues that relate to the management of the plan for development of PTU, that is an issue to be resolved among the members or leaseholders of the PTU. Comparable terms are also available as a result of the UUFC. It should be noted that the model UUFC will be contained in the Interim FIF.

PTU_08: (1 comment)
Statement of Concern: Statements expressing concern that under the proposed contract, the state suspends most of its authority to enforce development of the PTU through lease requirements, including relinquishment of the leases if work commitments are not met.

Response: Without a gas pipeline the vast amount of value to the state represented by PTU will never be realized. The contract is based on setting the conditions necessary to get a gas pipeline built. Without a gas pipeline the only value to the state resides in the liquids content of the reservoir and the ability to economically get those liquids to market through TAPS which is already carrying as much NGLs as it can. This being the case any statements made to the effect of value lost or received must take into consideration what conditions are necessary to get a gas pipeline built.

3.9.7 UUFC: Uniform Upstream Fiscal Contract—SOCs and Responses

This issue category covers the Uniform Upstream Fiscal contract.

UUFC_01: (5 comments)
Statement of Concern: Statements advocating changes to the UUFC to ensure that all gas producers will be entitled to the same fiscal terms as those who signed the Fiscal contract.

Response: The Preliminary FIF (Section 4.3.2) explains th state's general view that the Fiscal contract benefits provided to the sponsor group also should be made available to other ANS producers who are willing to enter into firm transportation commitments to ship their gas, and that therefore it intends to propose legislation that would authorize the commissioner of revenue, after consultation with the commissioner of natural resources, to develop a uniform upstream fiscal contract with provisions identical in substance to the fiscal certainty terms of the contract. Attachment 1 to the contract is that proposed legislation of general applicability. It authorizes ANS producers (other than the signatories to the contract) to sign an upstream fiscal contract provided certain enumerated conditions are met.

No commenters took issue with the state's intent to provide a mechanism for allowing fiscal certainty for all ANS gas producers. Several, in particular Chevron and Anadarko, pointed out that the proposed legislation contained in Attachment 1 to the contract does not provide fiscal certainty equivalent to that provided to the sponsor group. Concern was expressed that the contract has the potential to create two classes of gas producers—the sponsor group whose fiscal certainty is set forth in the contract, and other producers whose fiscal certainty would be set forth in a different contract based on the terms set forth in Attachment 1 to the fiscal contract. Several changes to the proposed legislation were suggested in order to create fiscal equality.

To repeat, it is the state's intent to provide a level playing field for all ANS producers insofar as fiscal certainty is concerned. Many of the technical changes appear to even that playing field and therefore the state is willing to discuss these proposed changes with the commenters in the hope of reaching a consensus on how to modify the proposed legislation to better achieve that mutual objective.

UUFC_02: (1 comment)
Statement of Concern: Statements expressing concern about the geographic limitation on oil and gas leases eligible for the benefits of the uniform upstream fiscal contract as defined in Attachment 1 to the contract. The proposed legislation creating the uniform upstream fiscal contract limits the eligible leases to those located north of 68 degrees North Latitude. For example, the Yukon Flats sedimentary basin holds huge gas potential and lies proximate to the proposed gas pipeline, but its location south of the Brooks Range makes it ineligible for the uniform upstream fiscal contract. RDC recommends § 43.82.437 (b) of the proposed legislation as documented in Attachment 1 of the fiscal contract be deleted.

Response: The geographic limitation in the fiscal contract is adequate to meet the needs of the sponsor group. A similar limitation was put into the example uniform upstream fiscal contract primarily to close the issue during negotiations with the sponsor group. The decision of how access to fiscal certainty will be constrained in the UUFC is a policy decision to be made by the legislature when drafting the actual legislation. The issue which was avoided during negotiations with the sponsor group is the question of how to best define those leases and that production which should or should not receive fiscal certainty. Leases and reserves in the Interior, and certainly those in Cook Inlet can be developed and monetized, without making any commitments to the pipeline—or while making only limited commitments to the pipeline. The negotiating teams chose to leave this provision as written in this example legislation, allowing the legislature to determine the appropriate policy action to take. The administration's gas team stands ready to provide input to the legislature encouraging the "level playing field" for all producers' who underwrite the Alaska gas pipeline or expansions of that pipeline through taking out firm shipping commitments.

3.9.8 RSRV_X: The Proposed Reserves Tax—SOCs and Responses

This issue category covers comments regarding the proposed gas reserves tax.

RSRV_X_01: (31 comments)
Statement of Concern: Statements of concern regarding a gas reserves tax

Response: The reserves tax would be counter-productive to constructing a pipeline. The most daunting aspect of the tax is that it is unavoidable: producers would pay it even if they do build the gasline. In that regard it can hardly function as an incentive. The credit mechanism would only allow for recovery of a small fraction of the tax, especially on a net present value basis. Thus it adds billions of dollars to the cost of the already challenged project.

Point Thomson, an undeveloped field with no income, will have to start paying a quarter-billion dollars a year. Given the uncertainties of whether there will be a gasline, when it will start, the cost, and the price of gas, the tax could very well cause the field to have a negative net present value.

Similarly with Prudhoe Bay, oil will be paying the taxes. About $6/bbl is currently being invested there for production. In the absence of new investment, production could spiral down very rapidly, hastening the end of field life.

In addition, new gas discoveries could be subject to the tax. Thus exploration for gas and oil would probably cease. Moreover, the tax could cause a vast misalignment with the State and probably result in the termination of gas pipeline negotiations.

Finally, there are several significant constitutional problems with the tax, both on a State and federal level. It is certain the producers would litigate, and the outcome could be several years in coming. If the legality of the tax is unclear, the producers will not proceed until case is decided. Such a commercial strategy is necessary given the scale of the project. Thus advancement of the project could stop until the constitutional issues are resolved.

The delay inherent in the litigation would cause the period of the revenue gap to increase as the period between when oil revenues decline and gas revenues begin grows by the time wasted in litigation.

It is the administration's opinion that a natural gas reserves tax would result in the cancellation of cooperative gas pipeline planning, a dramatic decrease in development of new oil and gas fields, and hasten the closure of the TAPS.

No petroleum reserves tax exists anywhere in the world. We know of no examples of such a tax being instituted anywhere at any time.

Enactment of a reserves tax, even one that refunds the tax after production begins, would be counter to the purpose of fiscal stability. Establishing a reserves tax sends a message to producers that they are susceptible to additional future taxes almost without limit. One of the central tenets of the fiscal contract is the guarantee of fiscal stability for producers. This guarantee is necessary to secure the magnitude and duration of investment required for ANS gas development. The contract protects the sponsor group (and any future signatories) from increases in future taxes for this reason. The payment of refundable taxes still requires monetary outlay which would come at the expense of exploration and development expenditures.

3.10 State Ownership

Issues in this general area of concern included the structure, governance and operation of the project entities to be formed to own and operate the various elements of the gas pipeline project; state regulation of the gas pipeline project; state management of resources and development of Alaska's oil and gas; state equity ownership in the gas pipeline project; and gas pipeline project impacts on the Permanent Fund.

3.10.1 LLC: New Limited Liability Corporations (LLCs) Between State and Partners—SOCs and Responses

This issue category covers various public concerns regarding state participation in the project, the role of the mainline LLC, alignment of interests, the choice of Delaware Law to govern the mainline LLC, and valuation of NGLs.

LLC_01: (8 comments)
Statement of Concern: Statements asserting the benefits of state participation in the mainline LLC.

Response: Given the risks of the project, particularly the enormous up-front cost, the administration's analysis shows that in a "status-quo" world, the project rate of return is low. A low rate of return is particularly damaging to a project in which high risks are incurred and around which much uncertainty exists, because the low rate of return reveals a 'fragility' about the project such that relatively little adversity can destroy the economics of the project. By increasing the rate of return, the project becomes more 'robust' -- a much more attractive investment opportunity which has a greater ability to withstand adversity and still return positive economics. As a result the likelihood increases that the project will move forward.

An alternative was examined by the administration – that of simply giving up state royalty value and taxes. It was determined that the state's royalty value and taxes would have to be given up entirely in order to have an effect on the rate of return that is comparable to that accomplished by accepting state ownership and state gas in-kind.

By committing to own a share of the mainline and to bear its proportionate share of the upfront costs of constructing the mainline (which the state will bear in any event because actual costs are recaptured in the gas transportation tariff rates) the sponsor group will spend less money up-front. Because of the time value of money this increases their rate of return and makes the project more competitive with other investment alternatives members of the sponsor group may have available to them. An in-depth discussion of state ownership issues is set forth in *Sections 4.5 The State Should Own a Share of the Pipeline* and *Section 5.1 Analysis of Balance of Fiscal Principles* of the Preliminary FIF.

In addition to insuring the competitiveness of the project, the state's ownership interest in the various project entities will provide numerous benefits for the state, including economic benefits, expediting construction of the project, and participation in the project development decision-making process,. These benefits are detailed in *Sections 4.1.3 Estimated Earnings from State Ownership* and *4.5 The State Should Own a Share of the Pipeline* of the Preliminary FIF.

LLC_02: (25 comments)
Statement of Concern: Statements expressing concern that the state entity would not have enough influence as a minority partner in the mainline entity to able to effectively look after the interests of the state.

Response: The state's member in the mainline entity will be entitled to participate in decision making and will have approval rights on certain major decisions, important protections at other key decision points where it may be out-voted such as the decision to construct the project (see OWNRISK_02) and a right to be heard on all decisions of the LLC management committee. Additionally, because no single member holds a majority ownership interest in the mainline entity, no single member can cause the mainline entity to take an action without the agreement of at least two other members. The state's member will thus have certain voting rights and key protections to look after their commercial interests as a part owner of the project.

LLC_03: (7 comments)
Statement of Concern: Statements requesting clarification of the role and function of the mainline LLC.

Response: The mainline LLC will own and operate the Alaska portion of the pipeline, and will oversee all major development and operation decisions.

LLC_04: (15 comments)
Statement of Concern: Statements questioning whether an investment in the project is within the mandate of the Government of Alaska.

Response: The state has determined that state investment in the project is in the long term fiscal interest of the state because the investment will reduce risks of the producers in developing the project and thus insure that it will be built and will also yield significant benefits for the state. Many of these benefits are set forth in detail in *Sections 4.1.3 Estimated Earnings from State Ownership and 4.5 The State Should Own a Share of the Pipeline* of the Preliminary FIF. Any investment will comply with the requirements of Alaska law.

LLC_05: (18 comments)
Statement of Concern: Statements questioning whether the state's participation in the project will result in an alignment of interests that will be positive for all participants.

Response: As noted above, the state has determined that state investment in the project is in the long term fiscal interest of the state due to the benefits that are set forth in detail in *Sections 4.1.3 Estimated Earnings from State Ownership and 4.5 The State Should Own a Share of the Pipeline* of the Preliminary FIF. The voting provisions of the project entity agreements will require that there will always be alignment of at least 3 members with respect to routine decisions and of all 4 members with respect to major project decisions, so there will have to be a positive alignment of interests in order for the project to advance.

LLC_06: (1 comment)
Statement of Concern: Statement expressing concern that the state cannot hire and fire employees at will as in the case of the private sector and as a project participant this could be a problem.

Response: Project employees will not be state employees, and therefore will not be subject to state personnel rules or collective bargaining agreements

LLC_07: (1 comment)
Statement of Concern: Statements expressing concern that the fiscal contract does not establish a pipeline construction entity.

Response: The contract deals with fiscal certainty granted for the development of the project, and does not directly address the development or construction of the project, which will be the responsibility of the project entities, including the mainline LLC. It is contemplated that the members of the mainline LLC will appoint an affiliate of one of the members to serve as the operator of the project, who will, through contractual relationships with the mainline

LLC, manage construction and operation of the pipeline subject to oversight as agreed in the mainline LLC agreement.

LLC_08: (2 comments)
Statement of Concern: Statements questioning why the ultimate parent companies of the members of the sponsor group are not party to the contract.

Response: The fiscal obligations addressed in the contract are the obligations of the sponsor group that actually are the lessors under the state leases. The contract further requires that the other project entities will become party to the contract promptly following their formation. The addition of the parent companies would not impact the state's ability to fully enforce the provisions of the contract. Also, the proposed contract changes strengthen the contract's requirements that the key project entity governance agreements be finalized and that those entities be formed. A failure to form these within a year of the Effective Date would be a presumptive failure of diligence under the contract. It should also be noted that these entities hold billions of dollars of assets in Alaska and are financially able to support the obligations of the contract.

LLC_09: (10 comments)
Statement of Concern: Statements concerned by the lack of specificity of terms and conditions addressing the structure, governance and operation of the various project entities to be formed to own and operate the various elements of the pipeline project and the provision of the governance agreements to the legislature, the public and other interested parties.

Response: The unavailability of the mainline LLC agreement was noted as an issue by many during the public comment period and the state worked very hard to try to finalize a mainline LLC agreement so that the public and the legislature could better understand the project and the state's role in it. The LLC negotiations were not completed, but the State intends to release to the public the state's proposed LLC Agreement. The proposal represents what the state believes it could accept in an ownership agreement. Although the negotiations with the sponsor group were productive and many issues were resolved, the parties could not resolve some significant final points As a result, the sponsor group has not accepted the state's proposed LLC agreement. Each project entity will be established with governance provisions substantially similar to those agreed with the sponsor group in the proposed mainline LCC agreement.

LLC_10: (1 comment)
Statement of Concern: Statements expressing concern about the failure of the contract to specify that previously used assets that are acquired by the mainline LLC will be valued at net book value for ratemaking purposes.

Response: Votes related to FERC issues including ratemaking terms will require an affirmative vote of the state member under the state's proposed mainline LLC agreement. The contract itself further protects the state's right to intervene in any FERC proceeding and to argue for whatever terms and conditions it advocates. FERC ultimately has a duty to ensure that all tariff terms and conditions are just and reasonable.

LLC_11: (6 comments)
Statement of Concern: Statements asking why the Delaware Act was chosen to form an Alaska Pipeline LLC instead of using the Alaska Act.

Response: Delaware is widely regarded as a preferred jurisdiction for the formation of commercial entities throughout the United States because of its highly developed case law, judicial experience and efficiency and promotion of contractual flexibility, all of which increase predictability of outcomes and reduce the likelihood of disputes. Additionally, the parties chose Delaware law to govern the mainline LLC in part to enable a broad waiver of duties among the members; Alaska law does not allow members to waive duties to each other and thus would impair the ability of the state's member to vote in its own interest. Finally, the choice of Alaska law and resolution of disputes in Alaska courts could create a perception of bias in favor of the state entity among the other members, financing parties and other entities contracting with the mainline entity.

LLC_12: (2 comments)
Statement of Concern: Statements concerned with whether the value of NGLs was taken into account in negotiating applicable provisions of the contract.

Response: NGLs have commercial values both as primary energy products and as feedstock for numerous intermediate industrial and petrochemical product applications. Both the state and the sponsor group realize these values; NGL extraction ultimately will be necessary and potentially highly profitable. The sponsor group proposed project design includes a $690 million NGL plant located either in Alberta or the lower 48. The state has also been evaluating the feasibility of a NGL plant in Alaska. Issues related to NGLs were taken into account in negotiating the contract and are summarized in more detail in *Section 4.2.6 Natural Gas Liquids and In-State Use* of the Preliminary FIF.

LLC_13: (6 comments)
Statement of Concern: Statements concerned about conflicts between the contract and other agreements and the impact of the contract on the state's sovereign authority.

Response: The contract does not cede the state's right to use its sovereign authority to regulate the project. The contract provides that the royalty payments and other financial obligations of members of the sponsor group under ANS Leases that are identified in the contract will be incorporated into the overall fiscal certainty regime established by the contract for the term of the contract.

LLC_14: (1 comment)
Statement of Concern: Statements requesting clarification of the use of the term "Loss" throughout the contract.

Response: Section 37.2 of the contract clearly states that the recovery of certain types of "losses" are not recoverable by any parties to the contract. Specifically, Section 37.2 makes it clear that lost profits and punitive damages are not recoverable losses under the contract.

LLC_15: (1 comment)
Statement of Concern: Statements concerning the lack of accountability and legislative oversight of the public corporation and LLC.

Response: The mainline LLC and the other project entities that are private companies would be subject to governmental oversight as any other private company that does business in the state. The state member will be a public corporation authorized under a statute to be adopted by the legislature similar to other state owned public corporations, such as the Alaska Energy Authority, the Alaska Industrial Development and Export Authority, the Alaska Housing Finance Corporation, the Alaska Municipal Bond Bank, the Alaska Railroad Corporation and the Alaska Student Loan Authority. It is anticipated that the statute will 1) establish the corporation as an instrumentality of the state under the Department of Revenue, 2) require that certain state commissioners serve as members of its Board of Directors, 3) impose certain reporting requirements on the public corporation aimed at providing the public with information regarding the state's investment, 4) will be subject to audit by the Legislative Budget and Audit Committee, and 5) subject to appropriation by the legislature.

LLC_16: (1 comment)
Statement of Concern: Statements concerned about ANGDA's potential role with respect to the project.

Response: The Alaska member is a separate state public corporation that is independent of ANGDA. While it is anticipated that the state public corporation established specifically for this project will manage the state's ownership interest in the pipeline, the state envisions other roles that ANGDA may serve in connection with the project and the provision of gas within the state. For further details regarding ANGDA please refer to *Section 5.2.4.3 Alaska Natural Gas Development Authority* of the Preliminary FIF.

LLC_17: (1 comment)
Statement of Concern: Statements concerned about the implications of gas pipeline management decisions on in-state gas movements, and whether the LLC agreement will give the state a major say during the planning phase of the project.

Response: In the state's proposed LLC agreement, the state entity will be a full participant in project planning decisions for the mainline LLC, and the state member's approval is required for certain key decisions. The proposed LLC agreement also guarantees that the mainline LLC must fund up to four in-state offtake points to supply in-state gas needs. Further details regarding the provision for in-state gas supply is set forth in *Section 3.6 In-State Markets of the Financial Interest Finding.*

3.10.2 DISP: Dispute Resolution between State and Partners—SOCs and Responses

This issue category covers concerns about the dispute resolution procedures between the state and partners.

DISP_01: (36 comments)
Statement of Concern: Statements questioning whether the contract should include a dispute resolution/arbitration process or questioning specific arbitration procedures.

Response: The parties agreed to adopt arbitration as the method for resolving disputes under the contract in order to ensure an objective, expeditious and economic method for resolving disputes. The state's past experience in litigating major royalty and tax matters in state courts has resulted in costly and inefficient proceedings that history has shown can often be avoided by private arbitration. In fact, in response to lingering and expensive royalty valuation disputes, the state has entered into royalty settlement agreements with all of the major producers. These agreements provide for resolving disputes by arbitration, which the state has found to be both efficient and effective. Further, because of the state's decision to accept tax and royalty payments as a fixed percentage of gas production instead of as cash, the scope of disputes under the contract are more limited and lend themselves to determination in an arbitral forum. A more complete discussion of the rationale for adopting arbitration as a method of resolving disputes under the contract is detailed in *Section 3.7 Dispute Resolution* of the Preliminary FIF.

The dispute resolution procedures in the contract are applicable to disputes under the contract alone and do not govern disputes under the project entity agreements, which provide for separate dispute resolution procedures. There may be limited cases where a project entity may be involved in a dispute under the contract and would be subject to the contract's dispute resolution procedures; however, the state does not anticipate any significant overlap among disputes under the contract (which will primarily involve issues of fiscal certainty) and those under the project entity agreements (which will primarily involve commercial issues or issues of governance) and expect that the vast majority of disputes under project entity agreements will be resolved under separate dispute resolutions procedures or by the courts as set forth in the project entity governance documents.

Questions were raised during the public comment period regarding certain procedures adopted under the dispute resolution provisions of the contract, including questions regarding the limitations on discovery, the process for selecting a tribunal, the use of baseball arbitration and the use of the Alaska Arbitration Act. Improvements to the contract are being proposed to address clarifications or changes related to particular areas of concern. In this connection, the administration recommends that legislation be considered that would make it clear that arbitrations would be conducted using the procedures of the Alaska Arbitration Act. The administration would also support amendments to the proposed contract that give broader discretion to the tribunal to control discovery when the matter at issue exceeds $10 million. The administration also favors narrowing the scope of disputes that are subject to "baseball" arbitration. Finally, the administration believes that the number of "strikes" available to a side for the purposes of determining the members of the arbitration panel

should be clarified in the contract to make certain that there is a fair opportunity given to each side in the dispute, rather than each party.

3.10.3 REGCON: Regulatory Conflict—SOCs and Responses

This issue category addresses the state regulation of the gas pipeline project.

REGCON_01: (19 comments)
Statement of Concern: Statements expressing concern about the state's potential conflict of interest in its role as a regulator of the pipeline and manager of natural resources and its proposed role as a participant in the pipeline project and a marketer of state gas.

Response: During Fiscal contract and LLC negotiations, the parties discussed the potential conflict of interest issue arising from the state being both an investor in the project and a regulator (e.g., environmental matters) of the project. First, it is not unusual for a state to have dual roles. Anytime a state acts as an investor in a private project this potential conflict must be addressed. With regard to the Alaska gas pipeline, the state's regulatory arms will be walled off from the state's investor arm, that is, Alaska PipeCo.

Article 29 of the Fiscal contract is an example of how the walling off will work. Confidential information that is generated by the project must be kept confidential by the parties except under certain narrow circumstances. Hence, were the state in its investor role to receive a confidential document relevant to one of the state's regulatory functions, it could not provide that document to the state's regulatory arms nor even inform them of the document's existence.

The state's police powers are unchanged by the terms of the contract. No party even advocated changing or affecting those powers through the contract.

3.10.4 NATRSC: State Management of Natural Resources—SOCs and Resources

This issue category addresses the state management of natural resources and the development of Alaska's oil and gas.

NATRSC_01: (34 comments)
Statement of Concern: Statements asserting that the state should maintain control of its oil and gas resources and should not give up its right to manage its resources.

Response: Since statehood, the state has engaged in the leasing of its oil and gas bearing lands as the best way of developing its resources. If the state determines that exploring and developing its own oil and gas resources itself is in the best interest of the state, it can terminate its leasing program at any time. At that point it would be free to do anything it wants with its resources itself. To revoke its outstanding leases would take years of litigation to resolve and would create an extremely hostile business environment in the state.

NATRSC_02: (56 comments)
Statement of Concern: Statements indicating that the state, as owner of the gas resources, should manage them in a way that benefits Alaskans. Includes comments that the state should "maximize" benefits from Natural Resources.

Response: This is precisely what the State of Alaska has done since statehood. To this point in time it was determined that the best way to obtain maximum benefit from the resources was to lease the commodity in question and take a percentage of the value obtained from the sale of the product. If the state determines that exploring and developing its own oil and gas resources itself is in the best interest of the state, it can terminate its leasing program at any time. At that point it would be free to do anything it wants with its resources. To revoke its outstanding leases would take years of litigation to resolve and would create an extremely hostile business environment in the state.

NATRSC_03: (4 comments)
Statement of Concern: Statements indicating that the state should buy out the producers and gain 100 percent ownership of the oil and gas resources and infrastructure.

Response: Any serving governor and legislature has the authority to negotiate such a deal. It would be prudent, however, to evaluate the economics of such a concept before taking action due to the cost entailed in proceeding with such a buy out and the tremendous economic risks the state would assume.

NATRSC_04: (6 comments)
Statement of Concern: Statements indicating that the state should manage oil and gas resources solely for in-state use (both utilities, household and for future industrial uses).

Response: Any serving governor and legislature has the authority to negotiate such a deal. The proposed contract affords the state the opportunity to do exactly this with its share of gas. It would be prudent, however, to evaluate the economics of such a concept before taking action.

NATRSC_05: (2 comments)
Statement of Concern: Statements indicating that the state should also focus its efforts on other gas and oil basins in the state, not just those on the ANS.

Response: Actions over the past four years indicate that the State of Alaska is doing just that. Many steps have been taken to provide incentives for activities such as Bristol Bay onshore leasing, exploration licensing programs, and incentives for oil and gas explorers across the state.

NATRSC_06: (1 comment)
Statement of Concern: Statements indicating that the state should take legal action to change the split of oil and gas ownership between the state and federal governments to 90/10 instead of 50/50.

Response: Statehood affords a 90/10 split with the federal government except in specifically legislated areas such as NPRA. There is a conflict between these two concepts and any serving governor can choose to pursue litigation in this area.

NATRSC_07: (11 comments)
Statement of Concern: Statements indicating that the state should build the pipeline by itself rather than partner with the oil companies.

Response: Based on our economic analysis, it was determined that sharing the cost and risk provided the state with the maximum benefit. It also provided the state with well capitalized partners who have constructed and managed energy mega-projects all over the world. By contrast the state has no experience in building or managing a project of this magnitude.

NATRSC_08: (3 comments)
Statement of Concern: Statements indicating that the state does not have sufficient bargaining power with the oil companies to negotiate a contract that is in the interest of the state.

Response: The ability of the state to set taxing levels provides it with a significant level of bargaining authority. That authority alone provides the state with the complete ability to control the economic benefit of all oil and gas activities to the companies involved.

NATRSC_09: (20 comments)
Statement of Concern: Statements indicating that Alaska needs to develop its Natural Resources; in particular its oil and gas resources.

Response: We completely agree and feel that the contract brings the maximum benefit of our resources to the people of the state by preserving the highest well-head value and avoiding potentially long and uncertain litigation.

NATRSC_10: (2 comments)
Statement of Concern: Statements asserting that going forward with the project will enhance Alaska's reputation in terms of its husbandry of its natural resources.

Response: That goal is at the heart of the proposed contract.

NATRSC_11: (1 comment)
Statement of Concern: The state should receive fair revenue for its natural gas resource. The proposed contract gives away more than $10 billion in future gas revenue compared to the current tax rate on gas, and not enough work has been done to assess a gas tax rate that would be fair to all parties. The rate should be no lower than current law, and work should be done to see whether economic limit factor (ELF) tax exemptions in the current law shortchange the state. Legislative consultants at Econ One estimate that at average forecasted natural gas prices, the proposed contract reduces the companies' tax payments by over $5 billion over the life of the gas pipeline. Former DNR officials have estimated the loss from various provisions, not including the tax rate reduction, to be over $13 billion (Petroleum News, June 18, 2006).

Response: Representations have been made that the state is making several billion dollars of "concessions" in the contract. This is a distorted perspective which ignores many facts.

To begin with, in the SDGA, the legislature essentially directed the executive branch to negotiate (not litigate) a business deal to get a gas line. Any business negotiation consists of give-and-take as each party seeks to achieve its objectives at a reasonable cost. In Alaska's case the greatest "cost" would be failing to get a gas line. What some call "concessions" are some of the payments the state makes in the contract. This ignores the fact that the state also receives substantial revenues, well in excess of the payments. The contract is a total deal of payments and receipts. On the natural gas alone we estimate that at $5.50 gas, which is a medium forecast over 35 years, the state would receive $100 billion dollars net after all payments. This is the same amount we would have received under the ELF system for gas. (Actually, at all prices the net amount received under the contract is nearly identical to what would have been received under ELF.)

Moreover, some of these cited "concessions," or payments, are actually deductions on the new oil PPT. The PPT has a higher tax rate than the ELF system, but includes upstream deductions. These deductions are meant to increase investing in oil field production, and to arrest the current decline in oil flows, which if not checked will result in 50 percent less oil flow within 10 years. This net profit tax approach was highly successful in Norway. With the PPT, the state will on net, make several billion dollars more on oil after these deductions, not less. At current prices the state will make, between now and 2050, over $50 billion more under the PPT on oil than under the ELF system. For the commenter to focus only on the deductions, but not the revenues, is disingenuous. The oil PPT was an integral part of the gas contract.

Again, one must look at the total deal. Looking just at the state payments alone presents a distorted perspective.

NATRSC_12: (2 comments)
Statement of Concern: Statements indicating that Alaska should not pay any costs for gas production and development. The state has already contributed its land. Our leases trade 7/8 of the hydrocarbons for the promise of timely development under the leases.

Response: It is important to remember that the contract is negotiated in such a way as to make our gas competitive with other gas accumulations around the world. It is designed to get a gas pipeline built and for the state to control 20 percent of the gas resource. What we give for what we get is woven throughout the contract. Discussions of what we have given up assumes that the gas in the ground under current lease and tax regimes is economic and will go to market without any action on the part of the state. The facts simply do not support this view. There is no gas pipeline now and each of the previous attempts to build a gas pipeline under the status quo has failed. It is time to be realistic and understand that we must compete with the entire world to market our gas. That is precisely what the contract does.

3.10.5 AK_FINC: Financing of Alaska's Portion of the Project—SOCs and Responses

This issue category deals with the state equity ownership in the gas pipeline project.

AK_FINC_01: (53 comments)
Statement of Concern: Statements commenting on state ownership: 1) expressing general agreement that the state should invest in the pipeline project; equity ownership in the pipeline is good for the state; 2) advocating different levels of equity ownership other than 20 percent, either higher or lower; 3) indicating that the state is picking up 35 percent of the cost of the GTP and upstream gathering lines, therefore the state should own that 35 percent; 4) indicating that the contract would cost the state an amount that approaches 50 percent of the entire cost of the project, yet the state will own only 20 percent of the project.

Response: Given the risks of the project, particularly the enormous up-front cost, the administration's analysis shows that in a "status-quo" world, the project rate of return is low. A low rate of return is particularly damaging to a project in which high risks are incurred and around which much uncertainty exists, because the low rate of return reveals a 'fragility' about the project such that relatively little adversity can destroy the economics of the project. By increasing the rate of return, the project becomes more 'robust'—a much more attractive investment opportunity which has a greater ability to withstand adversity and still return positive economics. As a result the likelihood increases that the project will move forward.

An alternative was examined by the administration – that of simply giving up state royalty value and taxes. It was determined that the state's royalty value and taxes would have to be given up entirely in order to have an effect on rate of return which is comparable to that accomplished by accepting state ownership and state gas in-kind.

By committing to own a share of the mainline and to bear its proportionate share of the upfront costs of constructing the mainline (which the state will bear in any event because actual costs are recaptured in the gas transportation tariff rates) the sponsor group will spend less money up-front. Because of the time value of money this increases their rate of return and makes the project more competitive with other investment alternatives members of the sponsor group may have available to them.

The state receives 20 percent of the gas in-kind and will own 20 percent of the pipeline. If the state were to own less than 20 percent, it would be required to make a firm transportation (FT) commitment to the pipeline owners equivalent to its 20 percent in-kind share. Financially this commitment is no different than ownership.

Similarly, if the state were to own more than 20 percent, it would require an FT commitment from member of the sponsor group for the balance they need for their gas. Again, this is financially equivalent to ownership. Accordingly, the most efficient arrangement is to have pipeline ownership approximately proportional to gas ownership.

AK_FINC_02: (1 comment)
Statement of Concern: Statements expressing concern that management of the state's investment in the pipeline would be problematic due to politics.

Response: To address the problem the administration has included proper terms in a proposed state act establishing the Alaska Natural Gas Pipeline Corporation to ensure the board is independent of politics. As specified in the act, only two of the Board members are commissioners, other five board members are public members appointed by the governor. These five board members may not hold any other state or federal office, position, or employment, either elective or appointive, except as a member of the armed forces of either the United States or the State of Alaska. In addition, they can only be dismissed for cause. The act also indicates that a public member of the board is appointed for a six-year term in accordance with AS 39.05.055(3). Staggered initial terms ensure that the public members of the board will have a continuing existence. In other words, no single governor can change the entire composition of the board; another way to make sure the board is apolitical.

AK_FINC_03: (6 comments)
Statement of Concern: Statements expressing concern that the gas pipeline project would take away or compromise state funding of education, local infrastructure, other social services, etc.

Response: There are several concerns addressed here. The first is that pipeline development would take away state education funding. We agree with your analysis of the effects of the Payments in Lieu of Taxes (PILT) on education funding, and it was never our intent to diminish the school funding mechanisms. In response, we requested (and both bodies of the legislature accepted) language to make sure the assets would remain in the tax base at full and true value. Secondarily, we acknowledge that the sheer scope of the project will potentially result in some reallocation of state funds to account for the social impacts and infrastructure needs associated with the pipeline project. To alleviate as much of the burden as possible on the communities economically affected by the gas pipeline project, Article 18.1 of the contract provides for $125 million in impact funds to be paid by the project sponsors during the construction period. The state based the $125 million estimate on the 2004 report by Information Insights that was commissioned to determine potential impacts to the communities.

AK_FINC_04: (4 comments)
Statement of Concern: Statements suggesting that individual Alaskans be allowed to invest in the pipeline project or even possibly automatically invest their Permanent Fund dividends in the project.

Response: The administration has investigated various options that will allow Alaskans to become part owners of Alaska's 20 percent share of the pipeline. One option under consideration is to allow Alaskan's to invest their Permanent Fund dividends to pay for their ownership share. After the contract becomes effective, a joint finance plan between the state and the sponsor group will be prepared and a proposal to allow individual Alaskans to become part owners of Alaska's share of the pipeline can be evaluated. See *Section 5.3 State's Equity Contribution* in *Appendix F: Finance Plan Report* in the Preliminary FIF.

AK_FINC_05: (1 comment)
Statement of Concern: Statements requesting more information regarding the federal loan guarantee.

Response: In order to encourage development of the project, the U.S. Congress passed the Alaska Natural Gas Pipeline Act (ANGPA) of 2004. The ANGPA makes Department of Energy (DOE) guarantees available for up to $18 billion or 80 percent of the cost of the project, whichever is less, and delegates administration of the federal loan guarantee program to DOE. The specifics of the program are still being developed by DOE. At this point, there have been no communications with or regulations issued by DOE on the terms and conditions of the federal loan guarantee. It is expected conversations with DOE will commence once the SGDA contract is signed and a conceptual finance plan developed by the state and three other pipeline owners. Both the state and the sponsor group see potential value in utilizing the DOE guarantees in some fashion, and intend to take full advantage of the DOE guarantees if they are available on acceptable terms and conditions.

The full text regarding the federal loan guarantee can be found in Section 116 Loan Guarantees, Division C – Alaska Natural Gas Pipeline at the following website: www.ferc.gov/industries/gas/indus-act/angtp/act.htm#act. More information regarding the development of this loan guarantee program can be found through the U.S. Department of Energy website at www.fossil.energy.gov/news/techlines/2005/tl_pipeline_noi.html.

AK_FINC_06: (2 comments)
Statement of Concern: Statements expressing concerns about the failure of the contract to specify a capital structure (i.e., to limit the equity portion of project capitalization to no more than 20 percent of total capital) to be used for assuring that the pipeline's financing rates are as low as possible, and the failure to include commitments to maximize the available federal loan guarantees in order to keep rates low.

Response: The contract does not specify project financing details. The state's proposed mainline LLC agreement includes provisions regarding project financing. Specifically, *Article 11 Financing the Project* includes the detailed provisions regarding finance strategy, the finance committee, finance plan, finance committee process, further actions and other financing provisions. As specified in *Section 11.1 Finance Strategy*, "the agreed finance strategy is to endeavor to develop a financing that takes advantage of the federal guarantee instruments covering 80 percent of the sum of (x) the project cost and (y) interest during construction ..."

Regarding the capital structure, the state and its financial advisors are exploring various financing option with considerations to obtain the lowest cost of capital over the long run and to utilize the DOE guarantees to lower the cost of borrowing and increase the likelihood that the state and the sponsor group can finance 80 percent of estimated project costs. The state and the sponsor group would not make the final selection of a finance plan until the specifics of the projects components, including design engineering, procurement and construction costs, are further developed.

AK_FINC_07: (4 comments)
Statement of Concern: Statements indicating that the 20 percent equity contribution, proposed 35 percent tax credits in the PPT, and upstream costs to the state will cost the state billions of dollars and could actually cause the state to go negative on the project, while member of the sponsor group still make a good profit.

Response: The state will be a 20 percent owner of most portions of the pipeline project in Alaska consisting of the mainline and GTP. For the gas transmission pipelines, which bring the gas from the gas fields to the GTP, the state's ownership share will be in proportion to its expected share of gas in those pipelines, no more and no less. That varies by field. The state has the right to withdraw from ownership participation in any individual component of the project prior to project sanction with full recovery of its prior investment, but must commit to taking capacity in the open season for all component in proportion to its share of the gas throughput. If it continues as an owner in pipeline facilities, it will receive the commensurate reward for its investment based on the tariffs approved by FERC. Thus, the state receives the same returns as the other investors with respect to such investments.

The 35 percent commitment allowance (see Article 20) which applies only to GTP and gas transmission pipeline was included to increase the producer's internal rate of return on the overall pipeline project and to make it competitive with other petroleum investment opportunities members of the sponsor group have around the world. It is also true that portions of the pipeline project will be eligible for the 20 percent tax credit under the Profit Share Petroleum tax (PPT, passed by the legislature on August 11 and signed into law on August 19 (see HB 3001). The administration believes this incentive is necessary to address the state's declining oil production and provide the incentives for finding and developing additional gas reserves necessary to sustain operations of the proposed pipeline and encourage its expansion from about 4 bcf/d of initial capacity to 6 bcf/d.

AK_FINC_08: (1 comment)
Statement of Concern: Statements indicating that the FIF should do a better job of specifying how much capital is at stake in terms of both private and state funds.

Response: The amount of capital contributions from members of the sponsor group or the state through project entities depends on the total cost, the debt/equity ratio, and each member's equity sharing ratio of the project.

In order to complete the project and realize its economic benefits, the sponsor group and the state collectively will need to spend upwards of $20 billion. In 2001, the sponsor group developed a detailed cost estimate of about $18.5 billion for a project including a gas treatment plant, a pipeline from Alaska to Alberta, a NGL plant, and a pipeline from Alberta to Chicago. This estimate was subsequently rounded to $20 billion and updated to 2003 dollars. The ultimate cost of the project may be substantially higher than $20 billion. More detailed cost estimates will be prepared during the period between the effective date of the sponsor group contract and project sanction.

The state and the sponsor group are exploring a full range of financing structures and options at this time. The state plans to seek a debt/equity ratio of 80/20 so as to obtain the lowest cost of capital and tariff applicable to the firm transportation contracts over the long run. The state has negotiated a 20 percent ownership stake in the project, while the sponsor group will

collectively own 80 percent of the project. Therefore, the state expects to invest a minimum of $800 million as equity capital in the state's pipeline entity (Alaska Natural Gas Pipeline Company) which will, in turn, use the funds to make equity contributions into the mainline entity. The sponsor group will collectively invest a minimum of $3.2 billion of equity into the mainline entity.

See detailed project costs and financing structures and options in *Section 7 Financing the Pipeline* and *Appendix F Finance Plan Report* in the Preliminary FIF.

AK_FINC_09: (1 comment)
Statement of Concern: Statements indicating that the financial terms are not specified in the contract and therefore the findings in the Preliminary FIF are arbitrary and not based upon facts in the record.

Response: Financial terms, including financing provisions, capital contributions, taxes and others, will be specified in the state's proposed mainline LLC agreement.

3.10.6 PFD: Permanent Fund Concerns—SOCs and Responses

This issue category covers the gas pipeline project impacts on the Permanent Fund.

PFD_01: (7 comments)
Statement of Concern: Statements indicating that the state should use the Permanent Fund to pay for the project. Other statements indicating that the Permanent Fund is large enough to invest in a higher equity ownership in the pipeline.

Response: *Appendix F* of the Preliminary FIF discusses three potential funding sources that alone or in combination may satisfy the state's equity contribution need to support its 20 percent ownership of the pipeline: appropriation from the General Fund by the legislature, moral obligation revenue bonds, or a Permanent Fund Corporation investment. Based upon an assumed $20 billion cost of constructing the pipeline, the state would have to raise $800 million of equity capital (20 percent ownership times $20 billion construction cost or $4 billion total state capital requirement; 20 percent equity times total state capital requirement of $4 billion or $800 million equity requirement). The legislature has set aside $300 million from the General Fund to partially advance fund the state's equity requirement. The Permanent Fund may be invited to provide a portion, or all, of the remaining $500 million equity requirement. Before the Permanent Fund invests in the pipeline, the Trustees and their investment staff, as with all investments they consider, will go through an extensive "due diligence" process to understand the project, expected return and risks. This potential investment will have to be consistent with the long term mission of maximizing "the value of the Alaska's Permanent Fund through prudent long-term investment and protection of principal to produce income to benefit all generations of Alaskans." In other words, the Permanent Fund would expect this possible investment to be eligible for investment by a prudent institutional investor by providing compensation with a risk adjusted rate of return competitive with similar holdings as well as with other opportunities in the marketplace. Even if the possible investment were to otherwise meet the prudent investor standard, the Trustees may seek express authorization from the legislature because of the amount of the investment and the importance to the state.

See details in *Section 7 Financing the Pipeline and Section 5.3.4 Equity Contribution or Loan Proceeds from the Permanent Fund* (contained in *Appendix F Finance Plan Report*) of the Preliminary FIF.

PFD_02: (11 comments)
Statement of Concern: Statements indicating other possible Permanent Fund investments: 1) the state should use the Permanent Fund to pay for smaller pipeline projects for in-state use; 2) the state should not use the Permanent Fund to build the pipeline until a more favorable contract is negotiated; and 3) the Permanent Fund's investments should be diversified and outside of Alaska.

Response: The Permanent Fund Trustees, if invited, will make the judgment on whether to play a role in any projects, including smaller pipeline projects for instate use, that satisfy its policy that any investment to be compensated with a risk adjusted rate of return competitive with similar holdings as well as with other opportunities in the marketplace mission and that it be consistent the state laws and regulations governing Permanent Fund investments. It has been the policy of the Fund to avoid investments in Alaska as other state entities such as the Alaska Industrial Development Authority and Alaska Housing Development Corporation have been assigned this mission. Because of the importance of the pipeline to the long term destiny of state, the Permanent Fund Trustees may consider waiving this policy and may choose to seek legislative guidance on this important question.

PFD_03: (15 comments)
Statement of Concern: Statements indicating that the project could put the Permanent Fund at risk, even if the Fund is not used to pay for the pipeline. The Fund should not be used as collateral.

Response: The state agrees with the SOC.

PFD_04: (12 comments)
Statement of Concern: Statements indicating that project revenues will augment the Permanent Fund, and supporting use of project revenues to augment the Permanent Fund.

Response: Whether the Fund's Trustees, if invited to invest, decide to directly invest in the project or not, there will be additional royalties that would flow to the Permanent Fund during the project operations. According to projections presented in Section 4 of the Preliminary FIF, by the end of the 10th year of operations, the accumulated revenues to the Permanent Fund could total about $1.2 billion at $3.5 per mmBtu gas price, $2.9 billion at $5.50 per mmBtu gas price, or $5.3 billion at $8.50 per mmBtu gas price. In theory, an increased size of the Fund will result in larger investment returns, larger realized earnings and increased Permanent Fund dividends.

3.11 Risks

Issues in this general area of concern included the risk of state equity ownership in the gas pipeline project; political risks associated with the project; risks related to taking gas in-kind; resource risks associated with the project; market risks associated with the project; environmental impacts of the project; risk of project cost overruns; and *force majeure* in the proposed contract.

3.11.1 OWNRISK: State Ownership Risks—SOCs and Responses

This issue category covers the risk of state equity ownership in the gas pipeline project as well as the market risks associated with the project.

OWNRISK_01: (5 comments)
Statement of Concern: Statements expressing concern that the state does not have the option to withdraw from the project, but the sponsor group has that option.

Response: Under the proposed project entity agreements, no member may withdraw from a project entity during the construction period (the period from project sanction to the date the project enters into service). At all other times, any member, including the state member, may withdraw from the project entities, but is not entitled to a return of equity contributed. Additionally, any member, including the state member, can negotiate a sale of its ownership interests in the project entities. Finally, the state member has specifically negotiated the right at project sanction to exit the project by requiring the other members to purchase its ownership interests in each project entity.

OWNRISK_02: (69 comments)
Statement of Concern: Statements concerned about the state's investment in the project due to associated risks, and that the state will be shouldering most of them. Other statements indicating that the state's participation risks are balanced by the rewards.

Response: While participation in a project of this size necessarily presents a number of risks, including economic risk, cost overrun risk, resource risk, capacity management risk, political and regulatory risk and *force majeure*, the largest risk to the state is by far the fact that if the mainline is not constructed the state will have no source of revenues that can replace declining revenue streams from oil production. A detailed analysis of the long run fiscal outlook of the state both with and without the development of the mainline is set forth in *Section 1.1 Alaska's Long Run Fiscal Outlook* in the Preliminary FIF.

Project risks are addressed in the fiscal contract and the state and the other participants will take steps in the future to further mitigate these risks. In negotiating the fiscal contract and the project entity agreements, the state has strived to ensure that these risks are shared appropriately among all participants in the project and that the state will not be shouldering inappropriate amounts of the project risk.

Details regarding specific project risks and mitigation are discussed in *Section 6 Mitigating Project Risk* of the Preliminary FIF.

The administration negotiated with the sponsor group with careful consideration on the balance of risks and rewards. The state believes that ownership of the pipeline, and sharing of the subsequent risks that occur with ownership, is necessary:

- to improve project economics to a point that the Alaska natural gas pipeline project becomes an economically competitive project and gets built,
- to provide a stable revenue stream to the state from a return on the state's investment, and
- to expedite construction of the mainline.

Benefits from the pipeline would include economic benefits, expediting construction of the project, participation in project development decision-making process, and making the project more attractive than alternative projects that the sponsor group could develop. These benefits are detailed in the Preliminary FIF, *Sections 4.1.3 Estimated Earnings from State Ownership* and *4.5 The State Should Own a Share of the Pipeline.*

In addition, the state believes it would be in its interest to negotiate an option at project sanction (the time when the participants will commit to construct the project) when the state can evaluate the risks to the state of further participation in the project.

OWNRISK_03: (4 comments)
Statement of Concern: Statements expressing concern about state participation in the project without knowing how much the project will cost.

Response: The potential project cost is not completely unknown. In 2001, the members of the sponsor group undertook a $125 million ANS gas pipeline feasibility study. The proposed project plan submitted by the sponsor group is the result of that study. The estimated capital cost to build a pipeline to deliver the gas to Chicago is about $21 billion (in 2005 dollars). The state is aware that this is an estimate cost. It is not until the project sanction date that the state and the sponsor group will have completed the design engineering and permitting, and thus have a better estimate of the costs of the Alaska and Canadian portions of the project and the costs associated with FERC's certification. The state is also aware that the project is very likely to have cost overruns. If the project turns out to be too costly, the state will have the right to withdraw from participation with full recovery of its prior investment in the event the state decides not to proceed with the investment on the project sanction date.

OWNRISK_04: (3 comments)
Statement of Concern: Statements concerning that there is no analysis regarding the impact on the state's credit rating in the Preliminary FIF.

Response: At this point there is no stand alone report on credit rating analysis. However, *Appendix F Finance Plan Report* does specify a number of financing options, along with full discussions on their implications for the state's credit rating. One of the state's finance objectives is to limit the state's liability for the funds borrowed for project construction so as to mitigate the impact the project will have on the state's borrowing capacity as well as any negative implications for the state's credit rating and cost of borrowing. Based on information currently available, the Financial Advisor's recommended Financing Plan consists of the mainline LLC pursuing a limited recourse debt financing for the majority of

project costs and the members paying their respective proportionate shares of the remaining project costs with equity contributions. The benefits of the mainline LLC undertaking a limited recourse financing include the following: (i) the state's liability to the lenders to the project would be contingent and limited to the construction period; (ii) such structure would allow for up to 80 percent of the total project costs to be financed with debt; and (iii) such financing would allow the project to benefit from the Federal Guarantee Instruments provided by the U.S. Department of Energy under the Alaska Natural Gas Pipeline Act. With such debt financing covering up to 80 percent of the total project costs, the state's required equity contribution would represent only 4 percent of total project costs, thus minimizing any impact on the state's borrowing capacity and therefore, its cost of capital and credit rating, as a result of participating in the project.

OWNRISK_05: (1 comment)
Statement of Concern: Statements expressing concerns about state indemnification of the sponsor group.

Response: As is typical in projects of this nature, each member of a project entity will agree to indemnify the other members for specific losses resulting from a breach of the agreement. Additionally, the proposed project entity agreements contemplate that the members and the project entity will enter into an indemnification agreement for the indemnification of specific losses suffered by a member or certain other persons, including the operator/construction manager in connection with the construction and operation of the project in the ordinary course of business. Absent indemnification, the operator/construction manager would charge the project entity additional fees to cover its liability, which would be borne by members proportionately as a member of the project entity and which would otherwise result in a reduction of distributions payable to the state and the other members. The state member and its representatives would also benefit from indemnifications made by the other members and the project entity.

3.11.2 POL_RSK: Political Risks—SOCs and Responses

This issue category covers political risks associated with the gas pipeline project.

POL_RSK_01: (31 comments)
Statement of Concern: Statements expressing concern about the risks/issues associated with the Canada-portion of the project such as getting through Canada, unfriendly government, and distrust of Canadians.

Response: We firmly believe that the Canadian federal government will act in a way that best protects its interests. In the case of the Alaska Highway gas pipeline project, Canada will greatly benefit by having Alaska gas move into the Alberta Hub. This will lower the gas transportation costs for all Canadian producers, consumers, and participating pipeline operators (such as TransCanada, Enbridge, etc.). Steps taken that add cost and delay will have negative effects for all involved (Canada, Alaska, TransCanada, Canadian gas producers, and U.S. and Canadian consumers). We are confident that the Canadian federal government is aware that protracted delays and added costs could result in no pipeline at all—and in that case everybody ends up losing.

The Preliminary FIF identified a number of potential benefits to Canada with completion of the Alaska Highway gas pipeline project including:

- Creating a larger and more efficient gas marketing hub in Alberta
- Providing greater and more efficient utilization of Canada's existing pipeline infrastructure
- Sustaining and enhancing Alberta's petrochemical industry
- Generating exploration activity for new gas resources, particularly in the Yukon Territory
- Maximizing synergies with the Mackenzie Valley Pipeline (MVP).

POL_RSK_02: (2 comments)
Statement of Concern: Statements requesting additional information on the Canada-portion of the project.

Response: The contract does not directly affect the Canadian portion of the pipeline, however since the success of the project requires Canadian cooperation the question is in order. We believe the Canadians federal government will act in a way that maximizes the benefit of the pipeline to its citizens. In the case of the Alaska Highway gas pipeline project, Canada will greatly benefit by having Alaska gas move into the Alberta Hub. This will lower the gas transportation costs for all Canadian producers, consumers, and participating pipeline operators (TransCanada). Steps taken that add cost and delay will have negative effects for all involved (Canada, Alaska, TransCanada, Canadian gas producers, and both U.S. and Canadian consumers). We are confident that the Canadian federal government is aware that protracted delays and added costs could result in no pipeline at all—and in that case everybody ends up losing.

POL_RSK_03: (2 comments)
Statement of Concern: Statements expressing concern that the state, as a co-owner of the pipeline, would be liable for environmental damages in Canada.

Response: The state's member of the consortium building and operating the pipeline in Canada would be responsible for its share of liability. That is part of the responsibility that comes with ownership.

POL_RSK_04: (2 comments)
Statement of Concern: Statements indicating that the Canada-portion of the project would build on good relations with the U.S.

Response: Canada is the United States' largest foreign trading partner. This project would add significantly to that partnership to the benefit of both nations.

POL_RSK_05: (1 comment)
Statement of Concern: Statements indicating that the political risks described by project proponents are exaggerated.

Response: We have always held the position that the political risks of a pipeline through Canada are minimal. It is in Canada's and the United States' best interest for this project to move ahead swiftly and at the lowest cost possible.

POL_RSK_06: (5 comments)
Statement of Concern: Statements indicating that further action on the contract should wait until a new governor is elected.

Response: The contract is based on rock solid economic principles that will not change no matter who the governor is. Time is not our friend and the sooner the contract is completed the better off Alaska will be. Delay will increase the chances that Alaska will not be able cross over from an oil-based economy to a gas-based economy. The largest risk to the state is the fact that if the mainline is not constructed the state will have no source of revenues that can replace declining revenue streams from oil production. A detailed analysis of the long run fiscal outlook of the state both with and without the development of the mainline is set forth in *Section 1.1 Alaska's Long Run Fiscal Outlook* in the Preliminary FIF

3.11.3 INKIND: Risks Related to Gas-In-Kind—SOCs and Responses

This issue category covers risks related to taking the state's gas in-kind.

INKIND_01: (54 comments)
Statement of Concern: Statements expressing concern about the costs, risks, and the benefits of taking the state's gas in-kind, creating a marketing organization, giving up taking of royalty in-value and the existing production taxing structure.

Response: It must be remembered that the greatest risk to the state is that no Alaska gas project is built in a reasonable timeframe and at reasonable costs. This is the risk which the administration has worked diligently to eliminate, without incurring other undue or disproportionate risks to the state.

Given the risks of the project, particularly the enormous up-front cost, the administration's analysis shows that in a "status-quo" world, the project rate of return is low. A low rate of return is particularly damaging to a project in which high risks are incurred and around which much uncertainty exists, because the low rate of return reveals a 'fragility' about the project such that relatively little adversity can destroy the economics of the project. By increasing the rate of return, the project becomes more "robust"—a much more attractive investment opportunity which has a greater ability to withstand adversity and still return positive economics. As a result the likelihood increases that the project will move forward.

The rate of return is increased by the contract provisions through 1) the state taking its gas in kind, plus 2) state ownership of the pipeline. Under the status quo the state pays for its share of the pipeline slowly over time through the tariff deduction on royalties and taxes. Through the mechanism of in-kind gas and pipeline ownership, the state pays for its share up front.

The result is less money the sponsor group must lay out up-front. Because of the time value of money this increases the rate of return. An alternative was examined by the administration—that of simply giving up state royalty value and taxes. It was determined that the state share would have to be given up entirely, in order to have an effect on rate of return which is comparable to that accomplished by accepting state ownership and state gas in-kind. In addition, the state gains a seat at the table, eliminates valuation disputes, gains control over marketing strategies, and gains control over the use of state gas for in-state needs. The state can ascertain the needs of in-state use, determine the policies to be met to meet those needs, and determine the share of state gas to be committed to in-state use.

The state does assume risks with taking gas in-kind coupled with ownership: completion risk, *force majeure* risk, reserve risk, and marketing risk. The administration believes these risks are not large, and that they are very manageable by the state. For instance, we have been advised we can market our gas at top dollar for a marketing cost of only a few cents per mcf. The reward the state gets for assuming this risk is timely construction of a gas pipeline.

The most significant project risk, that of cost overruns, is actually borne proportionately by the state under any circumstances, because actual costs are recaptured in the gas transportation tariff rates paid by all shippers—and by the state in either a royalty in-value world or a royalty in-kind world.

The decision to take gas in-kind is the result of the decision to accept transportation shipping commitments, thereby relieving the sponsor group of those commitments and improving project economics without giving up the state's share of the resource.

The benefits of switching between in-value and in-kind taking of royalty gas and the benefits of switching between in-value and in-kind taking of royalty oil are different because the federal regulations governing the shipping of oil and those governing the shipping of gas are separate and very different. Because, according to federal regulations, natural gas is shipped under fixed contract arrangements, existing lease rights to switch the taking of royalty gas between in-value and in-kind are of little practical value to the state. Rather than attempting to enforce "higher-of" lease provisions for gas in a 'royalty in-value' world, and incurring the legal costs and continuing contentious relationships with the very producers we are expecting to become our partners, the state has the opportunity to help ensure the pipeline is built and to market our gas to best meet the strategies and policies of the state.

The fact is that, today, the state gets no royalties or taxes from major gas sales, because access to major markets does not exist. There is no gas pipeline. State lease forms do contain a provision that the state gets the "higher-of" value obtained by various producers from oil or gas from that lease. The state and the producers have spent millions of dollars, and years in extended, expensive court battles arguing over just what this provision means and what that value is for oil. Although the state has often prevailed, the cost in litigation dollars, delays, and goodwill has been enormous. For those reasons, the state and the major producers have entered into Royalty Settlement Agreements (for oil). In each of these agreements, the state has determined that it was in the state's best interest to give up the lease "higher-of" provision in exchange for clarity in the determination of oil value.

The fiscal contract makes a similar trade for gas – but in this case the "higher-of" provision is of far less value to begin with. The benefits of switching state take of royalty gas and the benefits of switching state take of royalty oil between in-value and in-kind are very different

because of the separate and very different transportation regulatory regimes. Because, according to federal regulations natural gas is shipped under fixed contract arrangements, existing lease rights to switch the taking of royalty gas between in-value and in-kind are of little or no practical value to the state.

It is important to recognize that the state has a successful record taking royalty oil in-kind and marketing it ourselves. As with any new endeavor, the state found that oil marketing required a professional commercial staff, and now with this staff in place for many years, the state has benefited greatly from in-kind royalty oil sales. In addition, the state has a successful track record managing our own Permanent Fund and our own railroad. The state's track record in typically business endeavors is successful when that endeavor makes good public policy sense for the state, and when markets exist to ensure the success of such efforts.

Representations were made that the state is making several billion dollars of "concessions" in the contract. This is a distorted perspective. What were called "concessions" are some of the payments the state makes in the contract. The state also receives substantial revenues. The contract is a total deal of payments and receipts. At the end of the day we estimate that at $5.50 gas, which is a medium forecast, over 25 years, the state would receive $100 billion dollars net on the natural gas alone, after these payments.

Again, one must look at the total deal. Looking just at the state payments is a very skewed perspective; and ignores the fact established in the Preliminary FIF that total state revenues received under the contract, after all the payments and supposed 'concessions' are accounted for – match the illusory total state revenues in the 'status-quo' world. Those state revenues identified in the 'status quo' world are illusory, because that world does not exist; a project is not being moved forward toward completion in the 'status quo' world by competent sponsors in a time frame similar to that proposed for this project.

Acceptance of royalty in-kind requires that the state establish a gas marketing function, but it also frees the state to obtain value for our gas according to our own priorities and strategies. Taking state gas in-kind provides the state the best opportunity to ensure the most benefit out of our royalty gas. For instance, a producer may be willing to accept higher risks while seeking higher value for Alaska gas, whereas the state might find those incremental risks unacceptable. Conversely, a producer may be willing to accept lower gas prices, whereas the state would prefer to market more aggressively.

A variety of alternatives exist for developing a state gas marketing authority. Major third-party gas marketers exist willing to partner with the state, who are not producers of their own gas and by the very nature of their companies would be natural partners with priorities which would be consistent with those of the state. Gas marketing experts, both within the state and outside, have consistently confirmed the opportunity and potential value available to the state by taking our gas in-kind.

INKIND_02: (1 comment)
Statement of Concern: Statements indicating that it would be appropriate for economic models to be created to project at least a range of net revenues Alaska can reasonably expect to get from its 20 percent gas in-kind taking and the potential loss of revenue compared to receiving cash payments. This provision does not signi "cantly increase the sponsor group's projected net revenue, but it adds a risk factor that has a potentially high negative impact on the state.

Response: The economic models that were developed to assess the costs and benefits of the contract incorporate these concerns. In fact, various prices and costs are used in the analysis to get a sense of the potential net revenue under different scenarios.

- Analysis is done using prices of $3.50 per mmBtu [the stress case, or low price], $5.50 / mmBtu and $8.50 / mmBtu.
- Analysis is conducted using capital costs at six different levels – no cost overrun, cost overrun of 20 percent, 50 percent, 100 percent, and 150 percent. See Table 9 page 78 of the Preliminary FIF.
- The various cost overruns are combined with the different price scenarios to get a sense of the potential problems and risk the project faces.

Thus, the analysis combines different prices with capital costs and presents net revenue under various scenarios.

The models compare the net present value of state revenues under the 2005 fiscal system versus the net present value of state revenues under the proposed contract. The comparisons are shown in 2005 dollars. Unfortunately, the models as developed do not generate the outputs described in this Statement of Concern. The state recognizes that including these outputs will enhance the public's understanding of the contract and the FIF and will consider augmenting the economic models to provide these outputs after the contract is negotiated and signed.

3.11.4 RSC_RSK: Resource Risks—SOCs and Responses

This issue category deals with resource risks associated with the gas pipeline project.

RSC_RSK_01: (7 comments)
Statement of Concern: Statements indicating that risks of under capacity due to insufficient gas discoveries exist; that resources from areas outside of the ANS, including Yukon Flats and Nenana, have the potential of helping to keep the pipeline full over the term of the contract; and that a mutual links exists between the gas pipeline and the opening of ANWR.

Response: Resource risk is a component of the overall risk picture for the gas pipeline project, however 35 tcf of known reserves have been identified, which can keep the pipeline full for the first 20 years of its operating life. Over the three-decade period between now and that point in time, exploration is expected to provide the additional reserves necessary.

Section 1.2 Alaska North Slope Natural Gas Resources of the Preliminary FIF provides detail about both the known ANS reserves, and assessments of the resource potential in NPR-A, ANWR (1002 area), the existing ANS area, and adjacent state waters. The total ANS

resource estimate of undiscovered conventional natural gas resource is 119 tcf. Despite the focus on ANS potential, resources from other areas of the state have every opportunity to also provide deliveries to the Alaska gas pipeline project, including Arctic federal waters offshore Alaska, interior basins such as Yukon Flats and Nenana, and Cook Inlet – were another huge discovery such as Beluga or McArthur River to be made. Depending on the timing of exploration and commitments made by the explorers, such deliveries may displace some deliveries from the ANS, may result in a larger pipeline being constructed or expansions being completed, or they may indeed be delivered as ANS gas production declines.

Reserves risk is very low, particularly compared with the risks and costs to the state of deferring a gas pipeline project, or moving forward with a poorly-conceived project supported by groups lacking the financial strength and experience to complete the project on time and on budget. Reserves risk is further minimized by provision of fiscal certainty, via the upstream uniform fiscal contract, to all explorers who commit gas reserves to the gas pipeline project. In addition, ongoing programs by the state, such as DNR's area wide leasing program; the DGGS, DNR, and AOGCC electronic data programs; and various DNR and DOR exploration tax incentives further minimize reserves risk to the state.

3.11.5 MRKT: Market Risks—SOCs and Responses

This issue category covers market risks associated with the gas pipeline project.

MRKT_01: (83 comments)
Statement of Concern: Statements related to market current conditions, future conditions, and their relationship to the gas pipeline. Some of these comments related to the appropriateness of the timing of the line and how that will take advantage of securing markets. Others stated that prices were not good now and that delay of the line will result in better prices. Others pointed out that the gas supplied through the line will adversely affect domestic markets or that such markets will be already adversely affected by Canadian gas or LNG imports.

Response: A number of people commented on the market effects of the gas pipeline, both positive and negative. Many of the positive and supportive components are covered under the section concerning the contract being a balanced deal for the state and will not be duplicated here.

We believe that the time to secure domestic gas markets is now and that delay will only result in increased competition and longer term market uncertainty and risk. While many commenters stated that the time was right to secure markets, others stated that either the timing was wrong or that the pipeline itself and competing market supplies would lead to reduced prices and therefore timing was bad. Market timing can not be forecast with any degree of certainty. Market conditions at a particular time are as much a reflection of the past as they are expectations about the future. The interdependency of the markets, supplies and prices can not be captured in a snapshot.

It is true that there will be competing supplies of natural gas to the domestic market. Some will arrive from Canada, in part through a Mackenzie Valley Pipeline into the same markets anticipated for ANS gas. Other supplies will result from increased LNG imports through

terminals in the U.S., Canada, and Mexico. By assuring consumers that ANS gas will be available and price competitive in the near future, we will forestall some competing projects thereby reducing some project uncertainty and risk.

The volume of gas proposed to arrive via the Alaska gas pipeline will be more than many of the competing projects combined. This large volume provides some market assurance of acceptance and allows ANS to compete on favorable price terms. Wood Mackenzie's January 2006 study projects North American LNG imports increasing from 1.7 bcf per day in 2005 to 18.4 bcf per day in 2020. Some of this increase in imports is via Mexico, Canada, and the Bahamas but most is from U.S. terminals in the Gulf of Mexico. As an overall indicator, the U.S. Department of Energy projected total U.S. consumption to increase from 22.4 tcf (trillion cubic feet) in 2004 to 26.9 tcf in 2030. This is an increase of 4.5 tcf per annum or 12.3 bcf per day.

Studies commissioned by the commissioner as part of this finding took into account competing sources of supply and projected world oil and gas prices. All of our studies and those of most pundits worldwide indicate that gas prices will be in a range that will provide long-term positive returns to the pipeline, the sponsor group, and the state.

See the Preliminary FIF, *Appendix C Is Alaska's Natural Gas Stranded* for greater detail.

MRKT_02: (17 comments)
Statement of Concern: Statements indicating that the gas pipeline would compete with other projects for capital investment.

Response: Without a doubt the ANS gas pipeline will be competing for capital investment on a company by company and an international basis. Studies by PFC Energy showed that on a net return basis the project ranks in the lower third of available investment opportunities for all members of the sponsor group. This means that any incentives the state can provide will improve the project's ranking, advance its chances of funding, and begin planning and development now rather than a decade in the future. Investment decisions consider both risk and return for potential investments. Understanding the trade-off and adequately compensating one for the other will impact the prioritization of projects.

See the Preliminary FIF, *Appendix C Is Alaska's Natural Gas Stranded* and *Section 5.1 Analysis of Balance of Fiscal Principles* for greater detail.

MRKT_03: (20 comments)
Statement of Concern: Statements of support for the route through Canada and the contract. This support covered a wide range of issues including markets, economic incentives for investment, timing, length of contract terms and conditions, and the necessity of such an agreement to begin moving ANS gas to market.

Response: We are grateful for all comments received concerning the gas pipeline contract. Many of these comments were questions that we are responding to. Other comments were not questions but instead statements of support or opposition. We have grouped many of the supportive statements to show the breadth of agreement we received on the terms and conditions of the contract.

Several people pointed out the oil industry will continue to be important to Alaska with or without the gas pipeline. We agree with that statement and emphasize that with the gas pipeline the industry will continue to be important for many more years than without the line.

Many people commented on the timing of the contract and how there is a window of opportunity to secure natural gas markets that must not be lost. There has always been agreement that the market for ANS natural gas is North America. A pipeline to the central continent solidifies that. All pundits predict that domestic consumption of natural gas will increase in the future and that ANS gas can play a large part in supplying that market. Due to the time horizon necessary to build such a massive and expensive project, beginning now is the only way to assure that ANS gas is the preferred and relied upon supply source rather than imported LNG. Alaska's gas is currently stranded and this contract will un-strand the gas. The size of the investment necessary to build such a line requires a long term contract and fiscal stability to secure financing and commitment for both the pipeline and production facilities. By partnering with the sponsor group, the state helps to reduce market risks and thereby increase the likelihood of long-term project success for the project.

Others supported the gas pipeline as the means of continuing oil production on the ANS. They agreed that assuring future gas flows, and thereby operation of the TAPS, was the most reliable means of encouraging additional exploration and development of oil as well as gas. Much of the development in the years to come is known to be associated oil and gas. This means that they must be jointly produced and disposed of. At this time members of the sponsor group are running out of means of disposing of non-marketable or stranded gas. The gas pipeline will resolve this problem and encourage more development. More development will increase oil production and extend TAPS longevity. By developing new resources and better utilizing existing resources, the oil industry will be able to generate many more years of employment and revenues to be enjoyed by Alaskan residents.

For additional detail see *Section 1.2.2 Impacts of Gas Production on Oil Production* in the Preliminary FIF.

3.11.6 ENVR: Environmental Risks—SOCs and Responses

This issue category covers environmental impacts of the gas pipeline project.

ENVR_01: (2 comments)
Statement of Concern: Statements advocating that the state develop the pipeline in a way that minimizes environmental damages and concerns that the state, as a co-owner of the pipeline, would be liable for environmental damages.

Response: The State of Alaska, as part-owner of the pipeline system, will be one of the lessees contractually obligated to comply with all the right-of-way lease conditions and stipulations for state and federal lands. In addition, as a lessee, the state is required to comply with all state, federal and local laws with respect to pipeline operations. In this capacity, the state would be required to ensure that all environmental obligations of the mainline LLC are fulfilled, and in the event of unforeseen environmental damage may be legally responsible for restoration and rehabilitation costs.

ENVR_02: (4 comments)
Statement of Concern: Statements requesting information on the possible environmental impacts of the project, including the effects of disposal of impurities.

Response: The proposed gas pipeline project alignment, from Prudhoe Bay to Delta Junction, will generally reside within an existing utility corridor. A significant amount of information relative to this utility corridor, including environmental, has been collected since the planning phase of TAPS in the early 1970s. The Environmental Impact Statement and Department of Natural Resources decision document for renewal of the TAPS lease and grant in 2002 provides a comprehensive summary and update of this information. The Delta Junction to Canadian border segment of the pipeline route follows the Alaska Highway and will require a gap analysis to evaluate the information, including environmental, necessary to avoid or minimize project impacts. As the information becomes available, measures such as timing windows, seasonal restrictions, specific construction techniques etc. will be considered to reduce impacts to fish, wildlife and their habitats. Prudhoe currently has two large gas handling/processing plants, the Central Compressor Plant (CCP) and the Central Gas Facility (CGF). There are also numerous smaller plants located in other fields, as well as fuel gas conditioning facilities that treat the produced gas to standards required for use by the industrial equipment on the ANS. Therefore, a gas conditioning plant is not expected to create any new types of impurities or environmental impacts beyond what is currently being produced and regulated by government agencies. It will, however, be an increase in quantity.

The proposed gas processing plant has not been designed. However, we can make statements based upon gas processing done throughout the world. Typically, gas processing plants of the type proposed for the Prudhoe Bay for the TAPS produce three principal byproducts from the processing stream: carbon dioxide, sulfur dioxide, and longer-chain hydrocarbons, such as butane and propane. The carbon dioxide will continue to be re-injected into the reservoirs. This helps maintain reservoir pressure and improves both oil and gas recovery. It is a valuable byproduct and could even be used as part of a tertiary recovery system. The sulfur dioxide is produced in minute quantities (parts per million) will be re-injected. The longer chain hydrocarbons are also a valuable byproduct and have two separate uses. One is as a sold product, shipped down the TAPS, mixed with produced oil. The other is as a reservoir injectant, increasing the recovery of oil from the reservoir. The exact design of the natural gas processing plant will be conducted under the scrutiny of the Alaska Oil and Gas Conservation Commission, as have the other gas handling plants. They will continue to ensure the correct disposal or re-use of impurities from the product stream or operations of the plant.

ENVR_03: (6 comments)
Statement of Concern: Statements expressing concern that environmental regulations may not be strongly enforced because of state ownership in the gas pipeline.

Response: The State Pipeline Coordinator's Office (SPCO) was established through the Department of Natural Resources as the state's coordinating over-sight agency for pipelines authorized under AS 38.35, the Right-of-Way Leasing Act. In July 1990, state (SPCO) and federal agencies combined to create the Joint Pipeline Office (JPO). Currently, there are 12 state and federal agencies affiliated with the JPO. The Bureau of Land Management (BLM) and DNR are the administrative managers of the office.

The JPO will likely be responsible for regulation and oversight of the gas pipeline in Alaska, once operational. The state right-of-way lease and the federal grant of right-of-way for the gas pipeline will be developed in parallel so that both documents contain, to the extent possible, the same conditions and stipulations. The intent is to allow both state and federal regulators the ability to monitor the entire right-of-way regardless of land ownership. This model has worked well for TAPS (reference website www.jpo.doi.gov). The oversight and monitoring of the gas pipeline would be performed consistent with current state and federal oversight processes for pipelines authorized under AS 38.35.

ENVR_04: (3 comments)
Statement of Concern: Statements that the impacts of the TAPS on wildlife have been minimal.

Response: The Environmental Impact Statement prepared by the Bureau of Land Management and the State of Alaska for the renewal of the TAPS right-of-way lease and grant summarized the impacts to birds and terrestrial mammals as follows: "Action Impacts: Impacts generally are anticipated to be local, affect only individual animals, and have no adverse impacts to populations. Population level impacts are considered very unlikely. They only would be anticipated from a very large spill or a spill that contaminated a crucial habitat in which a large number of animals were concentrated.

ENVR_05: (9 comments)
Statement of Concern: Statements that the environmental impacts of the project will be minimal.

Response: The environmental impacts of the gas pipeline project will be minimal when compared to TAPS. The gas pipeline will be buried and chilled to temperatures at or below ambient ground temperatures. This means that the preferred alignment will avoid river and stream floodplains, which were utilized by TAPS because of thaw stable soils. The result is significantly reduced impacts to streams and rivers on a long-term basis. A buried pipeline will not impact large mammal migration or movement behavior. The environmental risks associated with spills of gas are much less than spill of crude oil. The transportation infrastructure required to construct the pipeline is largely in place and, when compared to TAPS, the gas pipeline construction activities will have less impact than experienced for TAPS. As part of the right-of-way leasing process, DNR will encourage the lessees to utilize previously disturbed areas to reduce overall project impacts.

ENVR_06: (1 comment)
Statement of Concern: Statements that a pipeline would be environmentally safer than a LNG tanker.

Response: The gas pipeline will be buried its entire length, except at compressor stations and possibly select river crossings. Once in the pipeline, little additional handling of the product is anticipated. The LNG transportation system includes complex processing facilities at tidewater and a tanker fleet for transportation to market. The transportation system associated with LNG requires more handling which increases both safety and environmental risks.

ENVR_07: (7 comments)
Statement of Concern: Statements indicating there is a risk that gas development will adversely affect development of renewable energy resources.

Response: We also look forward to a future when renewables are among our primary sources of energy. However, it is important to recognize that the U.S. will continue to rely on fossil fuels as its main source of energy for decades to come. Natural gas is the cleanest fossil fuel available. When used to create electricity, gas-fired power produces up to 55 percent less carbon dioxide than traditional coal-fired power. Currently, more than 50 percent of all heated U.S. households have natural gas heat and natural gas meets one-fourth of the country's total energy needs. It is increasingly popular for use by U.S. homeowners, schools, businesses, and electric power-generation plants because it is efficient, clean, and reliable. Adding Alaska's enormous supply of natural gas to the domestic market will go a long way towards ensuring a dependable supply of natural gas for U.S. consumers.

ENVR_08: (1 comment)
Statement of Concern: Statements suggesting that the legislature relax environmental regulations in Alaska as a measure that could offset the sponsor group's need for lower taxes.

Response: The Alaska State Legislature, through a public process, develops and revises statutes, including those addressing environmental protection. The monitoring and oversight of pipeline construction and operational activities will be structured to enforce state statutes as well as provisions of the right-of-way lease.

ENVR_09: (7 comments)
Statement of Concern: Statements indicating that oil companies are good about protecting the environment.

Response: The TAPS provides a model to evaluate the proposed gas pipeline project. The Joint Pipeline Office interacts with Alyeska Pipeline Service Company on most aspects of their business, including environmental protection. Alyeska has been responsive to JPO recommendations with respect to protecting and mitigating impacts to the environment. For example, JPO biologists have worked with Alyeska on several stream restoration projects that emphasize long-term stability rather than short-term solutions requiring repetitive in-stream maintenance. To accomplish this, Alyeska specifically trained biologists and engineers in progressive stream restoration methods and committed the resources necessary to implement these stream restoration techniques. Because of this type of commitment, Alyeska received the 2005 American Petroleum Institute Distinguished Environmental and Safety Award.

The state notes that on occasion, management and environmental mistakes at production facilities do occur, as in the recent oil maintenance problems on the ANS. In light of these recent problems, the state has acknowledged that there's a need to have a more comprehensive oversight program for oil and gas production and transportation infrastructure and that there have been gaps in government oversight. To address the problem, Governor Murkowski recently signed an administrative order creating a Lease Monitoring and Engineering Integrity Coordinating Office (LMEICO) within the Department of Natural Resources. The LMEICO is charged with coordinating the oil infrastructure oversight efforts

of a multitude of state, federal and local agencies stretching from the ANS fields to the Alyeska marine terminal at Valdez. Specifically, it is tasked to: 1) perform risk assessments on all petroleum infrastructure on state leases; 2) review all facility designs, operations and maintenance programs and practices for technical competence and consistency with established government and industry standards; and 3) inspect pipelines and facilities on an ongoing basis to document compliance with approved procedures and plans.

ENVR_10: (7 comments)
Statement of Concern: Statements expressing opposition to further oil development/drilling in Alaska so that the environment can be preserved.

Response: The State of Alaska relies on resource development to support the services provided to the citizens of the state. The state has always recognized the importance of balancing the need to develop natural resources with the protection of fish and wildlife habitat. The gas pipeline project, through FERC, will be subject to an Environmental Impact Statement with the state as a participant. In addition, the department of natural resources commissioner will perform a parallel public process prior to making a final decision on the right-of-way lease. These processes serve to identify possible impacts of the project, including environmental impacts. Mitigation of potential impacts is accomplished through existing law or through stipulations to the lease and grant of right-of-way.

ENVR_11: (1 comment)
Statement of Concern: Statements indicating that the contract should require the sponsor group to begin paying for baseline data collection and monitoring immediately for areas that will be impacted by gas field development over the 45-year life of the contract.

Response: Once the contract is finalized and the mainline LLC is formed, the project proponents will enter into an agreement to conduct a gap analysis and, based on the results of the analysis, begin the design and implementation of the studies and field surveys necessary to ensure that all required information is available for the project to move forward. The State of Alaska and the sponsor group have reached conceptual agreement on a mechanism to fund this process and are prepared to move quickly once the contract is approved. Informal discussions with FERC also indicate they are preparing to conduct a gap analysis with the same purpose in mind. Collaboration between FERC and the State of Alaska is likely as the project moves forward.

ENVR_12: (1 comment)
Statement of Concern: Statements indicating that the contract should ensure that solid and hazardous waste issues brought about by pipeline and gas field development are addressed early in gas pipeline planning.

Response: Hazardous and solid waste issues will be addressed in the right-of-way leasing process. The lessee will be required to develop a solid and hazardous waste plan prior to receiving a notice-to-proceed for construction. The plan will be available for public review as part of the commissioner of natural resources's proposed decision.

ENVR_13: (1 comment)
Statement of Concern: Statements indicating that the contract should require that the gas pipeline corridor in the North Slope Borough be closed to off-road access for the duration of the contract for security and fish and wildlife protection reasons.

Response: It is the policy of the Alaska Department of Natural Resources that access roads and the right-of-way, including work pads, will be open for the use and enjoyment of the public unless the commissioner approves the regulation/restriction. Upon completion of construction of the pipeline, the public will have access along the right-of-way, except at compressor stations, other permanent facility locations, areas where the pipeline is above-ground, and locations where access must be limited for security or safety purposes. Access roads leading to the right-of-way, whether currently existing or constructed by the lessees, may, with the commissioner's approval, have limited public access during construction and termination activities. At all other times, unless the lessee receives the written permission of the commissioner to restrict access for operation and maintenance or public and wildlife safety purposes, the pipeline right-of-way access roads must remain open for public access. If public access is limited on existing highways, trails and access roads, the lessee must provide alternative routes. The lessee must also provide appropriate warnings and safety measures when using access roads or when limiting public access to the access roads.

3.11.7 OVRRUN: Cost Overruns—SOCs and Responses

Comments expressed concern that cost overruns posed a significant risk for both the sponsor group and state. Some comments noted that overruns would be passed along to gas consumers in the form of higher prices.

OVRRUN_01: (9 comments)
Statement of Concern: Statements asking the implications on state participation and concerns on the state's financial liability in the event of project cost overruns.

Response: By taking an ownership position in the pipeline project, the state could be financially responsible for a portion of cost overruns. It is anticipated that financial institutions lending funds to the mainline entity will not accept completion risk on the project, and will require completion guarantees from the state and the sponsor group. The state and its financial advisors are considering the extent to which the state should make provision for cost overruns; it may be committed to fund its pro rata share of cost overruns pursuant to its shareholder arrangements with the sponsor group and under the financing documents entered into in connection with the project financing. While project costs may exceed the 2001 $20 billion cost estimate, the projected economic benefits to the state outweigh the projected costs and liabilities to be incurred by the state in connection with the project. The state would need to assume risks including ownership and shipping commitments and possible construction cost overruns, in order to make the pipeline investment economically attractive for the sponsor group.

Under the contract the cost overrun risks are shared proportionately between the state and the sponsor group. Cost overrun risk may be minimized by careful and complete alignment of project resources in a disciplined approach to project planning, permitting, design and approvals.

OVRRUN_02: (1 comment)
Statement of Concern: Statements indicating that cost overruns are indeed a risk that this project faces, but the oil industry is taking a great risk and the state should make the project more appealing to industry.

Response: The state shares the risks with the sponsor group by taking 20 percent ownership of the project. The state's ownership interest in the project, coupled with taking its gas in-kind and a shipping commitment, increases the sponsor group's internal rate of return. By increasing the internal rate of return the project becomes more appealing to industry.

OVRRUN_03: (8 comments)
Statement of Concern: Statements regarding overrun risks to the project, including implication of overruns on state participation, state liability for overruns, sponsor incentives, and uncertainty of steel prices.

Response: Cost overruns are a risk facing all participants in a project of this nature. Equity holders in the project entities will be obligated to contribute or finance their share of the project costs even if there are cost overruns unless the project is abandoned. Large cost overruns could present challenges to all participants in finishing the project. However, the fact that the project entity agreements provide for a high voting threshold for abandonment and that each participant will likely have a large amount of equity in the project when any overruns occur reduces the risk that the participants will abandon the project due to overruns. Additionally, lenders to the various project entities and/or members are expected to require creditworthy member affiliates to provide substantial completion support guaranteeing repayment of any financing in the event the project is not completed. Thus, not only would members abandoning the project prior to completion lose equity contributed, but their affiliates would also likely be liable for significant additional amounts under any completion support provided.

The risk of significant overruns adversely affecting the state's credit rating and ability to fund or finance its equity contributions is mitigated by the state's specifically negotiated right under the project entity agreements to require the other participants to purchase all or a portion of the state's ownership interests in the project entities at the project sanction date. At that time, there will be greater certainty as to the firm transportation commitments from shippers arising from the initial open season, the state's ability to finance its share of the project's costs and the expected overall cost of the project. The state's member in each project entity will also participate in project planning decisions by the project entities, including in votes to approve budgets.

Details regarding this topic are discussed in *Section 6.1 Economic Risk* of the Preliminary FIF.

OVRRUN_04: (1 comment)
Statement of Concern: Statements asking whether end-users will end up paying for cost overruns and mistakes.

Response: Sellers of ANS natural gas would not be in a position to set their own price in a competitive market such as Chicago City Gate, where natural gas from various sources compete. In such markets, the ANS natural gas price is set based on the market competition,

not on its costs, and therefore, the end-users will not pay for cost overruns and mistakes. However, in the not-so-competitive market in Alaska, the end-users might pay for cost overruns since the gas price tends to be set based on wellhead net back and tariff where there is lack of competition from other sources. Pipeline cost overruns would possibly lead to higher pipeline tariff, which result in increased costs to ship ANS natural gas. By taking 20 percent of the ownership of the project, the state will be able to influence the course of the project development and the decisions on tariff.

3.11.8 FRCE: *Force majeure*—SOCs and Responses

This issue category deals with concerns regarding the *force majeure* provision in the contract.

FRCE_01: (4 comments)
Statement of Concern: Statements expressing concern about the vulnerability of the gas pipeline to terrorist actions.

Response: The threat of terrorist actions will exist with respect to any gas pipeline project and will need to be addressed; however it is not a problem that can be addressed with modifications to the contract.

FRCE_02: (3 comments)
Statement of Concern: Statements concerning the scope of the *force majeure* clause.

Response: The state agrees that the concept of *force majeure* provides that the performance of contractual obligations are suspended to the extent that the performance is prevented by actions outside of the performing party's control. It is generally accepted practice in international project contracts of this type to specify categories of events that the parties agree will be considered "*force majeure*" as is provided in the contract, however listing specific events does not act to limit the legal principle from applying to other events that impact the parties' performance of their obligations.

The determinative factor for *force majeure* is not whether the action could have been foreseen or not, but whether the *force majeure* event was reasonably outside the control of the party claiming that it cannot perform as a result of such event. Whether a particular type of event constitutes *force majeure* may also depend on the magnitude of the event as well. Events that would reasonably be anticipated to occur in similar projects, such as typical permitting or weather-related delays, would not give rise to *force majeure* relief, but unusual delays in obtaining permits or due to extraordinary natural events could trigger a suspension of obligations for the duration of that event. The party claiming *force majeure* relief cannot have caused the *force majeure*.

Section 35.2 of the contract imposes additional requirements on a party's ability to claim *force majeure* suspension of their obligations, including 1) an obligation to provide notice to the other parties of the *force majeure* that specifies the event giving rise to the *force majeure* and the expected duration of impact of the event (Section 35.2(a)), 2) an obligation to take steps to mitigate the extent and duration of any delay attributable to a *force majeure* suspensions (Section 35.2(b)1)), and 3) an obligation to provide notice to the other parties when the *force majeure* ends (Section 35.2(b)(ii)). Further, Section 35.2(c) limits the sponsor group's ability to claim *force majeure* to suspend obligations with respect to the initial

planning process unless they have already spent $120,000,000 toward the planning process or fifteen months have elapsed.

The occurrence of a *force majeure* event does not forgive the performance of obligations; it only suspends them for the duration of the *force majeure*. Royalty and other payments related to the production of oil and gas would resume with a resumption of gas deliveries through the pipeline. In addition to the express limitations on the ability of any party to claim *force majeure* relief under the contract, there is a strong incentive for the sponsor group to cure any *force majeure* in order to restore their revenues from the project.

3.12 Canadian Issues

Issues in this general area of concern included regulation and ownership of the Canada-portion of the gas pipeline project; the Mackenzie Valley Pipeline; and gas pipeline project impacts on Canada's First Nations.

3.12.1 CAN_OWN: Ownership Rights in Canada—SOCs and Responses

This issue category covers regulation and ownership of the Canada-portion of the gas pipeline project.

CAN_OWN_01: (3 comments)
Statement of Concern: Statements indicating that TransCanada's expressions of dissatisfaction with the contract's provisions are likely to lead to disputes in the Canadian regulatory process—disputes that are specifically cited as an exception to "Diligence" in Article 5.

Response: TransCanada is a well-known and well-respected pipeline company that would bring many benefits to the Alaska gas pipeline project. However, the decision on which regulatory framework will be used to permit the Alaska gas pipeline project through Canada (Northern Pipeline Act [NPA] or traditional National Energy Board [NEB] process) is a decision the Canadian federal government must make. To the extent that we can influence the decision, Alaska will petition for the process that results in the lowest tariff and quickest construction schedule. We firmly believe that both the Canadian federal government and TransCanada will act in a way that best protects their interests. In the case of the Alaska gas pipeline project, both Canada and TransCanada will greatly benefit by having Alaska gas move into the Alberta Hub. This will lower the gas transportation costs for all Canadian producers, consumers, and participating pipeline operators (such as TransCanada and Alliance etc.). Steps taken that add cost and delay will have negative effects for all involved (Canada, Alaska, TransCanada, Canadian gas producers, and both U.S. and Canadian consumers). We are confident that both the Canadian federal government and TransCanada are aware that protracted delays and added costs could result in no pipeline at all, and in that case everybody ends up losing.

CAN_OWN_02: (2 comments)
Statement of Concern: Statements indicating that TransCanada has agreed to convey any assets granted pursuant to a number of initiatives (i.e., application for right of way over state lands along the route of the gas pipeline project in Alaska, and SGDA application and negotiations) to a third party (such as the ANS producers or a project jointly pursued by the sponsor group and the state), if that third party would contractually agree to connect the natural gas transmission facilities within Alaska at the Alaska/Canada border with pipeline facilities to be constructed by TransCanada along the highway route in Canada.

Response: While this is a constructive and potentially beneficial offer, until the Canadian federal government makes its decision on which regulatory framework will be used to permit the Alaska gas pipeline project through Canada (NPA or traditional NEB process), it remains unclear who will ultimately construct the Canadian portion of the pipeline. While Alaska remains hopeful that TransCanada will play a significant role on the Canadian side of the project, our ultimate support must always be given to the project entity which can construct the pipeline with the lowest tariff in the shortest possible time.

CAN_OWN_03: (2 comments)
Statement of Concern: Statements indicating that the contract's ownership provisions are inconsistent with the rights conveyed by Canadian law to Foothills Pipe Lines, Ltd. (the wholly-owned subsidiary of the TransCanada Corporation that is entitled to own and construct the Canadian portion of the project).

Response: This statement presupposes the outcome of the Canadian federal government's decision on the regulatory framework under which they propose to permit the Canadian portion of the Alaska gas pipeline project. Until that decision is made it would be extremely difficult to determine with any degree of accuracy what course of action is the best to insure the pipeline is constructed at the lowest possible cost and in the shortest period of time. When all is said and done, we feel certain that the Canadian government will base their course of action on what is best for the project and their constituents.

CAN_OWN_04: (2 comments)
Statement of Concern: Statements indicating that Foothills Pipe Lines, Ltd. has already constructed what has now become known as the pre-build of the Alaska gas pipeline project, under its NPA certificates, and it has constructed five expansions to these facilities pursuant to the Northern Pipeline Act. These investments were made in reliance on the rights awarded to Foothills pursuant to the relevant NEB decision, the NPA and the Canada/US Agreement.

Response: While this statement clearly articulates TransCanada's views on the history of the pre-built portion of the line constructed under the NPA, the significance of those historical actions will ultimately be determined by the decisions made by the Canadian federal government as it chooses the regulatory framework under which they propose to permit the Canadian portion of the Alaska gas pipeline project and the subsequent actions taken by TransCanada.

CAN_OWN_05: (2 comments)
Statement of Concern: Statements indicating that the contract should not be ratified unless and until ownership of the Canadian portion of the gas pipeline project is resolved to the satisfaction of Foothills Pipe Lines, Ltd. as the holder of the existing certificates in Canada.

***Response*:** The value of those certificates and the influence they will have on the Canadian federal government's decision on the regulatory framework under which they choose to permit the gas pipeline project through Canada is a matter for them to decide. They will make the decision in a timeframe of their choosing. It would be inappropriate for Alaska to wait until that decision is made before taking action. The contract is basically an upstream fiscal document designed to fix financial terms in such a way as to allow the sponsor group and the state to determine their individual risk/reward profile for the project so that they could decide if they wish to participate in the effort or not. All Canadian issues will ultimately manifest themselves in the pipeline tariff rate and as such join a long list of things yet to be determined. Tariffs that are too high and delays that are too long could very well cause the project to become uneconomic. This being the case, there is no reason to wait on final resolution of Canadian issues before contract ratification.

3.12.2 CANREG: Canadian Regulatory Issues—SOCs and Responses

This issue category covers regulatory issues concerning the Canada-portion of the gas pipeline project.

CANREG_01: (2 comments)
Statement of Concern: Statements concerned about the interaction between FERC and the Canadian regulators (NEB); specifically, questions about which organization would have precedence.

Response: Lines of responsibility are very clear and well defined. In the United States it will be the FERC and in Canada it will be the NEB. Both of these organizations recognize the importance of coordinating their responsibilities and Memorandums of Understanding have already been signed to ensure such coordination will happen.

CANREG_02: (1 comment)
Statement of Concern: Statements indicating that the state has no business in demanding that Canada regulate this project in a particular manner, much less agreeing to a specific regulatory body when alternatives exist under Canadian law. As such, Articles 8.1, 8.2, and 8.3 should be deleted entirely.

Response: Neither the United States nor Alaska can (or should) dictate to Canada how to regulate the pipeline in that jurisdiction. The contract does not have nor imply authority over the Canadian government.

CANREG_03: (2 comments)
Statement of Concern: Statements expressing concern that Article 8.2 of the contract requires the state and sponsor group to 'seek and support the exclusivity of ... NEB's jurisdiction as described in Article 8.1 in any agency or court proceeding' relating to the Canadian portion of the project, but no mention is made anywhere in the contract of the

existing regulatory regime in Canada or of the Northern Pipeline Agency, which was created specifically and solely for this project pursuant to the Northern Pipeline Act.

Response: The contract has no binding effect on the Canadian government, and the state of Alaska believes that they will make their decision based on what they believe is in the best interest of all Canadian citizens. When that decision is made all contract participants will abide by the decision and act accordingly. One thing is very clear, protracted litigation is in nobody's interest, could kill the gas pipeline project, and deny both Canadian and American citizens of the massive benefits associated with the project. Whatever decision is made in Canada will take all of these possibilities into consideration.

CANREG_04: (2 comments)
Statement of Concern: Statements noting that the two processes of the NEB and the Northern Pipeline Agency are integrally related for the gas pipeline project. Separate jurisdiction of the two regulatory regimes over different aspects of the project is recognized in the NPA framework.

Response: This is one point of view, but the Canadian federal government has yet to make a determination as to which regulatory regime it will use to permit the Alaska gas pipeline project through its jurisdiction. We are certain that when it does make its decision all of the information provided above will be given proper consideration.

3.12.3 ALB: Issues Regarding the Alberta Hub—SOCs and Responses

This issue category covers concerns regarding integrating the proposed pipeline project with the existing Canadian gas pipeline infrastructure (or the Alberta Hub).

ALB_01: (1 comment)
Statement of Concern: Statement indicating that the contract project will integrate with existing gas infrastructure in Canada and the U.S.

Response: As currently proposed, the Alaskan Highway Pipeline will connect with the existing infrastructure in Canada. This Canadian gas pipeline infrastructure is often referred to as the Alberta Hub. The Alberta Hub is currently running under capacity and this under capacity situation is expected to grow over the coming years. The benefit to Alaska in this is that use of existing capacity on any pipeline is far less expensive then building new capacity. This means that the tariff will be lower on existing capacity and lower tariffs means higher wellhead values and higher wellhead values means more economic benefit to Alaskans.

ALB_02: (1 comment)
Statement of Concern: Statements requesting for clarification on AK take/revenue (since Alaska is a participant in the mainline) in the event that gas flows from Canada to the lower 48.

Response: Alaska's financial take equals the market price at which the gas is sold minus the cost of transportation from the wellhead to the market (tariff costs). The tariff is controlled in the United States by FERC and in Canada by the NEB. Approved tariffs in both the U.S. and

Canada are restricted to contain only the cost to build and operate the pipeline along with an approved profit rate.

3.12.4 MCKZ: Mackenzie Valley Pipeline—SOCs and Responses

This issue category covers the Mackenzie Valley Pipeline (MVP) issues.

MCKZ_01: (1 comment)
Statement of Concern: Statements advocating use of the project to transport gas from the Mackenzie Delta.

Response: In order to have a direct impact on the Mackenzie Delta gas, Alaska's pipeline would have to go "Over the Top" into Canada. Currently this route is barred in both State of Alaska and federal legislation. The long-term benefit to Alaska from its gas is to bring it south along the highway so that current and future generations of Alaskans have access to the resource.

MCKZ_02 (2 comments)
Statement of Concern: Statements concerned (or advocating) that if the MVP is built first it may be more feasible to simply build a shorter line from Alaska to connect into the MVP.

Response: In order for that to happen Alaska's pipeline would have to go "Over the Top" into Canada. Currently this route is barred in both State of Alaska and federal legislation. The long-term benefit to Alaska from its gas is to bring it south along the highway so that current and future generations of Alaskans have access to the resource.

MCKZ_03: (1 comment)
Statement of Concern: Statements expressing concern that the MVP will be completed before the Alaska gas pipeline.

Response: Most if not all of the Mackenzie gas is destined for the tar sands project in Alberta. Gas not used there will be available for distribution through the Alberta hub. The reserves in the Mackenzie Delta are significantly less than the ANS and will not pose a threat to the marketing of Alaska's gas.

MCKZ_04: (1 comment)
Statement of Concern: Statements expressing concern that the state and oil companies are intentionally delaying the project until after the MVP is completed.

Response: The MVP is well along in the permitting and design process. It is reasonable to assume that this project will be built before the Alaska project. However, most if not all of the Mackenzie gas is destined for the tar sands project in Alberta. Gas not used there will be available for distribution through the Alberta Hub. The reserves in the Mackenzie Delta are significantly less than the ANS and will not pose a threat to the marketing of Alaska's gas.

3.12.5 INDG: Indigenous Peoples in Canada—SOCs and Responses

This issue category addresses the impacts on Canada's First Nations from the gas pipeline project.

INDG_01: (3 comments)
Statement of Concern: Statements expressing concern about the lack of dialog between the state and the First Nations of Canada and suggesting that governments and sponsors of the project work with First Nations so they can realize economic benefits of the project.

Response: Once the contract has been signed, the builders of the pipeline will work extensively with the Canadian government and affected First Nations to arrange a mutually beneficial relationship. In the end, all parties will have to agree on the terms and conditions associated with the construction and operation of the pipeline as it passes over each landowners jurisdiction.

The State of Alaska has a government to government relationship with Canada's federal and provincial governments as well as with the First Nations. We have ongoing regular communications with the federal and provincial governments, and once we have a project that is moving forward through Canada it will be appropriate to have more direct and detailed communications with these groups.

INDG_02: (2 comments)
Statement of Concern: Statements concerned that the contract does not deal with the issue of the sovereignty of First Nations in Canada.

Response: It is not within the scope of the contract to deal with Canadian sovereignty issues. This is an issue to be settled between Canada's First Nations and their federal government.

3.13 Other Transportation Alternatives

Issues in this general area of concern included evaluation of alternative gas pipeline projects, such as the Alaska Gasline Port Authority (AGPA) proposal and the Y-line gas pipeline option.

3.13.1 OTA: Other Transportation Alternatives—and Responses

This issue category covers the evaluation of alternative gas pipeline projects and other transportation alternatives.

OTA_01: (18 comments)
Statement of Concern: Statements supporting various gas pipeline project alternatives, including an over-the-top route to the Mackenzie Delta, a line to Anchorage or southeast Alaska, and a railroad through Canada.

Response: The over-the-top route from the ANS to Mackenzie gas fields is not in the best interest of the State of Alaska and is not an alternative that this administration will consider or permit. Currently, the route is barred in both state and federal legislation. Any such route would provide the fewest overall benefits to Alaska. An over–the-top route would result in

relatively few construction jobs for Alaskans, provide no access to ANS gas for Alaskans, provide virtually no ongoing operations jobs in Alaska, and generate far less property tax for local municipalities.

A preliminary analysis by the state considers a modified AGPA route with a terminus in Anchorage or Kenai rather than Valdez. The initial analysis suggests that such a route may be less expensive overall than a route to Valdez when location, construction, and operation of LNG compression plants are considered. However, such a route has not been formally proposed to the state and therefore is not under full consideration at this time. Further, specific details regarding the size and the scope of a project along a modified AGPA route that would be necessary to conduct a full analysis of the total economic benefits to the state from such a project have yet to be developed.

The construction of a pipeline link to Southcentral is not a part of this project. The cost of such a link is used in the analysis to provide direct comparison with the AGPA project. While a link to Southcentral is anticipated, the particulars including routing and size will be decided in the future by Southcentral businesses and municipal leaders.

Alternative suggestions included routing a pipeline through southeast Alaska or construction of a railway through Canada. The southeast route has not been analyzed although a cursory examination of the construction challenges presented by local topography suggests that such a route would be impractical. Rail transport of natural gas is a more expensive method of transportation than pipelines. Therefore it would result in lower wellhead prices and lower state revenues.

See the Preliminary FIF, *Section 5.2 Other Options* and *Appendix G & H.*

OTA_02: (73 comments)
Statement of Concern: Statements indicating that all gas pipeline project proposals should be considered, not just that of the sponsor group.

Response: All proposals have been considered and the most beneficial to the state is the one proposed by contract for Legislative approval. The review process for proposals has lasted years. In 2004, the administration called for applications under the Stranded Gas Development Act for the development of a fiscal contract for a natural gas pipeline from the ANS. Five applications were received and reviewed. In-depth discussions were begun with the applicants and ultimately three proposals were selected for further consideration. These three are the joint state and sponsor group ownership, the AGPA proposal, and one by TransCanada. The AGPA proposed an LNG related route and the other two were essentially the same route with a different ownership structure of the pipeline. Based on more focused discussion during 2005, the administration determined that a pipeline through Alaska and Canada would be of more benefit to Alaska if it was undertaken in joint ownership by the state and the sponsor group rather than by a third party. The comparative analysis of the sponsor group's project route and the AGPA route conducted by Information Insights demonstrates that the sponsor group's project route provides more benefit to the state. As is appropriate, it is this single proposal and contract that is being brought forth for Legislative approval.

For more information see the response to OTA_03 below. Additional information can also be found in *Section 5.2 Other Options* and *Appendix G & H* in the Preliminary FIF.

OTA_03: (1 comment)
Statement of Concern: Statements indicating that the administration considered other proposals but chose to negotiate with the sponsor group. Whether additional negotiations could have been pursued does not address the merits of the proposed contract.

Response: The state agrees with the statement. The state chose to negotiate with the sponsor group because they hold the leases for approximately 98 percent of the proven ANS gas reserves, they have the financial capability to pursue a project of this magnitude, and they have the technical expertise necessary for the project. The state therefore believes that a project with the sponsor group is in the interest of the state because it is the most cost-effective and the best arrangement to make the pipeline happen in the timeliest manner.

3.13.2 AGPA: The AGPA Alternative—SOCs and Responses

This issue category covers an alternative gas pipeline project based on the Alaska Gasline Port Authority proposal as well as the impacts on the Permanent Fund from the gas pipeline project.

AGPA_01: (120 comments)
Statement of Concern: Statements supporting the AGPA proposal rather than a pipeline through Canada. This support covered a wide range of points including permitting, dual operation with TAPS, greater development within Alaska, greater benefit to Alaskans, less damage to the environment, and reduced resource risk of lower gas reserves.

Response: The proposed AGPA line and the TAPS follow the same general route from the ANS to Delta Junction [approximately two-thirds of the Alaska segment]. Permits for pipeline right-of-way exist for both proposed routes (except for the spur lines). Routing through Canada will be more complicated than just through Alaska due to the longer pipeline distance and more land owners and oversight agencies. However, given the time required before construction can begin, it is our opinion that either route can be fully permitted without construction delay. While the AGPA pipeline could be completed before the sponsor group's pipeline route, the LNG compression plants can not. Without operational compression plants, the gas can not be tankered from Valdez. Therefore, product flow along the sponsor group's pipeline route can occur at full capacity prior to the AGPA route, presuming construction begins at the same time.

Another commenter suggested that the AGPA proposal would allow joint security oversight with TAPS. As noted, the sponsor group's proposed route follows the TAPS route for two-thirds of its length in Alaska so joint security is possible for either alternative. Security costs are but one component of pipeline operation costs and have been factored into the analysis.

Alaskan employment over the life of the project is greater with the sponsor group's route than with the AGPA project. Employment must be considered not only during construction but also during operation and, more importantly, associated with state spending over the life of the project. The length of the pipeline to be constructed in Alaska under the sponsor group's proposal is longer than in the AGPA proposal. This is due to the combination of main line (about fifty miles shorter in the sponsor group's proposal) and the spur line to Southcentral (about twice as long in the sponsor group's proposal). In either case the trained labor pool in Alaska will not be sufficient and non-Alaskans will be required. This is

certainly the case for construction of the LNG plant which will require many specialists that do not reside in Alaska. The construction of pipelines combined with three LNG trains would employ more people in Alaska and for a longer period of time than the sponsor group's line. This was examined in greater detail by the Information Insights study. Also, the LNG project would require more long-term Alaskan employment than the sponsor group's line.

State revenues from royalty and severance tax are related to the value of gas at the wellhead. The wellhead value will be lower with an LNG project than with a pipeline through Canada because of markets, transportation costs, and fuel losses. This means that state revenues from an LNG project will be lower over the entire life of the project. Lower state revenues will lead to less state spending on roads, transportation, goods, services, employment, and welfare transfer payments (including PFD dividends, and fewer jobs. Overall, the Sponsor group's proposal will lead to greater benefits to the state, municipalities, and residents than the APGA proposal.

Several commenters suggested that the AGPA proposal would allow the TAPS line to be decommissioned or made redundant. Oil and natural gas cannot be moved down the same pipeline. Oil is a liquid moved through TAPS in a heated state and under low pressure. Natural gas will be moved chilled and under great pressure. These two manners of transport are not compatible.

Both of the proposed projects allow for take-off points within Alaska and both provide for spur lines to Southcentral. Therefore, neither project has advantage or disadvantage when it comes to related in-state use of gas for Kenai exports, new businesses, or in-state consumption. The spur-line required by the sponsor group's route would be longer and more expensive to Southcentral but no less feasible. Any additional costs would be passed on to Southcentral consumers through pipeline tariffs on the spur line. However, in either case the price of gas at the takeoff point will be significantly lower than mid-continent market prices since the transportation costs from Alaska to that market will not be included in Alaskan intra-state prices. Both projects will provide most Alaskans access to natural gas.

Some comments suggest that Alaska's gas should be for the benefit of Alaskans or, alternately, that the political risk associated with a route through Canada is significant. Both projects will carry volumes far in excess of possible Alaskan markets. In both cases royalties and severance taxes will be retained by Alaska and Alaskans will reap benefits as the employment multiplier stimulates the economy. Both projects allow for in-state takeoff and use in the interior and Southcentral parts of the state. While Canada is a foreign country, it is one of the most politically stable in the world and is expect to continue to enjoy peaceful, cooperative relationships with the U.S. Canada has national laws related to pipeline oversight so excessive tariffs or off-takes are not an issue or concern. Transit through Canada does not entail significant political risks.

One commenter pointed out that costs of LNG compression and transmission will probably decrease in the future so the economics of the alternative will improve. This is possible but we have no way to reliably predict the likelihood or magnitude of these changes. Technological change is an important consideration in investment but difficult to quantify. Often technological change makes existing facilities obsolete because they can not take advantage of the change. Costs per unit for both projects will change over time as facilities are depreciated, upgraded, and throughput varie

We do know that the costs of construction for pipelines and LNG compression plants have increased dramatically in recent years due to escalating costs for material and labor. It is probable that this level of price inflation will decrease in the future. It is also likely that the costs of operation for both pipelines and LNG will change, and perhaps both decrease, in the future. In comparing the two projects, the important aspect is whether such changes will be disproportionate or occur after construction (capital) costs are incurred. The analysis we conducted makes use of the best available information and we believe it accurately reflects conditions and costs as best they can be estimated.

Both routes will have environmental impacts. The route follows a corridor already occupied by TAPS, the Alcan Highway, and existing pipelines. It is not planned to go through pristine environments. The AGPA proposal involves a shorter pipeline along the TAPS corridor but it also entails a very large facility in Valdez, tanker traffic through Prince William Sound and along the west coast, new receiving terminals, and additional connecting pipelines. It is questionable if the infrastructure and transportation logistics network required by the AGPA route would be of less impact than the Sponsor group's route. While LNG leaks are not as environmentally polluting as oil spills, they are life threatening. LNG tankers and terminals are potentially explosive and any such explosion, while of short duration, would likely be of catastrophic proportion.

The natural gas reserves in Alaska are sufficient to supply either project with supplies to last well beyond modeled project life. One commenter suggested that the AGPA proposal was preferred because it reduces the risk of increased transportation costs if insufficient natural gas reserves are discovered. There are sufficient reserves already discovered, over 35 trillion cubic feet (tcf), to supply either pipeline for at least a couple of decades. The natural gas potential of the ANS, and of other areas of Alaska that would have access to the pipeline via supply spurs, far exceeds the resource necessary to supply the line for thirty-five years, the period considered in this analysis. The USGS estimates undiscovered ANS reserves at an additional 155 tcf.

See the Preliminary FIF, *Section 5.2 Other Options* and *Appendix G & H.*

AGPA_02: (32 comments)
Statement of Concern: Statements in opposition to the AGPA proposal, including statements that (1) the AGPA proposal contains too much risk for the state, (2) the AGPA route is more expensive than the sponsor group's route, (3) the producers may not sell their gas for conversion to LNG, (4) gas transmission losses are higher with LNG, and (5) increased vessel traffic in Prince William Sound would present unacceptable risks.

Response: The analysis conducted for the state shows that the benefits to the state and its entities are highest with the sponsor group's proposal. It is less expensive to construct overall, less expensive to operate, and results in higher wellhead value and therefore larger royalties and severance taxes.

An important comparative factor between the sponsor group's project and the LNG proposals is the comparison of delivered gas provided under each proposal. Even if each proposal shipped the same amount of gas from the ANS, conversion to LNG results in less delivered gas. This is due to routine gas losses along transmission routes plus gas used for LNG compression and re-gasification. The LNG process results in the largest losses including the

use of gas as a fuel stock for the process. Therefore the LNG route will have significantly more gas lost in the process and less gas delivered to market than the sponsor group's project route. This means that all market revenues and all transportation costs will ultimately be accrued against a lesser market volume. This will logically result in a lower wellhead volume and lower state royalty and severance tax revenues.

One commenter stated that LNG would be in direct competition with foreign imports and therefore at a market disadvantage. Another stated that LNG was better suited for international gas markets and therefore would bring greater revenues. The analyses conducted for this determination accounted for other supplies and their expected import price to the U.S. as well as forecasted west coast market size. The Pacific Rim market overall is about one-fifth the size of the Atlantic/east coast market accessed by a mid-continent pipeline terminus. Due to market size, available supplies, and future projections of both, deliveries to the west coast are expected to bring a lower market price than deliveries to mid-continent.

One last comment stated that the APGA route should not be considered "All Alaskan" since it includes a Canadian tanker terminal and pipeline through Canada starting at Kitimat and running through British Columbia into Alberta. The state agrees with this comment.

See the Preliminary FIF, *Section 5.2 Other Options* and *Appendix G & H.*

AGPA_03: (3 comments)
Statement of Concern: Statements indicating that the various names used to describe the proposed sponsor group's project confuse it with the AGPA proposal.

Response: Consistency of nomenclature has been attempted throughout the Preliminary FIF, but it contains many documents by many authors. We agree that the terms "The Alaska Line" or "The Alaska Gas Pipeline" for the proposed project may lead to confusion with the "All Alaska Project" sponsored by the Alaska Gas Pipeline Authority.

AGPA_04: (2 comments)
Statement of Concern: Statements indicating that the Permanent Fund should be used to fund the AGPA project.

Response: The Permanent Fund Board has retained consultants to help them investigate the option of investing in a gas pipeline. These investigations are ongoing and can be reviewed on the Board s website. The Permanent Fund is managed by an independent body and it benefits all Alaskans to allow them to make independent investment decisions rather than encumber them with decisions by the administration or legislature.

AGPA_05: (11 comments)
Statement of Concern: Statements advocating the LNG project because a ballot measure was approved at the 2002 General Election to establish the Alaska Natural Gas Development Authority in order to maximize revenues for Alaska and jobs and gas for Alaskans.

Response: The 2002 ballot measure and accompanying legislation created the Alaska Natural Gas Development Authority. When ANGDA was established it was focusing on an LNG project. Since that time, ANGDA has decided to focus its efforts on the development of a spur-line to South-central, Alaska as a complement to any mainline gasline to be built,

whether an LNG line to Valdez or a pipeline that follows the Alaska highway through Canada. The SGDA is a statutory authority that is separate from the 2002 initiative. The initiative does not supersede the authority provided by the SGDA to pursue a pipeline project to the lower 48. The spur line project and the mainline project complement each other. The administration fully supports ANGDA in their efforts to develop the spur line project.

AGPA_06: (1 comment)
Statement of Concern: Statements indicating AGPA's project is preferred because it does not require state concessions or incentives.

Response: The analysis conducted for the Preliminary FIF shows that the project proposed by the sponsor group has greater returns to the state including all incentives. The overall project economics and total life returns of the project are what need to be compared when evaluating alternatives. Comparing incentives alone gives a distorted view of long-run project worth.

3.13.3 YLINE: The Y-Line Alternative—SOCs and Responses

This issue category covers statements supporting a Y-line gas pipeline project alternative.

YLINE_01: (10 comments)
Statement of Concern: Statements supporting a Y-line gas pipeline project alternative.

Response: A Y-line presents some advantages but is of less benefit to Alaska than the sponsor group project alone. A combination project contains many of the advantages of each project but also the costs of each. Several studies conducted for the state show that the costs of transporting gas along a Y-line system would be higher than the under the sponsor group project. This will result in a lower wellhead price and therefore lower revenues to the state with the associated government spending impacts.

Competing suggestions included building the Valdez portion of the line first to train Alaskan workers and building the Canadian portion first until LNG markets develop. Given the length of any alternative, a gas pipeline will be constructed in the same spatial manner as was TAPS —that is simultaneously with multiple construction camps and construction nodes. Any Y-line proposal that does not fully utilize the pipeline from the ANS to Delta Junction will result in higher pipeline tariffs and therefore lower wellhead prices. A Y-line would result in more pipeline in Alaska than the sponsor group project, but only one LNG compression plant so less construction employment than the AGPA proposal.

If the purpose of a Y-line is to be able to export LNG from Alaska (either to domestic or foreign markets) then the spur line to Southcentral may provide that opportunity. There is an LNG facility in Kenai that is supplied by Cook Inlet gas. ANS gas supplies arriving in Southcentral from a spur line, combined with Cook Inlet gas, will be more than enough to supply local markets. Therefore, the spur line will result in excess supply, some of which could be exported as LNG.

See the Preliminary FIF, *Section 5.2 Other Options* and *Appendix G & H.*

4 Analysis of Comments

In examining the comments submitted during the public process, it was clear that there were varying degrees of depth and supporting analysis in the comments. For the most part, comments from the general public were relatively short statements expressing a view on whether or not the contract should be approved, or whether they had concerns with a particular part of the contract. Other comments were much more in-depth and included detailed arguments on the pros and cons of particular issues and articles within the contract and FIF. To facilitate examination of these more in-depth comments, each submission was grouped into one of following groups.

1) General Public
2) In-depth Comments from the General Public
3) Communities
4) Entities with Direct Commercial Interests
5) Entities with Indirect Commercial Interests
6) Interest Groups
7) Legislators and their Consultants

It was also very clear that there were particular issues that were generating more comments than others, and that many of the comments on these "hot button" issues included recommendations for changes to the contract and FIF. These issues listed below were classified as Category 1 issues, while all other issues classified as Category 2. The following list shows the Category 1 issues.

Table 14. Count of Submissions Discussing Category 1 Issues

Category 1 Issues	Number of Submissions	Percent of Submissions
Fiscal Certainty	221	10
Alaska Hire	175	8
Work Commitments	155	7
In-State Use	100	5
Gas In-Kind	54	3
Dispute Resolution	36	2
All Coded Submissions	**2120**	**100**

The analysts then went through the detailed submissions from the various groups and linked the discussions to particular articles in the contract. The results were tabulated into the following matrix (Table 15) which was then used to formulate conclusions and recommendations for future negotiations.

Table 15. Matrix of Comments by Group and Contract Article

	Contract Provision	Public Comments		Count of ✓'s	Legislators					Legislative Consultants						Com-munities		Entities with Direct Commercial Interests							Entities with Indirect Commercial Interests				Interest Groups					
		General (n=2,020)	In-depth (n=79)		Theriault	Wagoner	Guttenberg	Ramras	Minority	Econ1	GT	B&C	Harper	Johnston	Eason	MAG	NSB	Shell	Chevron	Anadarko	Pioneer	Doyon	Tesoro	BG Alaska	AGPA	ANGDA	Trans Canada	AFL-CIO	RDC	CWN	BB II	AOGA	Haines Chamber	Anchorage Chamber
Category I Issues (Issues most often raised)																																	
Fiscal Certainty	Article 11	9%	37%	9	✓	✓	✓	✓	✓			✓		✓																✓	✓			
Work Commitments	Article 5	6%	33%	10	✓			✓	✓		✓	✓	✓		✓										✓					✓	✓			
In-State Use	Article 9	4%	15%	7	✓				✓						✓										✓	✓				✓	✓			
AK Hire	Article 6	7%	19%	10			✓		✓							✓									✓			✓			✓			
only if "equal to or less than costs of non-AK"				1																										✓			
Project labor agreement				1																								✓					
strong wage protection provisions				1												✓																	
AK business preference during procurement				1																								✓					
Gas In Kind Issues	Articles 12, 13	2%	14%	8	✓			✓	✓					✓	✓										✓					✓	✓			
Dispute Resolution/ Arbitration	Part E, Article 26	1%	18%	14	✓				✓			✓	✓												✓						✓			
Amendment for Conformance (eliminate or include prudent operator standards)	Article 41.2			2	✓								✓																				
Overlapping dispute resolution procedures between the Contract and LLC				1							✓																						

	Contract Provision	Public Comments		Count of ✓'s	Legislators					Legislative Consultants						Communities		Entities with Direct Commercial Interests							Entities with Indirect Commercial Interests				Interest Groups					
		General (n=2,020)	In-depth (n=79)		Theriault	Wagoner	Guttenberg	Ramras	Minority	Econ1	GT	B&C	Harper	Johnston	Eason	MAG	NSB	Shell	Chevron	Anadarko	Pioneer	Doyon	Tesoro	BG Alaska	AGPA	ANGDA	Trans Canada	AFL-CIO	RDC	CWN	BB II	AOGA	Haines Chamber	Anchorage Chamber
relinquishing Presumption of correctness				2								✓			✓																		
Concerns on Baseball Arbitration	Part E			1									✓																				
Need municipal rights for dispute resolution				2													✓														✓			
Category II Issues (Other Issues raised by stakeholders)																																	
Expansion	Article 8			16							✓																						
Rolled-in Tariffs	Article 8.7			2														✓					✓										
Inadequate provisions (include binding commitments wrt terms and conditions)				7	✓	✓		✓										✓		✓				✓							✓			
State-initiated expansion (barriers to expansion)	Article 8.7			5	✓																	✓	✓	✓					✓					
Sole risk expansions (capacity and pricing)				1	✓																													
Access	Article 8			6																														
3rd party access (mainline)				5		✓												✓			✓										✓			
Upstream facilities				1														✓																
Capacity Management	Article 10			8									✓							✓			✓											
State's right to terminate capacity management if FERC, NEB, or DOJ do not approve certain provisions				1	✓																													

	Contract Provision	Public Comments		Count of ✓'s	Legislators					Legislative Consultants						Com-munities		Entities with Direct Commercial Interests							Entities with Indirect Commercial Interests				Interest Groups					
		General (n=2,020)	In-depth (n=78)		Therriault	Wagoner	Guttenberg	Ramras	Minority	Econ1	GT	B&C	Harper	Johnston	Eason	MAG	NSB	Shell	Chevron	Anadarko	Pioneer	Doyon	Tesoro	BG Alaska	AGPA	ANGDA	Trans Canada	AFL-CIO	RDC	CWN	BB II	AOGA	Haines Chamber	Anchorage Chamber
Provisions for state to release capacity below in-state off-take point after each open season				1	✓																												
Indemnifies the sponsor group from failure to perform under capacity provisions				1																										✓			
Modify the take point to as far downstream (AECO)				2	✓										✓																		
Qualified Project	Article 4			12				✓					✓																				
Specify design				1																✓													
Contract should not allow QPP amendments every year				2								✓																			✓		
Changes should be approved by Commissioners of Revenue and Natural Resources (State consent)				3	✓						✓				✓																		
No limitation on project amendment				1									✓																				
Over-the top should be ruled out				3					✓						✓															✓			

	Contract Provision	Public Comments		Count of ✓'s	Legislators					Legislative Consultants						Com-munities		Entities with Direct Commercial Interests							Entities with Indirect Commercial Interests				Interest Groups					
		General (n=2,920)	In-depth (n=79)		Therriault	Wagoner	Gruenberg	Ramras	Minority (6 con)	JST	B&C	Harper	Johnston	Eason	MAG	NSB	Shell	Chevron	Anadarko	Pioneer	Doyon	Tesoro	BG Alaska	AGPA	ANGDA	Trans Canada	AFL-CIO	RDC	CWN	BB II	AOGA	Haines Chamber	Anchorage Chamber
Canadian Issues				3																													
1st nations; TransCanada participation not addressed (ownership of Canadian portion of project)				1																						✓							
Regulation/regulatory issues not addressed	Article 5.5			2			✓				✓																						
LLC Issues				12																													
Lack of LLC terms/agreement				7	✓			✓		✓	✓	✓					✓													✓			
AK law versus Delaware				2	✓	✓																											
Guarantees by parent corporations				2					✓		✓																						
Right of termination				1								✓																					
Regulatory Issues				17						✓																							
RCA participation (lack of)	Article 8.3			12	✓		✓	✓	✓			✓					✓				✓	✓		✓				✓	✓	✓			
No indemnification for state regulation	Article 8			2																		✓								✓			
Provisions effecting a waiver of sovereign immunity by the State				1							✓																						
Contract refers to many entities, leases, properties, assets and type of activities; conforming provisions suppresses regulatory regime	Article 41.2			1								✓																					

	Contract Provision	Public Comments		Count of ✓'s	Legislators					Legislative Consultants						Com-munities		Entities with Direct Commercial Interests							Entities with Indirect Commercial Interests				Interest Groups					
		General (n=2,020)	In-depth (n=79)		Thernault	Wagoner	Guttenberg	Ramras	Minority	Econ1	GT	B&C	Harper	Johnston	Eason	MAG	NSB	Shell	Chevron	Anadarko	Pioneer	Doyon	Tesoro	BG Alaska	AGPA	ANGDA	Trans Canada	AFL-CIO	RDC	CWN	BB II	AOGA	Haines Chamber	Anchorage Chamber
Rates and Tariffs				5							✓																							
Mileage-based rates	Article 9.2			1																					✓									
Depreciated original cost for rate base	Article 8.6 (?)			3	✓															✓			✓											
UUFC	Attachment 1			6																														
equal rights and benefits				3															✓	✓	✓													
excludes private leases				1																		✓												
geographical limitations				2																		✓							✓					
Force majeure	Article 35			1					✓																									
Local Taxation/Community Impacts				35																														
Impact Payments (2001 prices, inflation adjustment)	Article 18			3												✓	✓														✓			
Impact payments to increase with cost overruns				2												✓	✓																	
1st impact payment to be paid at end of CY in which sanction occurs				1												✓																		
Provide for infrastructure development				2																												✓	✓	
Impact payments should not be subject to legislative appropriation				2																											✓		✓	

		Public Comments			Legislators						Legislative Consultants						Communities		Entities with Direct Commercial Interests							Entities with Indirect Commercial Interests				Interest Groups					
	Contract Provision	General (n=2,020)	In-depth (n=79)	Count of ✓'s	Thenault	Wagoner	Guttenberg	Ramras	Minority	Econ1	GT	B&C	Harper	Johnston	Eason	MAG	NSB	Shell	Chevron	Anadarko	Pioneer	Doyon	Tesoro	BG Alaska	AGPA	ANGDA	Trans Canada	AFL-CIO	RDC	CWN	BB II	AOGA	Haines Chamber	Anchorage Chamber
SGDA conforming amendment: creation of Impact Fund				1												✓																		
SGDA conforming amendments: add "communities" as affected entity				3												✓																✓	✓	
State pays municipal tax above a certain cap	Article 11			1																											✓			
Taxation—violation of AS 43.82 (oil and gas properties that are now subject to municipal taxation should not be exempt)				2												✓									✓									
Audit Provisions—unfair to communities; need for municipal auditing rights	Article 25/EB			2													✓								✓									
Indemnification/ Recourse by political subdivisions	Article 21.3			1																					✓									
Targeted tax provision (no new taxes for NSB)	Article 11.3			1													✓																	
Protect local education funding				2												✓	✓																		
PILT: effects on bond ratios and ratings				1													✓																	
PILT: GTP is undervalued $0.01 per mcf to NSB)				1													✓																	

	Contract Provision	Public Comments		Count of ✓'s	Legislaters					Legislative Consultants						Com-munities		Entities with Direct Commercial Interests							Entities with Indirect Commercial Interests				Interest Groups					
		General (n=2,020)	In-depth (n=79)		Theriault	Wagoner	Guttenberg	Ramras	Minority	Econ1	GT	B&C	Harper	Johnston	Eason	MAG	NSB	Shell	Chevron	Anadarko	Pioneer	Doyon	Tesoro	BG Alaska	AGPA	ANGDA	Trans Canada	AFL-CIO	RDC	CWN	BB II	AOGA	Haines Chamber	Anchorage Chamber
Oil properties provisions undervalue TAPS ($3.5 B vs $4.3 B)				2												✓	✓																	
Oil unit production method—protection from large revenue fluctuations				1													✓																	
Gas unit similar to oil				1													✓																	
PILT provisions to take effect during project sanction	Article 3.1			1													✓																	
Personal property tax on vessels over 95 ft	Article 11.4			1												✓																		
Accommodate new local government formation in unorganized borough	Article 21			1													✓																	
[combine 81 & 82] oil and gas unit of production methods should address municipality concerns				1													✓																	
Effect of re-opener on local fiscal resources (fiscal certainty)				1													✓																	
Eliminate provisions that restrict/reduce municipal taxation of gas and collection of AS 43.56 prior to sanction	Article 3.1			1												✓																		

	Contract Provision	Public Comments		Count of ✓'s	Legislators					Legislative Consultants						Com-munities		Entities with Direct Commercial Interests							Entities with Indirect Commercial Interests				Interest Groups					
		General (n=2,020)	In-depth (n=79)		Thernault	Wagoner	Guttenberg	Ramras	Minonty	Econ1	GT	B&C	Harper	Johnston	Eason	MAG	NSB	Shell	Chevron	Anadarko	Pioneer	Doyon	Tesoro	BG Alaska	AGPA	ANGDA	Trans Canada	AFL-CIO	RDC	CWN	BB II	AOGA	Haines Chamber	Anchorage Chamber
Progressivity provision on price differential payment				2	✓									✓																			
Terms of Current Leases				2		✓									✓																			
List of Properties	Exhibit D			3																													
limit to properties for pipeline's initial capacity				2	✓										✓																			
address new properties through Article 10.7				1	✓																												
PTU	Article 23			6	✓				✓						✓										✓					✓	✓			
Ownership/capital structure				6		✓								✓																	✓			
Impact on state credit rating				1					✓																									
Equity <=20%				1						✓																								
Maximize Federal Loan Guarantees				1						✓																								
Liability	Article 37			1				✓																										
Participation in the Project/Contract Signatory				1															✓															
Open Season				1																✓														
Definition of State (remove ANGDA)	Article 1			1																						✓								
Tax Breaks/Concessions				9										✓																				
Tax breaks apply to affiliates and subcontractors	Article 11.10			1																											✓			

	Contract Provision	Public Comments		Count of ✓'s	Legislators					Legislative Consultants						Com-munities		Entities with Direct Commercial Interests							Entities with Indirect Commercial Interests				Interest Groups					
		General (n=1,000)	In-depth (n=79)		Therriault	Wagoner	Guttenberg	Ramras	Minority	Egan	GT	B&C	Harper	Johnston	Easton	MAG	NSB	Shell	Chevron	Anadarko	Pioneer	Doyon	Tesoro	BG Alaska	AGPA	ANGDA	Trans Canada	AFL-CIO	RDC	CWN	BB II	AOGA	Haines Chamber	Anchorage Chamber
Tax breaks apply to non-AK facilities/activities				1																										✓			
PPT Concessions				2											✓														✓				
GTP credits				2										✓	✓																		
Gross Revenue Exclusion for gas				1										✓																			
Too much concessions and subsidies				1		✓																											
Off-take Point to serve Southeast AK				3												✓															✓		
Include lateral line delivering gas to Cook Inlet as part of the Project				1																					✓								
Contract Technical Glitch, "a project entity that is not a party"	Section 2.9			1							✓																						
Tax by initiative process trumped by Contract				1																										✓			
Termination Provision	Article 28			2											✓																		
Anti-trust Issue				1					✓																								

5 Summary and Conclusions

Section 43.82.430 of the SGDA requires the State to follow a three step process with respect to the public comments. First a summary of the public comments must be prepared. Second, after consulting with the Commissioner of Natural Resources, as appropriate, and with the pertinent municipal advisory group, the State must prepare a list of proposed amendments, if any, to the draft fiscal contract. Third, the State must make final findings as to whether the contract and any proposed amendments to it meet the "requirements and purposes" of the SGDA.

The Administration is committed to following this process. This report is a comprehensive summary of the public comments that were received. The report summarizes not only comments from the public at large but comments from legislators, civic organizations, legislative consultants, and other private interests. The comments have been carefully reviewed, tabulated, organized and responded to. This report completes the first step of the requisite public comment process.

The Administration is engaged in finishing the second and third steps.

It is in the final stages of developing a list of proposed amendments to the draft fiscal contracts. These amendments address major concerns expressed in the public comments where appropriate. The substance of many of the changes that the Administration is contemplating is described in the answers to the Statements of Concern. The Administration will release in the near future the text of the proposed amendments and an explanation of their relationship to the major issues raised in the public comment process.

To satisfy the third requirement of the SGDA for the public process, the Administration will release a revised Interim Fiscal Interest Finding. That document is being prepared and it will be released once it is completed. The public comment process has contributed to the revisions that are being drafted.

Attachment 1:

Indices of Submissions

Part 1: Index of All Submissions

Part 2: Index of Submissions Associated with Organizations

Part 3: Index of Submissions from Legislators or their Consultants

Part 1

Index of All Submissions

This index lists all of the submissions received during the public process. The index is sorted alphabetically, and shows the submitter's name, the submission number and the SOCs to which the submission was coded. To find the state's responses to the concerns in a particular submission, look up the submission by the submitter's name in the appropriate index, note the SOCs to which the submission was coded, then look up the state's response to the SOCs in Chapter 3 of the Summary of Public Comments.

Submissions - Individuals and Organizations

To see the response to a comment, find the name of the commenter and note the Statement of Concern (SOC) codes assigned to it. Next, turn to the Response to Comments section to read the definition of the SOC and the response to the concern.

Commenter	Submission #	Codes
Aberle, Bill	1974	PPT_03
Absher, Bob	0979	AGPA_05 CNFDL_02 LEGIS_01
Absher, Carole	1102	AGPA_01 ENVR_07 FIF_02
Abukasis, Ms.	2145	FIF_01
Aburto, Carlos	1275	FIF_01
Achberger, Chuck	0842	AK_FINC_01 FIF_01 FISC_02 INCNT_01
Acosta, Marcus	0412	AGPA_02 FISC_02 MRKT_03 PPT_01
Adams, David Michael	1155	AK_FINC_01 FIF_01 PPT_01 PPT_03
Adams, Robert	0329	FIF_01
Agnew, Robert	1681	POL_RSK_01
Ahlin-Stieren, Darci	2055	GENBEN_05
Aiken, Lee	2064	FIF_01
Akin, Robert	1172	FIF_01
Alaska Department of Revenue	1662	ACC_01 AK_DMD_01 AK_FINC_07 DISP_01 LLC_09 OWNRISK_02 PTU_01 RCA_02 WORK_COMM_01 WORK_COMM_07

Commenter	Submission #	Codes
Alaska Department of Revenue	1696	ACC_01
		ACC_03
		ACC_06
		AK_DMD_01
		AK_FINC_06
		AK_FINC_07
		AKHIRE_07
		CNSTL_01
		CNSTL_02
		CNSTL_04
		CNSTL_06
		CNSTL_07
		COMM_PER_06
		DISP_01
		EDI_02
		EDI_06
		FERC_04
		FERC_05
		FERC_06
		FISC_01
		HEARINGS_08
		INCNT_01
		INCNT_03
		INKIND_01
		LCL_X_06
		LCL_X_07
		LCL_X_08
		LCL_X_17
		LLC_09
		LLC_10
		LLC_11
		NATRSC_01
		OFFTAKE_01
		OTA_02
		OWNRISK_02
		POL_RSK_01
		PPT_03
		PTU_01
		PTU_07
		RCA_01
		SGDA_01
		SGDA_07
		SGDA_08
		UUFC_01
		WORK_COMM_01
		WORK_COMM_06
Alban, Ronald	1147	AKHIRE_15
		FIF_01
Alden, Kathy	2035	FIF_01
Alden, Steve	2034	FIF_01
Aldridge, Chad	1285	FIF_01
Alger, Harrison	0449	FIF_01
		GENBEN_01
		GENBEN_07
		INCNT_01
		MRKT_02
Alger, Kent	0495	FIF_01
		GENBEN_01
		GENBEN_07
Alger, Melissa	0553	GENBEN_02
Alger, Nelson	0570	FIF_01
		FISC_02
Allderdice, Ted	2093	LEGIS_11
Allen, Andrew	0307	GENBEN_01
		GENBEN_05
		TIME_01
Allen, Darren	1803	FIF_01
Allen, John	2014	MRKT_01
Allen, Stacy	0088	CNFDL_02
		FIF_02
Almberg, Pamela	2054	FIF_01
Almon, Arthur	0127	ACC_05
		AK_DMD_01
		FIF_02
		FISC_01
		GENBEN_01
		INDST_02
		NATRSC_02
Almon, Arthur	0847	AGPA_01
		INCNT_01
		LEGIS_03

Commenter	Submission #	Codes
Alr n, Arthur	1107	ACC_05 AGPA_01 AK_DMD_01 CNFDL_02 FIF_01 FIF_02 GENBEN_02 MRKT_01 NATRSC_02 OFFTAKE_01 PTU_01 YLINE_01
Alonzo, Chris	0972	FIF_01 LEGIS_10 PPT_01 PPT_03
Althen, Kath	0551	FIF_01
Alvord, Chip	1475	FIF_01
Ames, John	2158	COMM_04 SUBST_02
Amodemo, Sherri	1945	GENBEN_02
Anchorage Chamber of Commerce	2168	PPT_03
Anchorage Chamber of Commerce	2169	FIF_01
Ancock, Frank	1133	FISC_01 INKIND_01 LLC_03 RCA_01 REGCON_01 WEB_04 WEB_05
Anderegg, Judith	0946	CNFDL_02 FIF_02 GENBEN_05 MRKT_01
Andersen, Martin	1299	AK_FINC_01
Anderson, Carol	1636	AKHIRE_05 DISP_01 FIF_02 FISC_01 INKIND_01 OTA_02 PPT_03 STRND_01 WORK_COMM_01 XOM_01
Anderson, Clayton	1295	FIF_01 GENBEN_01 GENBEN_02
Anderson, Dan	0821	AKHIRE_01 FIF_01
Anderson, Daniel	1365	AKHIRE_01 AKHIRE_02 FIF_01
Anderson, Fred	1827	FIF_01
Anderson, Jean	0680	CNFDL_02 CNFDL_03 COMM_PER_01 COMM_PER_04 INCNT_01 OTA_02 STRND_01 TIME_02
Anderson, Jon	1498	MRKT_01
Anderson, Larry	0137	FIF_02 PPT_03
Anderson, Maggie	2155	FIF_01
Anderson, Pete	1964	FIF_01
Anderson, Scott	1132	FIF_01
Anderson, Tammie	1975	FIF_01
Andredou, Andy	1456	GENBEN_02
Andrews, Billy	0347	FIF_01 GENBEN_01
Andrews, Billy	2066	LEGIS_11

Commenter	Submission #	Codes
Andrews, Donald	0554	AK_DMD_01 FIF_01 OFFTAKE_01 OWNRISK_02
Anelon, Manuel	0961	GENBEN_02
Angaiak, John	2101	AKHIRE_12
Angvik, Jane	0703	CNSTL_01 DISP_01 FISC_01 OWNRISK_02
Anthony, Ann	0865	AKHIRE_14 FIF_01
Aparicio, Fabio	0180	FIF_01
Apgar, Kevin	0566	FISC_01
Apted, Daniel	1620	OTA_01
Apted, Daniel	1621	OTA_01
Archey, Pat	1741	FIF_01 OWNRISK_02
Arendell, Randall	0130	FIF_01 WORK_COMM_01
Arendell, Randall	1622	FIF_02
Arett, Wm.	1232	LLC_02
Arin, Julie	2074	FIF_01 LEGIS_11
Armbrust, Kristie	0318	ACC_01 AK_DMD_01 AKHIRE_14 GENBEN_01 GENBEN_02 MRKT_01 NATRSC_09 OFFTAKE_01 WORK_COMM_02
Arnold, Dorothy	1602	FISC_01 OTA_02 PPT_03
Arnold, Larry	0837	FISC_02
Ashton, William	0708	CNSTL_01 FIF_02 FISC_01 WORK_COMM_01
Athey, Kurt	1747	FIF_01
Atiyyah, Belal	0499	FIF_01 GENBEN_01 NATRSC_10
Aufrecht, Steve	760	CNFDL_02 INKIND_01 OTA_02
Aukongak, Cathy	1119	FIF_01
Avila, James	1921	GENBEN_07
Axelson, Keith	0374	FIF_01
Axtell, Chris	1877	FIF_01
Ayotte, Nathan	0332	FIF_01
Babcock, Colby	1053	GENBEN_02
Baca, Candy	0991	AGPA_05 FIF_02 POL_RSK_06
Backes, Lori	0672	AGPA_05 AK_DMD_01 AKHIRE_04 CNSTL_01 CNSTL_03 CNSTL_07 COMM_PER_04 FISC_01 INCNT_01 INCNT_02 LCL_X_02 OWNRISK_02 PTU_01 RCA_01

Commenter	Submission #	Codes
Backes, Lori	0846	AK_DMD_01 AKHIRE_01 AKHIRE_04 CNSTL_01 CNSTL_04 FIF_02 INCNT_02 LCL_X_02 OWNRISK_02 PTU_01 STRND_01
Backes, Lori	1690	ACC_01 ACC_11 AK_DMD_01 AK_FINC_07 AKHIRE_05 CNSTL_01 CNSTL_02 CNSTL_04 CNSTL_07 EDI_02 FISC_01 FISC_07 HEARINGS_08 IMP_S_02 IMP_S_05 INCNT_02 INKIND_01 LCL_X_02 OTA_01 OTA_02 PFD_03 POL_RSK_01 PTU_01 RCA_01 SGDA_14 STRND_01 WORK_COMM_01
Badger, Lena	1430	AKHIRE_12
Bailey-Barr, Cynthia	2092	FIF_01
Bair, Samuel	0022	FISC_01 WORK_COMM_01
Bajsarowicz-Borg, Caroline	0889	FIF_01 FISC_02 MRKT_01
Baker, John	0342	AK_FINC_01 FIF_01 FISC_02 GENBEN_05
Baker, Linda	1706	COMM_PER_11
Baker, Robert O.	1360	AK_DMD_01
Baker, Robert O.	1578	PPT_03
Baldwin Jay Leo	0067	AK_DMD_01 RSRV_X_01
Ballesteros, Joseph	1966	AGPA_01 FIF_02 NATRSC_02
Ballesteros, Robert	0479	AGPA_02 FIF_01
Balluta, Clarence	1844	FIF_01
Barbosa, Krista	0862	FIF_01 WORK_COMM_01
Barger, Cleeta	0110	FIF_01
Barkeley, James	0642	FIF_01
Barkeley, Pamela	0313	FIF_01 OFFTAKE_01 OWNRISK_02
Barlow, Tonnie	0091	FIF_01
Barnes, Carol	0696	FIF_01

Commenter	Submission #	Codes
Barnes, James	0804	ACK_01 CNSTL_04 CNSTL_10 CNSTL_11 DISP_01 FERC_01 FISC_01 FISC_02 FISC_06 GENBEN_05 INCNT_01 INKIND_01 LLC_02 LLC_04 LLC_07 RCA_01 RCA_02 REGCON_01 SGDA_01 STRND_01 WORK_COMM_01 WORK_COMM_02 WORK_COMM_05 WORK_COMM_09
Barnes, Thomas	1959	FIF_01
Barnett, Jeff	0421	FIF_01
Barnett, Linda	0420	FIF_01
Barnum, Gene	1414	FIF_02
Barr, Terry	1923	FIF_01
Barrie, R.J.	1500	FIF_01
Barrie, Robert	0426	FIF_01
Bartel, Craig	0063	AKHIRE_01 AKHIRE_02 ENVR_02 ENVR_03 XOM_01
Bartlett, Mark	0077	FIF_01
Bartlett, Mark	1062	FIF_01 GENBEN_02 PPT_03
Bartlett, Mark	2062	PPT_03
Bass, Jim	1369	AGPA_01 FRCE_01 POL_RSK_01
Bay, Lucas	1819	FIF_01
Bazurto, Arnold	1254	FIF_01 GENBEN_07
Bearden, Daniel	0380	FIF_01 LEGIS_11
Beaudo, Darden	0905	FIF_01 GENBEN_02 SGDA_02
Beaudo, Daren	0684	FIF_01 FISC_02 PPT_01
Beck, Daniel	1793	FIF_01 GENBEN_02
Beck, Mike	1182	FIF_01
Beck, Tim	0213	ENVR_02 FIF_02 HEARINGS_08
Becker, Chuck	2008	MRKT_01
Bee, Cyrus	1794	FIF_01 GENBEN_02
Beedle, Joseph	0677	FIF_01 GENBEN_01 RSRV_X_01
Beedle, Kenneth	0021	NATRSC_01 XOM_01
Belanger, A.	1511	FIF_01
Belkhe, Jim	0054	PPT_05
Bell, Charles	1960	FIF_01 LEGIS_11
Bell, Floyd	1799	FIF_01
Bender, Matt	1274	FIF_01

Commenter	Submission #	Codes
Bengtson, Karl and Betty	0148	CNFDL_01 CNFDL_02 NATRSC_02 OFFTAKE_01 YLINE_01
Bennett, Roger	0311	FISC_02 LEGIS_11 PFD_04 TIME_01
Bennett, Roger	0345	GENBEN_01
Benson, Eufemia	0967	FIF_01
Benson, Gary	0155	FIF_01 TIME_01
Benson, Michael	2019	FIF_01
Berg, Dale	0982	NATRSC_09
Bergstrom, Thorwald	1129	FISC_01 INCNT_01 LEGIS_01 MRKT_01 WORK_COMM_01
Beyer, James	0294	FIF_01 FISC_02 GENBEN_02 PPT_01
Bhatt, Kirit	0513	FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 GENBEN_08
Billings, Carrie	1476	GENBEN_02
Billingsley, Tim	0275	FIF_01
Billingsley, Tim	0276	FIF_01
Binder, Jay	2060	PPT_01
Bird, Anthony	1311	FIF_01 GENBEN_02
Birdsall, Stephen	0656	CNFDL_02 FIF_02 OWNRISK_02 POL_RSK_01
Birdsall, Stephen	1001	FIF_02 INCNT_01 LEGIS_07 OWNRISK_02 PFD_02 PFD_03 POL_RSK_01
Bise, Ms.	0735	AK_FINC_01 FISC_01 LEGIS_03 OTA_02
Bissett, Ronald	1536	FIF_01
Black, David	0911	FIF_01 GENBEN_01 GENBEN_07
Blackey, Jim	0660	COMM_03 FIF_01 GENBEN_05
Black-Smith, Diane	1130	FISC_01
Blakey, Diane	0366	FIF_01 GENBEN_01 GENBEN_02
Blank, Wayne	0013	FIF_02 GENBEN_03 MRKT_01
Blei, Jeremy	0801	FIF_01
Blemke, Jerry	2043	LEGIS_12
Blount, Scott	0644	AK_DMD_01 COMM_03 FIF_01 GENBEN_01 GENBEN_02 INCNT_01 LEGIS_10 MRKT_01

Commenter	Submission #	Codes
Bluett, Matt	1502	FIF_01
Boatner, Anthony	2078	FIF_01
Boccanera, Justine	0772	FIF_01 FISC_02 GENBEN_01 GENBEN_02 GENBEN_05
Boerwinkle, Gail	0384	FIF_02
Bogiel, Henry	1576	FIF_02
Bogiel, Henry	1580	NATRSC_02
Bolar, Caroline	0758	ENVR_07 OIL_PX_02 RSRV_X_01
Bommarito, Forest	0364	FIF_01 GENBEN_01 GENBEN_02 GENBEN_07
Bond, Marc	0005	COMM_PER_08
Boner, Mr.	0792	AGPA_01 AGPA_02 AK_DMD_01 COMM_03 FIF_01
Boren, Todd	0880	AGPA_01 FIF_02 NATRSC_01
Borland, Margo	0881	FIF_02
Borowski, Florian	0904	FIF_01 FISC_02
Bouchard, Cliff	1034	FIF_01 LEGIS_07 TIME_01
Bowerman, Justus	1954	GENBEN_07
Bowls, Larry	0014	FIF_01
Boyle, Tom	2006	TIME_01
Boyles, Rhonda	0669	AK_DMD_01 CNFDL_04 COMM_05 FIF_01 HEARINGS_07
Braden, John	0305	AK_FINC_01 FIF_01 GENBEN_02 OFFTAKE_01
Bradford, Gene	0436	FIF_01
Bradshaw, Peter	1565	FIF_01
Brady, Judith	1722	ACK_01 FIF_01 GENBEN_05 INCNT_01 MRKT_01 TIME_01
Brady, Terry T.	1571	FIF_02 INKIND_01 LLC_02 LLC_04 OWNRISK_02 WORK_COMM_01
Brady, Thomas	0387	FIF_01 LEGIS_11
Brand, Randy	0208	FIF_01 FISC_02 INFRA_01 LLC_05 MRKT_01
Brand, Randy	0962	FIF_01
Brassfield, Tom	0354	FIF_01 LEGIS_11
Braun, Kenton	0757	FIF_01

Commenter	Submission #	Codes
Brean, Robert	1640	AK_NATV_03 AK_NATV_04 AKHIRE_01 AKHIRE_17 AKHIRE_18 AKHIRE_19 AKHIRE_20 IMP_S_02 IMP_S_03 IMP_S_04 INDST_02 OFFTAKE_01 SGDA_01 SUBST_02
Bredar, Bill	0574	CNFDL_04 FIF_01 FISC_01 LEGIS_11 NATRSC_08 RSRV_X_01 WORK_COMM_01
Bremner, Bert	0730	FIF_01
Brescia, Dave	0142	NATRSC_01
Brewster, Monica	0271	FIF_01
Brice, James	1313	ACK_01 FIF_01
Bright, Andrew	0002	AK_DMD_01 WORK_COMM_01
Bright, William	0045	FIF_01 GENBEN_01 GENBEN_08
Bright, William	0047	FIF_01 MCKZ_01 YLINE_01
Brink, Jason	0480	FIF_01
Brischool, Laura	2129	FIF_01
Briscoe, Dave	0596	POL_RSK_06 TIME_02
Briscoe, Dave	1214	ACK_01
Broadwater, Danny	1890	TIME_01
Brock, Roy	2036	AGPA_02 AK_FINC_01 FIF_02
Brodie, James	0355	FIF_01 GENBEN_01
Brooks, Linda	0706	ACK_01 EDI_06 LLC_02 LLC_04 OTA_02 STRND_01
Brooks, Lonnie D.	0565	CNFDL_04 FIF_01 FISC_02 INKIND_01 OWNRISK_02
Brown, Delia	1106	FIF_01
Brown, Jeffrey Todd	0855	CNFDL_02 PPT_01 PPT_03
Brown, Jerry	0673	COMM_PER_04 FISC_01 GENBEN_01 LEGIS_06 NATRSC_02
Brown, Kevin	0829	AGPA_02 AK_FINC_01 FIF_01 WORK_COMM_02
Brown, Les	1088	ACK_01 FISC_01 MRKT_01 POL_RSK_01 PPT_01
Brown, Michelle	0357	FIF_01
Brown, Thomas	0630	FIF_01

Commenter	Submission #	Codes
Bruesch, Joseph	1376	AK_FINC_01 FISC_03 OWNRISK_04
Bruggenkamp, Barbara	1986	FIF_01
Brunsvold, Bruce	1549	ACK_01 TIME_02
Bryce, Peter	0172	FIF_01
Bucaria, Garvin	1081	AK_FINC_01 EDI_06 INKIND_01 NATRSC_02 OFFTAKE_01 WORK_COMM_01
Buchanan, Thomas	1934	XOM_01
Buchholz, Robert	0693	FIF_01 GENBEN_01 GENBEN_02 GENBEN_07 LEGIS_11 MRKT_01
Buck, Brian	0432	FIF_01 GENBEN_01 MRKT_01 PPT_01 TIME_01
Buck, Walter	0389	FIF_01
Buckendorf, Randal	2072	LEGIS_11
Bue, Arne	0543	FIF_01 PPT_03
Buettner, Eugene	2094	LEGIS_11
Bullington, Alice	0518	COMM_04 FIF_01 GENBEN_04 IMP_S_02 LEGIS_07
Bullington, Alice	1518	LEGIS_07
Bundy, Tim	1176	LLC_12
Bunnis, Dale	1315	AGPA_01 AK_DMD_01 FIF_02 FISC_01 INKIND_01 LLC_02 SGDA_04 WORK_COMM_01
Bunnis, Tyra	1314	AK_DMD_01 AKHIRE_01 AKHIRE_07 FIF_02 GENBEN_04 LLC_03 NATRSC_02 WORK_COMM_01
Buono, James	0520	COMM_09 FIF_01
Burd, James	0301	AK_DMD_01 FIF_01 GENBEN_02 OFFTAKE_01
Burden, Gene	1685	ACC_03 ACC_16 AK_DMD_01 FERC_01 FERC_04 FERC_05 OFFTAKE_01 RCA_01 RCA_02 REGCON_01
Burgess, Wallace	1917	FIF_01
Burggraf, Roger	0214	FIF_01 NATRSC_02
Burglin, Cliff	0191	NATRSC_05

Commenter	Submission #	Codes
Burke, Dr.	0011	ACK_01 AK_DMD_01 GENBEN_02 GENBEN_08 NATRSC_03 YLINE_01
Burke, Gary	1845	AK_DMD_01
Burke, Mike	2138	OTA_02
Burke, Mr. R.	1541	MRKT_01 NATRSC_04
Burnett, Gil	0739	COMM_05 FIF_01 FISC_02 GENBEN_01 TIME_01
Burnham, Loren	0988	AKHIRE_02 AKHIRE_15
Burow, Tony	1881	FIF_01
Burow, Tony	1883	FIF_01
Burrow, Koreen	1924	FIF_01
Burton, Brandon	1787	AGPA_01
Burton, Dick	0101	FIF_01 OFFTAKE_01 OTA_01
Burzinski, Laura	0803	FIF_01 GENBEN_01
Busk, Alexandra	0976	AKHIRE_12
Butler, Glen	1868	FIF_01
Butler, Herb	0653	FIF_02 WORK_COMM_01
Button, Robert	0731	AGPA_01 CNFDL_01 CNSTL_02 LEGIS_07 PPT_01 PPT_02 SGDA_02
Byers, Coyle	0922	PPT_01
Byers, Maurice	1333	AGPA_01 FIF_02
Byman, Bill	0070	NATRSC_02
Byrd, Martial	0175	FIF_01
Cage, Paul	1426	FIF_01
Calaway, James	0348	FIF_01
Call, Joanne	1419	EDI_06
Camasi, Ed	1346	FIF_01
Camnisa, Ray	1098	CNSTL_04 FIF_02
Campbell, Blaine M.	0523	FIF_01 FISC_02 GENBEN_01 GENBEN_05 LLC_05
Campbell, Blythe	0913	FIF_01 GENBEN_01 GENBEN_05 MRKT_01
Campbell, Brad	0379	FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 TIME_01
Campbell, Brad	0885	FIF_01 GENBEN_02
Campbell, Peter	0061	ENVR_01 POL_RSK_03
Campbell-Rhodenizer, Candace	0610	FIF_01
Canady, Michael	1304	CNSTL_04 NATRSC_01 NATRSC_02 POL_RSK_06
Cangialosi, Sal	1572	AK_DMD_01 FIF_02 NATRSC_04
Canichill, Nell	1517	FIF_01

Commenter	Submission #	Codes
Caperton, Joe	1437	TIME_01
Capp, Karen	1065	FIF_02
Caputo, Mark	1539	GENBEN_04
Carey, Kyndall	0477	FIF_01
Carhart, Steve	0895	FIF_01 GENBEN_08
Cariello, Jim	1677	OTA_02 PPT_03 TIME_02
Carlson, Cynthia	1368	ACK_01
Carlson, Sam	0921	FISC_01
Carney, Matthew	2144	AKHIRE_1
Carney, Michael	0783	FIF_01 RSRV_X_01
Carothers, Gar	0546	FIF_01
Carpenter, Michael	1026	GENBEN_01 INDST_02 I_03 XOM_01
Carrigan, Cary	0861	CNSTL_01 COMM_PER_01
Carroll, Charlette	1898	FISC_01 XOM_01
Carroll, Helen	1871	FIF_01
Carroll, Virgil L.	1899	FISC_01 XOM_01
Carson, Dean	0315	ALB_01 FIF_01
Casady, Bruce	0135	FIF_01
Case, David	0033	W[illegible]B_03
Case-Day, Janette	1341	AKHIRE_07 YLINE_01
Cassidy, John	0416	FIF_01
Castle, Harold	1771	GENBEN_02
Caughman, Gordon	0344	FIF_01
Cawvey, James	1737	FIF_01
Cermelt, Hope L.	1435	FIF_02
Cervantes, Marina	1411	GENBEN_02
Cervantes, Marina	1543	GENBEN_02
Chambers, Bret	0163	FIF_01
Chambers, Bret	0912	GENBEN_02 GENBEN_05 GENBEN_07
Chapman, David	1231	FIF_01 NATRSC_01 PFD_02
Charles, Byron	0092	OTA_01
Charles, Byron	0093	AGPA_01 AKHIRE_02 GENBEN_04 GENBEN_08 OTA_01 OTA_02
Charles, Byron	0122	COMM_06 FIF_02 OTA_01
Charles, Byron	0124	FIF_02 GENBEN_02 HEARINGS_03
Charles, Byron	0607	AGPA_01 COMM_03 COMM_05 GENBEN_01 OTA_01
Chartier, Jevon	1769	FIF_01
Chartier, Kevin	0410	AGPA_02 FIF_01
Chatham, James	0441	FIF_01
Chatham, Jana	0434	FIF_01
Chavian, Tammy	1637	FIF_01
Cheek, Ralph	1114	FIF_01
Cheek, Ralph E.	1554	FIF_01

Commenter	Submission #	Codes
Cherry, Maria	0877	FIF_01
Christal, John	0524	ACC_01 AK_DMD_01 FIF_01 GENBEN_01 GENBEN_02 GENBEN_07 OFFTAKE_01 WORK_COMM_02
Christensen, Reed	0154	CNFDL_04 FIF_01
Christensen, Reed	0719	CNFDL_02 FIF_01
Christenson, Mike	1135	FIF_02 FISC_01 NATRSC_01 POL_RSK_01 XOM_01
Christiansen, Anthony	1755	GENBEN_07
Christman, Gary	0482	FIF_01
Christopherson, Alan	1375	AK_FINC_01 FIF_01 GENBEN_02 PFD_01 PPT_01 PPT_03 TIME_01
Chrystal, Lynn	0994	CNFDL_02 FIF_02 LCL_X_17
Churchill, Dolores	0103	AGPA_01 AK_DMD_01 FIF_02 INDG_02 MRKT_01 NATRSC_01 OTA_02
Clare, Kristen	0466	FIF_01 GENBEN_07
Clark, Clive	0871	FIF_01
Clark, Kenneth	0552	FIF_02 FISC_01
Clark, Lindsey	0726	FIF_01 LEGIS_11
Clark, Lindsey	1044	FIF_01 FISC_01 FISC_02 GENBEN_01 GENBEN_02 GENBEN_05 PPT_03 SGDA_02
Clausen, Richard	1043	FIF_01
Clausson, Colin	1217	OFFTAKE_01
Clautice, Karen	1168	FIF_02 OTA_01
Cleary, Steve	1096	COMM_PER_01
Cleary, Steve	1171	COMM_PER_01 OFFTAKE_01
Clifton, William	2079	LLC_05
Clutter, Matt	1513	FIF_01
Clutter, Matt	1634	FIF_01
Cobb, Dave	0986	FIF_02 NATRSC_01
Cocklan-Vendl, Mary	0339	FIF_01
Cole, Nathan	2135	AKHIRE_12
Cole, Sheri	0160	FIF_01
Cole, Sheri	0161	FIF_01
Colegrove, Shellie	0557	AKHIRE_02 CNFDL_04 FIF_01 GENBEN_07 MRKT_02 NATRSC_02 OVRRUN_01

Commenter	Submission #	Codes
Colgan, Ryan	0675	CNSTL_01 CNSTL_02 FISC_01 NATRSC_01 WORK_COMM_01
Colley, Diane	0550	FIF_01 GENBEN_05 NATRSC_09
Colley, Diane	0743	GENBEN_05
Colley, Kenneth	0245	FIF_01
Collins, Matthew	1853	FIF_01 GENBEN_05
Collins, Nancy	0640	FIF_01 PPT_01
Collins, Neal	0641	FIF_01
Collins, R.D.	1529	FIF_01
Colonell, Jack	0507	FIF_01
Commonwealth North	2165	AK_DMD_02 CNSTL_04 EDI_05 INKIND_02 MRKT_03 OTA_03 OWNRISK_02 PTU_01 RCA_02 RSRV_X_01 WORK_COMM_01
Conatser, Dawn	2073	LEGIS_11
Conner, Merlene	0304	FIF_01 GENBEN_01 GENBEN_07
Conroy, Ben	0728	GENBEN_02
Constantine, Daniel	1997	FIF_01 MRKT_01
Converse, Doyle	0957	ACK_01 FISC_02 GENBEN_07 MRKT_01
Cook, Edward	1257	FIF_01
Cook, Mike	0207	FIF_02
Cooke, Greg	0685	CNFDL_02 CNFDL_04 FIF_01 GENBEN_05 PPT_01 TIME_01
Cookson, John	0409	AGPA_02 FIF_01 FISC_02 LEGIS_11 PPT_01 WORK_COMM_02
Cool, Steven	1957	GENBEN_07
Cooper, Gary	1892	LEGIS_11
Coose, Dick	0097	FIF_01 OFFTAKE_01
Copeland, Tempest	1228	AKHIRE_12 FIF_01 GENBEN_02
Corcoran, Mary	0113	ACK_01
Cornichuck, Craig	1548	ACK_01 GENBEN_01
Corre, Vener	0170	FIF_01
Corwin, Jeremy	0981	AKHIRE_02 AKHIRE_12 ENVR_10
Corwith, J.	1491	TIME_01
Corwith, Jeff	1128	FIF_01 GENBEN_06
Corwith, Jeff	1961	GENBEN_05

Commenter	Submission #	Codes
Costello, Paul	1625	FIF_02 PFD_03 RCA_02 SGDA_10 WORK_COMM_01
Cotter, Paul	1707	ACK_01 TIME_02
Cottle, Bert	1003	AGPA_01 AGPA_03 AK_FINC_03 CNFDL_02 CNSTL_01 COMM_PER_01 COMM_PER_10 FIF_02 FISC_01 INKIND_01 LLC_02 OWNRISK_02 PPT_03 SGDA_05 WORK_COMM_01
Cottle, Bert	1663	AK_DMD_01 AK_FINC_03 AKHIRE_03 CNSTL_01 CNSTL_07 DISP_01 INKIND_01 LCL_X_07 LCL_X_08 PTU_01 RCA_02 REGCON_01 RSRV_X_01 SGDA_01 STRND_01 WORK_COMM_01
Coulson, Charles	0481	FIF_01
Coulson, Chuck	0887	FIF_01
Cowan, Pat	1581	PPT_03
Cowling, Cindy	2152	LEGIS_11
Cowling, Edgar	0072	FIF_01 PPT_01
Cowling, Edgar	0753	FIF_01 GENBEN_04
Cox, James	1443	FIF_01
Cox, Jim	1537	PPT_03
Coy, Mike	0955	FISC_02 OWNRISK_02
Craig, Laurence	2052	FIF_01
Cramer, Brandon	1164	FIF_01 GENBEN_01 GENBEN_02
Cramer, Brandon	1740	FIF_01
Croft, Chancy	0844	CNFDL_02 FISC_01 OTA_02 OWNRISK_02 WORK_COMM_01
Cross, Emily	0859	FIF_01
Cross, Emily	1507	FIF_01
Cross, Jay	0944	AKHIRE_02 AKHIRE_07 CNFDL_02 FIF_02 WORK_COMM_01
Crowson, Dan	1089	ACC_05 FIF_01 FIF_02
Cullen, Michelle	0992	CNSTL_01 FIF_02 FISC_01 INKIND_01 LCL_X_17 NATRSC_09 OIL_PX_01 WORK_COMM_01

Commenter	Submission #	Codes
Cullen, William	0993	AGPA_01 AKHIRE_01 FIF_02 FISC_01
Cunningham, Russell R.	1425	YLINE_01
Curry, Landen	2051	FIF_01
Curry, Lydia	0559	FIF_01 PPT_03
Curry, Sara	1777	WEB_05
Curtis, Jon	1811	AGPA_01
Cushing, Jim	1604	FIF_01
Cutbirth, Eric	0713	FIF_01
Cyr, John	1157	FIF_01 NATRSC_02 NATRSC_09 PPT_03
Daleiden, Susan	2007	FIF_01
Dalton, Kathleen	0651	AGPA_02
Damron, Floyd	0532	FIF_01 PPT_03
Daniel, Jason	1590	FIF_02
Daniels, J.D.	1219	CNFDL_02 FIF_02 OTA_02 OWNRISK_02 PFD_02 PPT_03
Daniels, Robert P.	1670	ACC_01 ACC_07 ACC_11 ACC_14 ACC_15 ACK_01 FERC_06 LLC_09 RCA_01 SGDA_12 UUFC_01
Danielson, David	1390	CANREG_01 FERC_08 WORK_COMM_09
Danner, Lars	0238	FISC_02 GENBEN_04 INCNT_01
Danner, Lars	0700	FIF_01 FISC_02 GENBEN_04 WORK_COMM_02
Danner, Lars	1644	GENBEN_07
Daris, Julie	2118	AK_DMD_01
Darnell, Ronnie	0932	FIF_01 MRKT_01
Dash, Chris	0502	COMM_02 FIF_01 GENBEN_01 GENBEN_05 GENBEN_07 GENBEN_08
Davenport, David	1358	INFRA_03
Davis, Dennis	1267	FIF_01 GENBEN_01 PPT_01
Davis, Donald	0561	FIF_01
Davis, James	0314	FIF_01
Davis, Jody	0243	AK_FINC_03 ENVR_08 FIF_02 FISC_01 MRKT_01 NATRSC_01 NATRSC_02 PPT_01 PPT_02
Davis, Victor R.	1193	FIF_01
de Albuquerque, Paige	0321	FIF_01 MRKT_01

Commenter	Submission #	Codes
Deason, Robin	0777	FIF_01 MRKT_03
Deavont, Tim	1701	FIF_02 STRND_01
Decker, James	2089	TIME_01
Dehlbom, Mike	1363	PPT_01
Dehlke, Mr.	0720	AK_DMD_01 CNSTL_01 CNSTL_05 HEARINGS_05 OIL_PX_01
Deitz, Ernest	1319	AK_DMD_01 FIF_01 GENBEN_02
DeLeon, Ted	0030	CNFDL_01 CNFDL_02 FIF_02 POL_RSK_01
DeLong, Frank	0202	FIF_02
Demarco, Shannon	0762	FIF_01 INCNT_01
Demientieff, Lara	0969	AGPA_01
Demoski, Evelyn J.	0965	TIME_02
Dempster, Karen	1244	FIF_01
DeNapoli, Jan	1893	LEGIS_11
Dengel, Dave	1009	AGPA_01 AGPA_03 FIF_02 FISC_01 INCNT_01 LCL_X_07 OTA_02 PPT_03 WORK_COMM_01
Dennehy, Mark	0597	FIF_01 FISC_02 GENBEN_02
Dennis, Margaret	0650	FISC_01
Derrick, Charles	0670	AKHIRE_10 COMM_PER_01 FISC_01 HEARINGS_06 LEGIS_07
Deschamps, Romie	0042	NATRSC_03 PPT_01
Desmond, Mike	1988	FIF_01
DeSpain, Glenn	0655	DISP_01 INCNT_02 INCNT_05 INCNT_09 LLC_02 NATRSC_02 OIL_PX_01 OVRRUN_03 OWNRISK_02 PPT_03 TIME_02
Dethlefs, Jerald	1079	FIF_01 GENBEN_01
Devens, John	1014	AGPA_05 CNFDL_02 COMM_06 ENVR_03 FIF_02 OFFTAKE_01 XOM_01
Devlin, Jason	0838	FIF_01 FISC_02 GENBEN_02 GENBEN_05
Dexter, Benjamin	1280	FIF_01
Di Franco, Tamar	0241	FIF_01
Di Franco, Tamar	0924	FIF_01
Dickey, Brandon	1760	FIF_01
Dickey, Mr.	0793	FIF_01 PPT_01
Digert, Scott	0717	FIF_01

Commenter	Submission #	Codes
Dillard, Robyn	1305	FIF_01 GENBEN_02
Dilley, stephen R.	1494	FIF_01
Dilley, Stewart	1166	FIF_01 GENBEN_07
Ding, Eric	0473	AGPA_02 FIF_01 WORK_COMM_02
Diselrod, Dahlia	1540	CNFDL_01 FIF_02 NATRSC_01 PPT_03
Dobesh, Charice	1163	FIF_01
Dobesh, Michael	1161	FIF_01
Dobson, Bryan	1870	GENBEN_07
Dobson, Warren	0633	FIF_01 MRKT_02 PPT_01
Doig, Russ	0443	FIF_01
Dolat, Jackie	1117	FIF_01
Dollar, Clarence	1237	FIF_01
Donahue, Claire	2026	ENVR_09 FIF_01
Donajkowski, Ken	0458	FIF_01
Donaldson, Mark	0257	FIF_01
Donatelli, Barbara	1614	FISC_01
Dong, Michael	0515	AK_FINC_01 FIF_01 GENBEN_01 GENBEN_02
Dortch, Doug	0217	FIF_01
Dotson, Craig	0411	AK_FINC_04 AKHIRE_02 RSRV_X_01 SGDA_02 WORK_COMM_02
Dotson, Toni	0933	AKHIRE_12
Dougherty, Gitanya	1744	FIF_01
Douglas, David	0269	FIF_01 FISC_01 FISC_02
Dow, Kevin	0430	FIF_01 TIME_01
Dowling, Pete	0897	FIF_01 GENBEN_05
Dowling, Peter	0470	FIF_01 GENBEN_01 GENBEN_02 GENBEN_03 GENBEN_07 WORK_COMM_02
Downing, Michael	0461	FIF_01
Downing, Tom	0456	FIF_01 FISC_02 LEGIS_11
Dragnich, Robert	0144	FIF_01 GENBEN_05 PPT_03 TIME_01
Drewniak, Richard	1825	FIF_01
Driscoll, John	1950	GENBEN_02
Dub, Gary	1856	AK_DMD_01 FIF_01
Dubie, Ramona	1597	AGPA_01 FIF_02
Dubuisson, Gary	0795	FIF_01 PPT_01
Dubuisson, Paul	0500	FIF_01 GENBEN_01 GENBEN_07 LLC_05
Ducey, Amy	0647	AKHIRE_14 FIF_01 GENBEN_02

Commenter	Submission #	Codes
Dudley, Jack	1824	FIF_01
Dugan, Kevin	0037	FIF_02 NATRSC_02 PPT_01 WORK_COMM_01
Dumaguing, Art	1268	FIF_01
Dunaway, Dan	1175	AK_FINC_01 CNSTL_04 FIF_02 FISC_01
Duncan, Alec	0249	FIF_01
Duncan, James	1253	ACK_01
Dunn, Neil	0766	FIF_01
Dunn, Steve and Carolyn	2117	AK_DMD_01
Dunn, Steven	0519	AK_DMD_01 FIF_01 FISC_02 GENBEN_01 GENBEN_02 GENBEN_07 GENBEN_08 INCNT_01
Durand, James	0139	REGCON_01
Durand, James	1465	COMM_09
Durand, Jim	0085	COMM_04 GENBEN_01
Durlin, Reta	1527	FIF_01
Durr, Dayna	2048	AKHIRE_01 FIF_01
Earll, Dennis	0264	FIF_01
Early, Steve	1671	PPT_03
Eberhardt, Bil	1328	TIME_02
Ebourgh, Helen Rae	1523	AGPA_01
Eddy, Gary L.	0608	AGPA_01 AK_DMD_01 GENBEN_01 NATRSC_07 OFFTAKE_01 OTA_02 OVRRUN_03 POL_RSK_01 PPT_01 PPT_03 XOM_01 YLINE_01
Eddy, Jerry	1478	FIF_01
Edin, Dale	1261	FIF_01
Egan, Michelle	2004	LEGIS_06
Egan, Michelle	2009	FIF_01
Eggemeyer, Jerome	0319	FIF_01 GENBEN_01 GENBEN_05 MRKT_01
Egle, Shelly	1198	AK_FINC_01 LLC_04 REGCON_01
Eick, Cindy	1556	FIF_01
Eisner, Bart and Darlene	1550	PFD_01
Eiswald, Mary	0082	FIF_01
Eldred, Christopher	1822	FIF_01 PFD_01
Eldred, John	0521	COMM_02 FIF_01 FISC_02 GENBEN_01 GENBEN_02 GENBEN_03 OFFTAKE_01
Ellingwood, Carolyn	0771	FIF_01
Ellis, Chris	1778	FIF_01 LEGIS_11

Commenter	Submission #	Codes
Ellis, Chris	1782	FIF_01
Ellis, Johnny and Ethan Berkowitz	2109	ACC_07 ACC_09 AK_DMD_01 AKHIRE_03 CNSTL_12 DISP_01 FERC_01 FISC_01 FISC_04 FISC_05 FRCE_02 INCNT_08 INKIND_01 LLC_08 LLC_13 NATRSC_11 OTA_02 OWNRISK_04 PTU_08 RSRV_X_01 SGDA_03 SGDA_08 SGDA_09 WORK_COMM_08 WORK_COMM_09
Ellison, Samuel	1421	AKHIRE_12
Elmore, Kenneth	0446	FIF_01
Emerson, Jennifer	0575	FIF_01
Endorf, Gary	0254	FIF_01
Englebrett, Bob	1010	AGPA_05 FIF_02 HEARINGS_05
Ensborough, Wendy	1395	FIF_02
Enta, Mary	1191	ACK_01 FIF_01
Epperson, John	1277	FIF_01
Erhart, Shannon	1972	AK_DMD_01 GENBEN_07
Erickson, Greg	1683	CNSTL_02
Erickson, Stephanie	0266	FIF_01 GENBEN_01 MRKT_03
Erickson, Toby	0544	AGPA_02 EDI_06 FIF_01 GENBEN_02 PPT_01 PPT_03
Erwin, Mike	0281	PPT_03
Escobedo, Stacy	0020	CNFDL_02 OTA_02
Essert, Deanna	0738	FIF_02 FISC_01 MRKT_01
Estes, Jeff	1324	ALB_02
Evans, Bill	0894	AK_DMD_01 FIF_01 GENBEN_06
Evans, Pam	1970	FIF_01
Evans, Simon	1441	LLC_04
Evans, Toby	0035	FIF_02 FISC_01 INKIND_01
Evans-Fate, Mary Jane	0200	AK_DMD_01 FIF_01 GENBEN_01
Everhart, Douglas	0383	FIF_01 FISC_02 INCNT_01
Every, Lori	0602	FIF_01 GENBEN_02
Eychaner, Lois	0980	GENBEN_01 GENBEN_07

Commenter	Submission #	Codes
Fagnani, Matthew	0843	FIF_01 FISC_01 GENBEN_02 INCNT_01 PPT_01
Fagnani, Matthew	1559	FIF_01
Fagnani, Matthew	1561	FIF_01
Fagundes, Jenna	1936	FIF_01
Faherty, Patrick	0850	AKHIRE_04 FISC_01 OFFTAKE_01
Fahrney, Scott	1124	FIF_01
Failing, Debbie	0807	AGPA_01 FIF_02
Fairchild, John	0799	FIF_01 GENBEN_02
Falkner, Jeffrey	1173	FIF_01
Farina, Louis	1903	GENBEN_02
Farkas, Jordan	2081	GENBEN_02
Farmer, Paulette	1857	LEGIS_11
Farmer, Walter	0134	ACK_01 FIF_02 PPT_01
Farr, Jeff	0593	FIF_01
Farrell, Robert	1262	AKI .PE_12
Farris, Vic	1290	FIF_01
Fate, Hugh Bud	0195	EXPLR_01 FISC_01 GENBEN_05 MRKT_03
Faubion, Lonita	1599	AKHIRE_12
Faulkner, Patti	2108	FIF_01 GENBEN_02
Fay, Cash	0237	FIF_01 FISC_02 GENBEN_02
Feige, Corri	0265	ACC_04 EXPLR_01 FIF_01 LLC_03 MRKT_01
Feir, Katherine	0451	AK_DMD_01 ENVR_05 FIF_01 GENBEN_01 GENBEN_02 GENBEN_05
Fenton-Wells, K.	1364	FIF_01
Ferguson, Roger	0827	ENVR_05 GENBEN_07
Ferrell, Joe	0901	FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 LEGIS_07 MRKT_03
Ferrell, Lynn	0273	FIF_01
Fett, Larry	0153	FIF_01 PPT_01
Feucht, Dale	1846	GENBEN_02 LEGIS_11
Field, John	1632	FIF_01
Fields, Ray	1812	ACK_01
Fikes, Bill	0015	CNFDL_02 LEGIS_02
Fineberg, Richard	0674	CNFDL_02 CNFDL_03 FDI_06 OIL_PX_01 RCA_01 RSC_RSK_01
Finney, Patsy	0075	FIF_01
Fischer, Vic	0761	CNSTL_01 FISC_02

Commenter	Submission #	Codes
Fischer, Vic	0805	AK_DMD_01 AKHIRE_04 CNSTL_01 CNSTL_02 CNSTL_03 CNSTL_04 DISP_01 EDI_06 FIF_02 FISC_01 INCNT_01 INCNT_02 INCNT_04 INCNT_08 LLC_04 OIL_PX_01 OTA_02 PPT_03 SGDA_01 STRND_01 WORK_COMM_01
Fischer, Victor	0833	CNSTL_01 CNSTL_02
Fisher, James E.	1051	AK_FINC_05
Fisk, Larry	1030	FIF_01 GENBEN_01 LEGIS_10
Fitzgerald, Amanda	1990	FIF_01
Fleming, Douglas	1216	ACK_01
Flemming, Kathleen	0646	FIF_01
Fletcher, Robert	1759	FIF_01
Flint, Robert	1327	FIF_02 INCNT_01
Flood, James	0010	FIF_02 INCNT_01 NATRSC_01 NATRSC_02 WORK_COMM_01
Floyd, Joe	0223	AGPA_01 AGPA_02 AKHIRE_02 AKHIRE_07 OWNRISK_02 PFD_02 POL_RSK_01
Floyd, Steve	1674	TIME_02
Foerst, Jack	2010	FIF_01
Foglesong, Jeff	1122	FIF_01 GENBEN_02 OFFTAKE_01 PFD_04
Foister, Nathan	1804	FIF_01
Foncree, Patti	0309	FISC_01 PPT_03
Foote, Harold	2133	FIF_01
Ford, Brent	1071	ENVR_09 FIF_01 MRKT_01
Forsland, Jodi	2033	FIF_01
Foster, Eric	1720	AGPA_01
Foster, Gwen	1705	AKHIRE_12
Foster, Theodore	1797	FISC_01
Foster, Tom	0663	AGPA_01
Foster, William	1880	FIF_01
Fournier, Doug	0665	FIF_02 FISC_01 NATRSC_02 OTA_02 PPT_03 WORK_COMM_01
Fowler, Blanche	1509	TIME_01
Fox, Matt	0274	FIF_01 FISC_02 OWNRISK_02

Commenter	Submission #	Codes
Frailey, Wendy	0322	FIF_01 GENBEN_05 LEGIS_11 MRKT_01
Frain, Kimberley	2053	FIF_01
Francis, Michael	0302	FIF_01 FISC_02 GENBEN_02
Francis-Chythlook, Frank	1981	FIF_01
Frank, Michael	1249	FIF_01
Frankenburg, Amy	0873	FIF_01
Frazer, Lamont	0472	FIF_01
Freeman, Luther	1433	AK_DMD_01
Frey, Doug	1263	ACK_01 FIF_01 GENBEN_05 GENBEN_08 LEGIS_11 WORK_COMM_02
Frey, Greg	1920	FIF_01
Friend, JanaLynn	2102	FIF_02
Friend, Randall	1582	FIF_02 OTA_02 PFD_02
Friend, Silva	0787	ENVR_10
Frigilana, Jeofrey	1196	AKHIRE_12
Frisby, James	0929	FIF_01 FISC_02
Frisby, Paulette	2077	GENBEN_01
From, George	1888	MRKT_01
Fry, Emerson	2095	AGPA_02 GENBEN_02 LEGIS_11 TIME_01
Fry, Michael	2107	FIF_01 LLC_05
Fuhs, Paul	0856	CNSTL_01 COMM_PER_01 FIF_02 FISC_01 HEARINGS_08 LLC_03 OWNRISK_01 WORK_COMM_03
Fuller, Anne	0149	ENVR_03 FIF_02 FISC_01 IMP_S_01 INKIND_01
Funk, Ray	1497	ACK_01
Furbish, Clarence	0949	FIF_02 GENBEN_08 NATRSC_07 OTA_01
Furley, Roger	1340	FIF_01
Gabbett, Gary T.	1818	FIF_01
Gabriel, Bruce	1032	AKHIRE_02 FIF_01 PPT_03
Gabriel, Chris	0263	FIF_01 OWNRISK_02
Gabriel, Chris	1039	FIF_01 PPT_03
Gallagher, Jerry	0156	FIF_01 OWNRISK_02
Gallahorn, Leah	1521	GENBEN_02
Gallatin, Alex	1925	FIF_01
Gamble, Greg	0340	AK_FINC_01 AK_FINC_04 FIF_01
Gandy, Mark	1569	GENBEN_01
Gangwer, Janice	1436	FIF_01
Garacamp, Renee	2136	INKIND_01
Garbowicz, Monique	1207	FIF_01

Commenter	Submission #	Codes
Garcia, Abraham	0960	FIF_01 GENBEN_02
Garcia, Chris	1038	ACK_01 AGPA_01 AK_DMD_01 AKHIRE_01 AKHIRE_04 COMM_PER_03 FIF_02 NATRSC_04 OFFTAKE_01 POL_RSK_01 PPT_03 XOM_01
Garcia, Mike	1242	FIF_01
Gardner, James	1222	FIF_01
Garison, Greg	1709	CNFDL_02 FIF_02 LEGIS_04 WEB_05 WORK_COMM_01
Garland, Amy	0106	AKHIRE_12
Garlock, Clark	0864	FIF_01
Garness, Vickie	1783	FIF_01
Garretson, Dylan	1829	OFFTAKE_01
Garrett, Paul	1247	GENBEN_02
Garris, Shannon	0547	AGPA_01
Garske, Hugh	1779	FIF_01
Garvin, James	0114	ACC_01 AK_DMD_01 GENBEN_01 OFFTAKE_01
Gates, Chris	0858	INDST_02 PPT_03 WORK_COMM_01
Gates, Stan	0853	FIF_01 FISC_02
Gearhart, Tom	1564	GENBEN_02
Gease, Ricky	1045	FISC_01 GENBEN_04
Geddes, Stephen W.	1472	PPT_01
Geddes, Steve	1127	FIF_01 PPT_03
Gerondale, Chad	0118	FIF_01
Gessner, Royce	1879	FIF_01
Gifford, Nichole	0298	AK_DMD_01 GENBEN_01 GENBEN_02 NATRSC_02
Gifford, Nichole	1469	FIF_01
Gilbert, James	0832	ACC_01 AK_DMD_01 AKHIRE_14 COMM_05 FIF_01 GENBEN_01 GENBEN_02 MRKT_01 OFFTAKE_01 WORK_COMM_02
Gildan, Phillip C.	1646	LLC_11
Gildan, Phillip C.	1647	LLC_09 LLC_14
Gildan, Phillip C.	1648	LLC_09
Gildan, Phillip C.	1652	DISP_01
Gildan, Phillip C.	1653	LLC_11
Gildan, Phillip C.	1654	LLC_09
Gildan, Phillip C.	1655	FISC_01 SGDA_06
Gilfilian, Robert	1956	FIF_01
Gilkison, Leroy	1713	AGPA_01
Gilkison, Leroy N.	1431	AGPA_01
Gill, James	2083	PPT_03
Gill, Katherine	2032	FIF_01

Commenter	Submission #	Codes
Gill, Richard	0611	FIF_01
Gilman, Susan Kathleen	1606	NATRSC_01 OTA_02
Gilson, Dave	1265	FIF_01
Girard, Edward	1248	FIF_01 TIME_01
Glasgow, Willard	0691	FIF_01
Glenn, Dave	0150	AGPA_01 AGPA_04 NATRSC_02
Gogolowski, Mike	0699	CNFDL_02 CNFDL_04 NATRSC_02 NATRSC_08 TIME_02
Gogolowski, Mily	1104	CNFDL_02 FIF_02 INCNT_01
Goland, Andrew	1633	FIF_01
Gonzalez, Fernando	1931	FIF_01
Good, Linda	2096	FIF_01
Goodsok, Luther	1608	AKHIRE_12
Goodstein, Penny	0900	ENVR_09 FIF_01 GENBEN_07
Goodwigh, Greg	1496	AGPA_01
Gordon, Bruce	1005	FIF_02 INCNT_01 NATRSC_02 XOM_01
Gordon, Michael	0586	HEARINGS_08
Gottschalk, Jo	0040	FIF_01
Gould, Sherri	0230	FIF_01 GENBEN_01 GENBEN_02
Gove, Carolyn	1380	CNFDL_02 CNSTL_01 CNSTL_02 DISP_01 EDI_06 FIF_02 FISC_01 OTA_02 OWNRISK_02 OWNRISK_03
Gove, Carolyn	1382	INKIND_01 LLC_13 WORK_COMM_01
Grant, Lee	2137	FIF_01
Grant, Paul	1160	FIF_02 INCNT_01
Grantier, Don	1165	GENBEN_07
Grasso, Thomas	0262	FIF_01
Grasso, Tom	0759	FIF_01 GENBEN_01 GENBEN_02
Graves, Randal	2013	FIF_01
Green, Daniel	1101	AK_FINC_01 AKHIRE_14 FIF_01 GENBEN_01 GENBEN_02 OFFTAKE_01
Green, Timothy	0363	FIF_01 MRKT_01
Green, Todd	1235	FIF_01 GENBEN_02
Gregorio, Jared	1796	FIF_01
Grekowicz, Ryan	0509	FIF_01
Grieme, Wayne C.	0119	FISC_01 PPT_03
Griersen, Allen	2123	GENBEN_07
Griffin, Brandon	1958	GENBEN_02

Commenter	Submission #	Codes
Griffin, Jack	0852	FIF_01 TIME_01
Griffin, Jack	1110	FIF_01
Griffin, Jack	1126	FIF_01
Griffin, Judith	0540	FIF_01
Griffin, Randy	0668	AGPA_02 COMM_PER_03 FIF_01 FISC_02 OTA_02 OWNRISK_02
Grimes, Michael	0528	FIF_01
Grimes, Mike	1479	FIF_01
Grimm, Carl	1915	FIF_01
Grimm, Kathleen	2040	LEGIS_11
Groh, David	0863	AGPA_01 AK_DMD_01 AK_FINC_01 FISC_01
Gross, Terry	0919	FIF_01 GENBEN_08 MRKT_01
Gross, Terry D.	1112	AK_DMD_01 FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 GENBEN_07 INCNT_01 LLC_01
Grossnickle, Dave	0239	FIF_01 GENBEN_02 POL_RSK_01
Gudr ndson, Clark	0060	AGPA_01 AKHIRE_01 INCNT_01 LEGIS_04
Guild, David	1297	FIF_01
Guiley, Connie	0539	FIF_01 MRKT_01
Gustafson, Gary	0701	AGPA_02 FIF_01 OTA_02 POL_RSK_01
Gutgesell, Erik	0788	FIF_02
Guthrie, Harlan	1733	FIF_01
Guttenberg, David	1725	AKHIRE_03 CANREG_01 FIF_02 RCA_01 REGCON_01
Gwalthney, Anne	2027	AK_DMD_01
Hackett, Leonard J.	1579	ACK_01 AK_DMD_01 AK_FINC_01 CNSTL_01 CNSTL_04 DISP_01 FIF_02 FISC_01 INCNT_01 LLC_04 PPT_03 REGCON_01 WORK_COMM_01
Haddox, Chris	0494	FIF_01 GENBEN_05
Haggenmiller, Patrick	1100	FIF_01 GENBEN_01 GENBEN_02
Haigh, Jane	0184	CNSTL_01 FIF_02 INKIND_01 LLC_02 OWNRISK_02 WORK_COMM_01

Commenter	Submission #	Codes
Haines, John	0643	FIF_01 FISC_02 PPT_01
Haines Chamber of Commerce	2166	AKHIRE_23 COMM_08 IMP_S_02 INFRA_04 OFFTAKE_01
Haire, Betty	0171	FIF_01
Hajny, Bernard	0497	FIF_01
Hajny, Bernard	0712	FIF_01 LEGIS_11
Halladay, Duffy	0126	COMM_09 ENVR_04 GENBEN_01 LEGIS_04 LEGIS_07 NATRSC_01 NATRSC_06
Halle, Mike & Kim	2150	FIF_01
Halliwill, Sandra	0549	FIF_01 FISC_02 GENBEN_02 GENBEN_03 INCNT_01
Hamann, Dennis W.	0143	FIF_02 NATRSC_03 NATRSC_07
Hamann, Sandra	0580	FIF_01 FISC_02 GENBEN_02 GENBEN_03 GENBEN_07 MRKT_01
Hamann, Tracy	1748	AK_DMD_01
Hamilton, Jay	0368	FIF_01 GENBEN_01 GENBEN_07
Hamilton, Perry	1816	FIF_01
Hand, Keith	0884	FIF_01 FISC_02 MRKT_01
Hand, Keith	1093	AK_FINC_01 FIF_01 GENBEN_01 INKIND_01 LLC_01 MRKT_02 OFFTAKE_01 TIME_01 TIME_03
Hanifen, Dan	0560	EXPLR_02 FISC_01 PPT_01 WORK_COMM_01
anifen, Dan	0583	INKIND_01 PPT_01
Hanifen, Dan	0816	FIF_02 FISC_01 WORK_COMM_01
Hanks, William	1826	FIF_01
Hanna, Ursula	0429	FIF_01
Hannah, Chris	1850	AKHIRE_12
Hansen, Gary	0080	ACC_05 LLC_03
Hanson, George	0036	FISC_02
Hanson, Paul	1379	FIF_01
Hanus, Michael	0568	CNFDL_04 FIF_01 LEGIS_11
Hardy, Shaun	1806	GENBEN_07
Hargrave, Ryan	1908	TIME_01
Harman, Jon	1809	FIF_01
Harmon, Elizabeth	1392	AKHIRE_12
Harrell, Rex	1860	FIF_01
Harris, Bryan D.	1739	FIF_01

Commenter	Submission #	Codes
Harris, Cathy	1373	AK_DMD_01 AKHIRE_22 XOM_01
Harris, Franklin	0157	FIF_01
Harris, John	1018	AGPA_01 AKHIRE_03 GENBEN_02 HEARINGS_03 INDST_02 NATRSC_01
Harris, Marvin	0419	FIF_01 HEARINGS_07
Harrison, Beverly	0485	FIF_01 GENBEN_07 MRKT_02 NATRSC_09
Harrison, Terry	1982	AK_DMD_01 AKHIRE_10 FIF_01
Harstman, Linda	1546	FIF_02
Hart, Kimberly	0235	FIF_01
Hartnell, Thomas	0587	OTA_02 SGDA_05 WORK_COMM_01
Hartz, Lynn	0465	FIF_02 FISC_01 INKIND_01 LLC_04 LLC_06 WORK_COMM_01
Haselhuhn, Cory	1785	GENBEN_02
Hastings, Jacob	1719	FIF_01
Hastings, Mark	1397	GENBEN_02
Hauser, Karel	0567	COMM_PER_04 FIF_02 HEARINGS_05 LEGIS_07 OTA_02
Have, Karin	0029	CNSTL_01 PPT_01 WORK_COMM_01
Hawkins, Scott	0736	AKHIRE_14 COMM_05 FIF_01 FISC_02 GENBEN_01 GENBEN_06 INCNT_01 LLC_05 OWNRISK_02
Hawley, Christopher	1074	FIF_01
Hawley, Mary	1076	FIF_01 GENBEN_02
Hawley, Pamela	1075	FIF_01 GENBEN_01
Hawley, Robert	0464	FIF_01
Hawley, Robert	0704	FIF_01
Hawley, Robert	1077	FIF_01
Haxby, Roger	0632	OWNRISK_02 PPT_01 PPT_03 RSC_RSK_01 WORK_COMM_01
Hayes, Don	1017	ACK_01 AGPA_01 AKHIRE_01 AKHIRE_04 MRKT_01 OFFTAKE_01 WORK_COMM_01
Hayes, Joel	1377	AGPA_02 FIF_01 LEGIS_11 MRKT_02 TIME_01
Hayes, Robert	0588	FIF_01 GENBEN_02 TIME_01

Commenter	Submission #	Codes
Hayes, Robert	0694	COMM_PER_05 FIF_02
Haynes, Brian	1273	FIF_01
Hays, Glenn	1897	GENBEN_07
Hazelquist, Don	1349	TIME_01
Head, Dawn	1967	FIF_01
Heaton, Bruce	1545	AGPA_01
Heaton, Bruce	1589	AGPA_01
Hedman, Carl	0989	EDI_04 FIF_02
Hedman, Lucia	0990	AGPA_01 FIF_02 FISC_02 LCL_X_17 LEGIS_07 NATRSC_02 OTA_02 WOPK_COMM_01
Hegna, Joe	0951	FIF_01 GENBEN_06
Heidemann, Emmett	1410	AGPA_01
Heimke, David	1233	LLC_02
Heinze, Harold	2153	AK_DMD_01 FERC_09 FERC_10 INDST_01 INKIND_01 LLC_16 LLC_17 UUFC_01
Heise, Claire	1013	FIF_02 OTA_02
Heitman, Theresa	0104	ENVR_04 FIF_01 GENBEN_01 GENBEN_02
Held, Jason	1841	FIF_01
Helfferich, Deirdre	0041	AGPA_01 CNSTL_01 COMM_PER_03 FIF_02 FISC_01 INCNT_01 OWNRISK_01
Helme, Sarah	1506	FIF_01
Helminski, Aloysius	1300	FIF_01 GENBEN_07
Hendricks, Jeremy	1310	ACK_01
Hendrickson, Ed	0390	FIF_01 GENBEN_01 GENBEN_02
Hendrickson, Hal	1865	FIF_01
Hennessey, Terry	0755	AGPA_01 AGPA_05 CNSTL_04 FIF_02 OFFTAKE_01 POL_RSK_01 RSC_RSK_01 RSRV_X_01
Henning, Katie	0450	FIF_01
Henson, Bryan	1206	FIF_01 GENBEN_07
Herman, Roland	1835	FIF_01
Hernandez, Jo	0169	FIF_01
Hernandez, Marina	1587	GENBEN_02
Hersha, Nancy	0404	FIF_02
Hershberger, Bruce	1270	FIF_01
Hertlein, Michael	0147	OTA_02
Hewitt, Brenda	0028	FIF_01 GENBEN_01 LCL_X_03
Heyworth, Todd	0752	GENBEN_01 OFFTAKE_01

Commenter	Submission #	Codes
Hickel, Walter J.	0830	ACK_01 AK_DMD_01 AKHIRE_01 CNFDL_02 CNSTL_01 FIF_02 GENBEN_07 INDST_02 NATRSC_01 NATRSC_02 OTA_02
Hickel, Walter J.	1099	AK_DMD_01 AKHIRE_01 CNSTL_01 CNSTL_04 FIF_02 GENBEN_01 GENBEN_07 INDST_02 LEGIS_05 NATRSC_01 OFFTAKE_01 OTA_02
Hickel, Walter J.	1103	ACC_01 AK_DMD_01 AKHIRE_04 FISC_01 OWNRISK_02
Higgins, Tom	0920	AGPA_01 AK_DMD_01 COMM_PER_01 NATRSC_02
Hildreth, Brian	2098	TIME_01
Hill, Cary	1896	GENBEN_01 GENBEN_07
Hill, Laura	1342	AK_FINC_04
Hindman, Angie	1459	GENBEN_02
Hindman, Angie	1463	GENBEN_07
Hinds, Cory	0536	FIF_01 FISC_02
Hlebak, Michael	1866	GENBEN_09
Hobbs, Garland	1926	FIF_01
Hobson, Charles	2157	AK_DMD_01 AK_FINC_01 LCL_X_09 LCL_X_13 NATRSC_02 YLINE_01
Hockin, Jason	1245	FIF_01 GENBEN_02
Hoffman, Dale	1461	FIF_01
Hoffman, Karen	1202	FIF_01 GENBEN_01
Hogstep, Ron	1087	AGPA_01 AGPA_02 GENBEN_02
Holder, David	1252	AKHIRE_14 FIF_01 PPT_01
Hollar, Eric	0828	ACK_01
Holliday, Duffy	0794	AGPA_01 AKHIRE_01 AKHIRE_03 FISC_01 GENBEN_01 LEGIS_08 OFFTAKE_01 OTA_02
Hollis, Harold	2031	FIF_01 LEGIS_11
Hollowell, Morry	0849	FIF_01 GENBEN_01
Holsman, John	1861	LEGIS_11
Holstein, Jim	1434	FIF_01
Holt, Randy	0941	AKHIRE_01 AKHIRE_03 AKHIRE_04
Holton, Vince	0637	FIF_01

Commenter	Submission #	Codes
Holtzhausen, Seth	1400	FIF_02
Homan, Chriss	0425	FIF_01
Hopkins, Steve	1798	FIF_01
Hopper, Dusty	1765	GENBEN_01
Horn, Rich	0698	FIF_01 LEGIS_11
Horstkoetter, Rebecca	0749	GENBEN_07
Hotai, Jim	1055	AGPA_05 FIF_02 WORK_COMM_01
Hotai, Jim	1056	AGPA_01 FIF_02
Household, Alaska	2023	ACK_01
Household, Alaskan	1551	COMM_PER_11
Houser, Patricia	0025	FIF_02
Houston, Martin	1724	ACC_02
Howe, Duane	1352	COMM_PER_02 FIF_02 LEGIS_08 NATRSC_01 OWNRISK_02 WORK_COMM_01
Howell, Don	1293	PPT_03
Howells, Ron	1774	FIF_01
Howells, Ron	1775	FIF_01
Hozey, John	0996	FIF_02
Hubbard, Dee	1048	CNSTL_02 FIF_02 FISC_01 INCNT_01 LLC_02 OFFTAKE_01 OTA_02 PPT_03 WORK_COMM_01
Huey, Aaron	0333	FIF_01
Huey, Kent	0498	FIF_01
Hughes, Pat	0893	FIF_01 GENBEN_01 GENBEN_02
Hull-Engles, Laurie	0999	AKHIRE_01 AKHIRE_07 CNSTL_04 PPT_06 SGDA_01
Hulstine, James	1916	GENBEN_02
Hummer, James	0648	FIF_02 PPT_01 WORK_COMM_01
Hummer, Nancy	0306	FIF_01 LEGIS_11
Humphrey, Burt	2141	AKHIRE_12
Humphrey, Chris	0541	ACC_01 AK_DMD_01 AKHIRE_14 FIF_01 GENBEN_01 GENBEN_05 INKIND_01 MRKT_01 OFFTAKE_01 OWNRISK_02 SGDA_02 WORK_COMM_02
Hunt, Billy	1322	FIF_01 GENBEN_02
Hunt, David	1317	FIF_01
Hunt, Jason	1321	FIF_01 GENBEN_02
Hunt, Robert	0636	FIF_01 PPT_01
Hunt, Sandy	1878	FIF_01
Hunt, Stacy	1717	AK_DMD_01
Hurley, Barbara	0457	FIF_01

Commenter	Submission #	Codes
Hurley, Bill	0875	FIF_01
Hurley, Katie	0952	CNSTL_03 FIF_02
Hursh, Gary	1770	NATRSC_09
Huskins, Mr.	0841	INCNT_01
Hutchinson, Garry	0181	FIF_01 HEARINGS_01 INCNT_01 INKIND_01 WEB_01
Hutton, Charlene	0373	FIF_01
Ince, Don	1516	FIF_01
Ingersoll, Sevilla	1438	AK_NATV_01 AK_NATV_02 ENVR_05 FIF_01
Ireland, Mark	0818	FIF_01
Irmen, Mike	1444	FIF_01
Irwin, Tom; et. al.	1691	ACC_01 AK_DMD_01 AK_FINC_01 CNSTL_01 CNSTL_04 DISP_01 FIF_02 HEARINGS_08 INCNT_01 INCNT_08 INKIND_01 NATRSC_12 OTA_02 OWNRISK_02 PPT_03 PTU_01 RCA_01 REGCON_01 RSRV_X_01 SGDA_07 SGDA_15 SGDA_16 WORK_COMM_01
Isby, John	0270	FIF_01 FISC_02 GENBEN_05 MRKT_01

Commenter	Submission #	Codes
Itta, Edward S.	1695	AKHIRE_16 DISP_01 ENVR_11 ENVR_12 ENVR_13 LCL_X_09 LCL_X_10 LCL_X_11 LCL_X_12 LCL_X_13 LCL_X_14 LCL_X_15 LCL_X_16 LCL_X_17 PPT_07 UUFC_01 WORK_COMM_07
Jack, Walter	2047	AK_NATV_05 FIF_01
Jackinsky, Gary	0024	XOM_01
Jackson, Bracken	1922	FIF_01 GENBEN_07
Jackson, Byron	1751	GENBEN_01 GENBEN_07
Jacobsen, Rosanne	0452	FIF_01
Jacobsen, Rosy	0888	FIF_01
James, Gillian	1060	PFD_01
James, Jeannette	0654	FIF_01 GENBEN_01 GENBEN_02 WORK_COMM_01
Jaramillo, Rick	2021	FIF_01
Jefferson, Robert	1859	AGPA_02 FIF_01
Jeffress, Bill	1688	ACC_01 ACK_01 AK_DMD_01 AK_FINC_01 CNSTL_04 DISP_01 FIF_02 HEARINGS_08 INKIND_01 NATRSC_12 OTA_02 OWNRISK_02 OWNRISK_05 PPT_06 PTU_01 REGCON_01 RSRV_X_01 STRND_02 WORK_COMM_01
Jemison, Jenny	2056	GENBEN_05
Jenkins, Chad	1995	FIF_01
Jerome, Scott	1343	AGPA_01 CNFDL_02 EDI_02 FIF_02 NATRSC_02 WORK_COMM_01
Jillson, Michael	1283	FIF_01
Jines, Courtney	0316	FIF_01 RSRV_X_01
Jines, Courtney	1526	TIME_01
Johannes, Scott	1141	AKHIRE_15

Commenter	Submission #	Codes
Johnson, Bill	0152	ACPA_01 AK_DMD_01 AKHIRE_01 AKHIRE_03 CNFDL_02 CNSTL_01 CNSTL_04 COMM_PER_02 COMM_PER_04 DISP_01 FIF_02 FISC_01 OWNRISK_01 PTU_03 RSRV_A_01 STRND_01 WORK_COMM_01
Johnson, Blake	1033	AGPA_01 AKHIRE_01 AKHIRE_03 MRKT_01 OFFTAKE_01 STRND_01 WORK_COMM_01
Johnson, Colleen	1968	COMM_04 OWNRISK_02
Johnson, Fred	0283	FIF_01 FISC_02 GENBEN_05
Johnson, Jimmy	1858	GENBEN_02
Johnson, Lynn	0721	AK_DMD_01 AKHIRE_14 COMM_05 FIF_01 GENBEN_07 INCNT_01 LEGIS_11 OFFTAKE_01
Johnson, Mark	0078	FIF_02
Johnson, Maureen	0737	FIF_01 GENBEN_02 GENBEN_06
Johnson, Maureen	0970	FIF_01 GENBEN_01 GENBEN_06
Johnson, Regina	0248	FIF_01
Johnson, Steven	1817	FIF_01
Johnson, William	1746	WEB_05
Johnson, William	1749	NATRSC_02
Jolly, John	0185	AK_DMD_01 AKHIRE_14 FIF_01 GENBEN_04
Jolly, John	0831	FIF_01 PPT_01
Jolly, John	0940	FIF_01 GENBEN_01 GENBEN_05
Jones, Audrey	1969	GENBEN_02
Jones, Benjamin	0530	FIF_01
Jones, Darren	0267	FIF_01 GENBEN_05 MRKT_03 OWNRISK_02
Jones, Deborah	0286	FIF_01 GENBEN_02 GENBEN_08 PFD_04
Jones, Elbert	1802	GENBEN_07 NATRSC_09
Jones, Kristin	0529	FIF_01
Jones, Sherre	0341	FIF_01
Jones, Susan	1354	GENBEN_07
Jordan, Joanne	1789	FIF_01
Jordan, Kim	1501	FIF_01

Commenter	Submission #	Codes
Jordheim, Lorrie	0244	FIF_01 GENBEN_02
Joseph, Nancy	0177	FIF_01
Joseph, Nancy	0824	FIF_01 PPT_01
Joseph, Nancy	2070	LEGIS_11
Juel, Elaine	1281	FIF_01 GENBEN_02
Kahrs, Ron	1891	TIME_01
Kammer, Benj	1462	LLC_04
Kara, Danny	0486	AK_FINC_01 FIF_01 PPT_03
Kardatzke, Mike	1225	AGPA_01
Kari, Louis	1525	FIF_01
Katcheak, Marie	0606	AKHIRE_02
Kato, Paulette	1286	FIF_01 GENBEN_01 GENBEN_02
Kay, Quyen	0453	FIF_01
Keegan, James	0120	FIF_01 MRKT_01
Keene, Karen	1288	FIF_01
Keffer, Maria	0558	OVRRUN_02
Kelley, Tim	0808	AK_FINC_01 FIF_02 FISC_01 MRKT_01 PFD_03 PPT_03 XOM_01
Kelly, Dean	1287	ACK_01
Kemper, Maria	1979	FIF_01
Kennedy, Karen	0439	FIF_01 GENBEN_01 GENBEN_02 GENBEN_07 INCNT_01
Kennedy, Kevin	1776	FIF_01
Kennedy, Raylene	1900	FIF_01
Kennedy, Stefanie	1901	AKHIRE_19 TIME_01
Kenny, Mike	0754	AGPA_01 AKHIRE_04 COMM_PER_04 FIF_02 INDG_02 INKIND_01 LLC_02 POL_RSK_03 TIME_02
Kerin, Britton	1381	FIF_02
Kerin, Britton	1542	RSRV_X_01
Kessler, Shawn	1189	FIF_01 GENBEN_02
Kessler, Shawn	1446	GENBEN_02
Ketchum, Kirk	0224	AK_FINC_01 FISC_01 FISC_02
Ketchum, Steve	1795	NATRSC_09
Kewin, Emily	0475	FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 OWNRISK_02

Commenter	Submission #	Codes
Kewin, Jeffrey	0474	FIF_01 FISC_02 GENBEN_01 GENBEN_02 INKIND_01 PPT_01 RSC_RSK_01 WORK_COMM_02
Kewin, Jeffrey	0476	FIF_01 GENBEN_01 GENBEN_02 OWNRISK_02 PPT_01
Kiernan, John	1611	PPT_04
Kiernan, John	1612	PPT_01 PPT_03 PPT_04
Kilbuck, Donald	0978	ACK_01
Kilukluk, Francis	1296	FIF_01
Kimball, Steven	1874	GENBEN_02
Kimble, David	0064	AK_DMD_01 GENBEN_02 NATRSC_04
Kincaid, K.	0400	FIF_01
Kindred, Evan	1930	FIF_01
King, Kirk	1823	AK_DMD_01
King, W.R.	0899	FIF_01 GENBEN_02 GENBEN_05
King, Wendy	0983	FIF_01 RSRV_X_01
Kinney, Carl	1573	NATRSC_09
Kinsey, Robert	1484	GENBEN_02
Kirchner, Joe	0182	FIF_01
Kirk, Andrew	0435	FIF_01
Kirkland, Cheryl "Cary"	0308	FIF_01 GENBEN_01 GENBEN_02
Kirn, Bud	1289	AKHIRE_03 FIF_01
Kiskaddon, Luke	0381	FIF_01 FISC_02 MRKT_02 PPT_02
Kizer, James	1894	GENBEN_07
Kizer, James	1895	ACK_01
Kizer, Stuart	1316	FIF_01 GENBEN_02 GENBEN_05 GENBEN_07
Klaes, Dan	1538	OFFTAKE_01
Klapperich, John	1085	MRKT_01
Klebs, Gary	1139	AKHIRE_15
Klebs, Mike	1138	AKHIRE_15
Kleibacker, Derik	1483	AK_FINC_08
Kline, Mark	2105	ACK_01 FIF_02 FISC_01 LEGIS_07 WORK_COMM_01
Kloehn, Jeff	2143	AKHIRE_12
Knock, Doug	0303	FIF_01
Knox, Natalie	0729	FIF_01 FISC_01
Koch, Rick	0930	AKHIRE_04 FIF_01 PPT_03
Kocurek, Omar	1490	GENBEN_01

Commenter	Submission #	Codes
Koenigs, Don	1684	CNFDL_02 CNSTL_04 EDI_02 FIF_02 PPT_03 PTU_01
Komaroski, Judy	0791	AKHIRE_02 OFFTAKE_01 PFD_02
Konrad, Denise	1650	TIME_01
Konrad, Ken	0898	FIF_01
Konrad, Ken	1575	FIF_01
Konrad, Zoe	0634	FIF_01
Kostelec, Darlene	1943	GENBEN_07
Kostelec, Pete	1942	GENBEN_07
Kostka, Teri	0287	GENBEN_02
Koszarek, Phillip	0958	AKHIRE_10 FIF_02
Kotila, Julie	1577	TIME_01
Kovalik, Ron	0204	ACK_01 CNFDL_02 FIF_02 GENBEN_01 INFRA_02 XOM_01
Kraus, Justin	1907	FIF_01
Kriendler, Patricia	1134	FIF_01 FISC_02 PPT_03
Krier, Todd	0382	FIF_01 GENBEN_02 LEGIS_11
Krug, Timothy	1158	FIF_01
Kruse, Dan	0247	FIF_01 PPT_03
Kruse, Dan	1563	FIF_01 TIME_01
Kugzruk, Meryem	0206	COMM_PER_02
Kugzruk, Phil	0205	CNFDL_01 COMM_PER_01 COMM_PER_04 FIF_02 PPT_03
Kuhlman, Mark	2076	LEGIS_11
Kuhlmann, Nick	1963	AGPA_01 AGPA_04
Kuhns, Jody	0964	FIF_01
Kukis, Ronald	0394	AK_DMD_01 GENBEN_01 GENBEN_02 GENBEN_07
Kuktovel, Eric	1591	FIF_02
Kulhavy, Lance	2016	GENBEN_07
Kulin, Tara	0627	FIF_01
Kulish, Joan	0231	FIF_01 MRKT_01
Kunemund, Robert	0377	FIF_01 GENBEN_01 GENBEN_07
Kunemund, Robert	0820	AK_FINC_01 FIF_01 GENBEN_02
Kuper, David	2065	TIME_01
Kurtz, Rebecca	0785	FISC_01
Kusamo, S.	1485	FIF_01
Kuykendall, Wayne	2017	FIF_01
Kuzma, Joe	1190	FIF_01 GENBEN_02

Commenter	Submission #	Codes
Kvisle, Hal	1213	CAN_OWN_01 CAN_OWN_02 CAN_OWN_03 CAN_OWN_04 CAN_OWN_05 CANREG_03 CANREG_04
Lackey, Deborah	1424	FIF_01
Lakush, Tom	0768	AK_FINC_03 CNSTL_02 CNSTL_06 FIF_02 PTU_06 REGCON_01 RSRV_X_01 SGDA_01
LaMoy, Chris	1807	FIF_01
Lamprecht, Don	0845	FIF_01
Lamprecht, Don	1109	ACK_01
ictot, Richard M.	0718	AGPA_01 FISC_01 HEARINGS_03 OVRRUN_03 POL_RSK_01
Land, Bob	0417	FIF_01
Land, Lisa	0414	FIF_01
Land, Steven	1667	AGPA_02
Landis, Stephen	1976	FIF_01
Langland, Marc	0467	FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 LLC_05 MRKT_03 PFD_04 PPT_01 PPT_03 TIME_01
Langland, Shane	0851	FIF_01 GENBEN_01 GENBEN_06 TIME_01
Langman, J.R.	0121	AK_DMD_01 CNFDL_02 FIF_02 FISC_01 GENBEN_01 NATRSC_02
Langman, J.R.	0123	FIF_02 NATRSC_01 NATRSC_07
Langman, James R.	0891	LEGIS_06
Lapiene, Scott	1680	OTA_02 PPT_03
Larrea, Cat	0514	FIF_01 FISC_02 GENBEN_01 GENBEN_02 INCNT_01 OWNRISK_02 WORK_COMM_02
Larrea, Cat	0915	FIF_01 FISC_02 GENBEN_01 GENBEN_02 WORK_COMM_02
Larrea, Catherine	2068	LLC_05 PPT_01
Larson, Eric	0043	CNSTL_02 FIF_02 FISC_01
Larson, Eric	0062	EDI_06
Larson, Eric	0854	CNSTL_01
Larson, Eric	1118	IMP_S_02 LCL_X_02
LaRue, Joann	1607	AGPA_01

Commenter	Submission #	Codes
Law Doubleday, Dorothy	1366	INCNT_01 INKIND_01 MRKT_02
Lawer, David	0857	FIF_01
Lawson, Robert	2022	FIF_01
Layman, Abigail	0620	FIF_01 PPT_01
Layman, Andrew	0619	FIF_01 PPT_01
Layman, Michael	0613	FIF_01 PPT_01
Layman, Michael	0716	FIF_01 PPT_01
Layman, Michael	0780	GENBEN_01 LEGIS_07
Layman, Michael	0819	FIF_02 PPT_03
Layman, Michael	0826	FIF_01 GENBEN_01
Layman, Michael	0869	FIF_01
Layman, Michael	1370	ACK_01 FIF_01
Layman, Michael	1736	FIF_01
Layman, Ruth	0615	INCNT_01 PPT_01
Layman, Sarah	0617	LEGIS_10 PPT_01
Layman, Vanessa	0618	GENBEN_01
Layman, Zach	0616	PPT_01
Leach, Brian	0931	FIF_01
Leafstone, Larry	1887	GENBEN_07
Lee, Audrey	0034	POL_RSK_02
Lee, Mark	1682	ACK_01 AGPA_0 POL_RSK_01
Lee, Robert	1594	FIF_01
Lee, Tom	2131	AK_DMD_01
LeFebvre, Richard	1679	ACC_01 ACK_01 AK_DMD_01 CNSTL_02 CNSTL_04 DISP_01 FIF_02 HEARINGS_08 INCNT_01 INCNT_08 INKIND_01 NATRSC_01 OTA_01 OTA_02 OWNRISK_02 PPT_03 PTU_01 RCA_01 REGCON_01 RSRV_X_01 SGDA_13 SGDA_16 STRND_01 STRND_02 WORK_COMM_01 WORK_COMM_07
Lehman, Stan	0083	INCNT_01 PPT_02
Leisek, Debra	0031	FIF_01
LeMaster, Joe	1754	GENBEN_07
LeMieux, V[illegible]e J.	1723	ACC_13 CNSTL_03 LLC_09 PTU_07 SGDA_19 UUFC_01
Leonard, David	0876	FIF_02
Lepry, Louis	2071	FIF_01
Lerman, David	2146	ACK_01

Commenter	Submission #	Codes
Lerman, David	2148	ACK_01
Lerman, David	0676	ACK_01
Lewallen, Rebecca	0356	FIF_01 GENBEN_02
Lewis, Daniel	1072	AGPA_01 AKHIRE_10
Lewis, Jeffrey	1489	OTA_02 XOM_01
Lewis, John	0059	PPT_01
Lewis, Stephen	1243	AK_FINC_01 FISC_01 OFFTAKE_01
Lewis III, Meriwether	1768	TIME_01
Lewis III, Meriwether	1772	FIF_01
Lienhart, Tamera	0209	FIF_01
Liesch, Aaron	0548	ACC_01 AK_DMD_01 AK_FINC_01 CNFDL_04 FIF_01 FISC_02 GENBEN_01 GENBEN_02 GENBEN_05 LLC_01 LLC_05 OFFTAKE_01 OWNRISK_02
Lincoln, Tom	0683	AGPA_01
Lind, Destry	1142	AKHIRE_15
Linder, Matthew	2015	FIF_01 MRKT_01
Line, Earnest	0953	AGPA_01 HEARINGS_02 NATRSC_02
Lineberger, Corley Van	0800	FIF_01 FISC_02 MRKT_01 PFD_03
Linhart, Tamara	0906	FIF_01
Lins, Lynette	1221	OWNRISK_02
Liotha, R.	1638	FIF_01
Lipse, Keith	0866	MRKT_01 OTA_02
Lister, Dottie	0252	FIF_01 GENBEN_02
Little, Gerald	1279	FIF_01 GENBEN_07
Little, Julie	0571	FIF_01 GENBEN_01 GENBEN_02 GENBEN_03 LEGIS_11
Livett, Caroline	0746	COMM_02 FIF_01 GENBEN_01 GENBEN_02 PPT_01
Livett, Ian	0747	FIF_01
Locker, Bob	0937	FIF_01 GENBEN_01
Locklair, Barbara	2005	TIME_01
Lockwood, Mark	0714	FIF_01
Lockwood, Scott	0468	FIF_01
Loesche, Don	0947	CNSTL_03 FIF_02 OTA_01 WORK_COMM_01
Logan, Rebecca	1140	AKHIRE_15

Commenter	Submission #	Codes
Long, B.	1094	AK_FINC_01 FISC_01 IMP_$_01 INCNT_01 PFD_03 PPT_01
Long, Matt	1989	FIF_01
Long, Phil	0402	FIF_01
Long, Rich	1007	AGPA_01 FIF_02 FISC_01 FISC_02 OTA_02
Lopez, Jordas	1394	AGPA_01
Lopez, Melinda	0292	AGPA_01
Lopinsky, Fran	0173	FIF_01
Loudon, Greg	2097	GENBEN_06
Love, Robert	1586	FIF_01 PPT_03
Lovett, Andy	1911	LEGIS_11
Lucey, Dave	0764	FIF_01 FISC_02 GENBEN_07 PPT_03
Lucey, Dave	2082	TIME_01
Lucht, Terry	0491	FIF_01
Luckey, Gina	0331	AK_FINC_01 FIF_01 GENBEN_02 OWNRISK_01
Luckey, Kenneth	1999	PPT_03
Luoma, Darryl	0508	FIF_01
Luper, Deb	1481	DISP_01
Luper, Deb	1664	FIF_02
Luper, Deb	1665	LLC_13
Luper, Deb	1666	CNSTL_04
Lyden, Michael	0879	GENBEN_02
Lyden, Michael	1362	FIF_01 GENBEN_02
Lykins, Denny	1063	ENVR_04 FIF_01
Lyons, Edna M.	1194	FIF_01 TIME_01
Lyons, Kelly	0336	FISC_02
Lystadt, Richard	1404	FIF_01
MacArthur, Elaine	1487	GENBEN_02
MacDowell, Beth	1735	FIF_01 LEGIS_11
MacDowell, Brandon	2088	GENBEN_02
MacDowell, Camden	2087	FIF_01
MacDowell, Dave	0019	FIF_01
MacDowell, Dave	0065	FIF_01
MacDowell, Dave	0236	FIF_01
MacDowell, Parke	2085	MRKT_01
MacDowell, Shannon	2086	FIF_01 GENBEN_05 TIME_01
Macksey, Peter	1568	FIF_01
MacPhereson, Destiny	1215	FIF_02
Malmquist, Len	1200	AK_DMD_01 DISP_01 FISC_01 INKIND_01 LLC_02 OFFTAKE_01 WORK_COMM_01 XOM_01
Maloney, Tom	0834	AKHIRE_14 FIF_01 GENBEN_01 GENBEN_05 MRKT_03 SGDA_02

Commenter	Submission #	Codes
Manore, Mark	1236	FIF_01
Marasigan, Grace	0971	FIF_01
Mario, Georgia	0556	AK_FINC_03 ENVR_07 FISC_01 INCNT_01
Marion, Tony C.	0272	FIF_01
Marion, Tony C.	1451	FIF_01
Markle, Shawna	0428	FIF_01
Marlin, Krissy	0594	AK_DMD_01 GENBEN_02
Marshall, David	0284	PPT_01
Marshall, Jordan	0055	HEARINGS_01
Marshall, Martin	1136	ACK_01 AK_FINC_01 TIME_02
Mart, Larry	2120	AKHIRE_12
Martin, Daniel	1699	ACK_01
Martin, Kenneth	1786	GENBEN_07
Martin, Lee	1186	FIF_01
Martin, Ward	1238	FIF_01
Martinez, Joey	1302	FIF_01
Martinsen, Landon	1763	FIF_01
Martyn, Matt	0162	FIF_01
Marushack, Darlene	0569	CNFDL_04 FIF_01 GENBEN_07
Marushack, Joe	0661	AKHIRE_01 FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 GENBEN_08 MRKT_01 PFD_04 STRND_01 WORK_COMM_02
Marushack, Joe	0732	ACK_01 ENVR_02 FIF_01 GENBEN_01 GENBEN_02 GENBEN_03 GENBEN_05 LEGIS_11 MRKT_03 POL_RSK_04 RSRV_X_01 WORK_COMM_01 WORK_COMM_02
Marx, Lawrence	2149	CNFDL_02 COMM_PER_06 OWNRISK_02 PPT_03 TIME_02 WORK_COMM_01
Maslen, Roger	0600	FIF_01 GENBEN_02 GENBEN_05 MRKT_03
Masog, Gary	1078	ACK_01 AK_FINC_01 FIF_02 PPT_03
Mason, Kevin	0279	FIF_01
Mason, Kevin	1528	FIF_01
Mason, Ruby	1791	GENBEN_02

Commenter	Submission #	Codes
Mason, William	0796	GENBEN_07 PPT_01
Massey, Will	1884	GENBEN_07
Masterson, Dallam	0490	FIF_01
Mathrani, Varsha	0825	ACC_03 CNFDL_02 CNSTL_01 CNSTL_04 COMM_04 ENVR_07 FIF_02 GENBEN_04 INKIND_01 NATRSC_01 OTA_02 OWNRISK_02 PFD_03 TIME_01 WORK_COMM_01
Mathrani, Varsha	1687	ACK_01 CNFDL_02 COMM_PER_12 ENVR_07 FIF_02 FISC_01 LCL_X_05 OTA_02 OWNRISK_02 PFD_03 WORK_COMM_01
Mathrani, Varsha	1692	
Mathrani, Varsha	1693	
Mathrani, Varsha	1694	CNFDL_02 CNSTL_02 CNSTL_07 CNSTL_12 COMM_PER_12 DISP_01 ENVR_07 FIF_02 IMP_S_01 INDG_01 LCL_X_05 LEGIS_04 LLC_13 NATRSC_01 OTA_02 OWNRISK_02 PFD_03 STRND_01 WORK_COMM_01
Matteson, Matthew	1318	FIF_01
Matthews, David	0442	FIF_01
Matthews, William	1466	FIF_01
Mattila, Cheryl	0954	FIF_01 GENBEN_02 GENBEN_03 INCNT_01
Matturro, Greg	1046	FIF_01
Maus, Joshua	1731	AKHIRE_14 FIF_01
Maus, Peter	1439	FIF_01
May, Robert	1306	FIF_01
Mayere, Dennis	1301	AK_FINC_01 OIL_PX_01
Mayforth, Robert	1066	GPA_01 INDST_02 POL_RSK_01
Mayweh, Craig	1185	FIF_01 GENBEN_02 GENBEN_05 PPT_03

Commenter	Submission #	Codes
McAms, William	0187	DISP_01 FISC_01 LLC_02 REGCON_01
McBride, Ladd	0017	FIF_02
McBride, Ladd	0659	COMM_PER_01 FIF_02 HEARINGS_03 LEGIS_01 PPT_02
McBride, Leafy	1384	FIF_02 FISC_01 PPT_01
McBride, William	0460	AGPA_02 CNFDL_02 FIF_01 LEGIS_02 LLC_02 NATRSC_02 OFFTAKE_01
McCabe, Janet	0790	CNFDL_02 FIF_02 INCNT_01 OTA_02 OWNRISK_02 PFD_03 WORK_COMM_01
McCabe, Janet	1131	ACK_01 FIF_02 INKIND_01 OTA_02 PPT_03 STRND_01
McCabe, Kevin	1623	LEGIS_01
McCaleb, Patrick	0784	FIF_01
McCaleb, Patrick	1458	TIME_01
McCall, James	1781	FIF_01
McCann, Carole	0295	AGPA_01 AK_FINC_01 FISC_01
McCarty, Mark	1862	FIF_01
McCarty, Ralph	0176	FIF_01
McCauley, Lila	2125	FIF_01
McConaghy, Dennis	1212	CAN_OWN_01 CAN_OWN_02 CAN_OWN_03 CAN_OWN_04 CAN_OWN_05 CANREG_03 CANREG_04
McCracken, Heather J.	2154	FIF_02 FISC_01 INKIND_01 PPT_02 SGDA_06
McCray, Donna	1658	FIF_01
McCutcheon, Gary	0695	AGPA_01 AKHIRE_14 FIF_02 NATRSC_07
McCutcheon, Jerry	0723	FIF_02 MCKZ_03 OVRRUN_03 PTU_05
McCutcheon, Jerry	1618	SGDA_01 TIME_02 WORK_COMM_01
McDermott, Caitlin	0727	GENBEN_02
McDermott, Mark	0074	FIF_01
McDermott, Mark	0916	FIF_01 PPT_01
McDonnell, Kristi	0406	FIF_01
McDowell, Dave	0886	FIF_01
McDuffie, Gregory	1488	LEGIS_11
McFarland, Terry	1344	CNFDL_02
McGavan, Susan	1635	FIF_01

Commenter	Submission #	Codes
McGehee, Patricia	0334	AK_DMD_01 FIF_01 GENBEN_01 GENBEN_02 GENBEN_07 RSC_RSK_01
McGovney, Nanette	0814	FIF_01 PPT_03
McGowan, Susan	1495	LEGIS_11
McInnis, Marc	1761	FIF_01
McInnis, Marc	1762	FIF_01
McIntosh, Luke	0517	FIF_01 GENBEN_01 GENBEN_02 WORK_COMM_02
McIntyre, Bonnie	0918	AKHIRE_12
McIntyre, Tim	1480	FIF_01
McKay, Debbie	1337	INCNT_01 NATRSC_02 PPT_01
McKay, Peter	1177	FIF_01 FISC_01 PPT_01 PPT_03
McKay, Peter	1338	PPT_03
McKay, Whadawn	1567	FIF_01
McKee, Meghan	2011	FIF_01
McKendrick, Jay	1854	FIF_01
McLaughlin, Thomas	0959	CNFDL_02 FIF_02 FISC_01
McLay, Martin	1852	FIF_01
McLeod, Bonnie	1068	AGPA_01 MCKZ_02 MRKT_01 OFFTAKE_01 WORK_COMM_01
McMahon, Dan	0469	AGPA_01 AK_FINC_01 AKHIRE_14 INCNT_01 WORK_COMM_01
McMichael, Jim	1610	PPT_03 WORK_COMM_01
McNeal, William	2029	FIF_01
McNiven, Al	1401	CNFDL_02 WORK_COMM_01
McQueen, Jerald-Levi	1035	CNFDL_02 COMM_PER_02 PPT_02
Medlock, Matt	0836	FIF_01 GENBEN_02 GENBEN_05 GENBEN_07
Meeker, George	0789	AK_FINC_01 LEGIS_04 MRKT_01 OVRRUN_01 PPT_05 SGDA_01 STRND_01 WORK_COMM_01 XOM_01
Meisler, Paula	0445	GENBEN_02 GENBEN_07
Melland, Barb	1359	ACK_01 AGPA_01 FIF_02
Melvin, John	1493	TIME_01
Menghini, Mark	0401	FIF_01 FISC_02 WORK_COMM_02
Meninger, Joan	1399	AGPA_01
Merculief, Desiree	1766	FIF_01 GENBEN_01

Commenter	Submission #	Codes
Merrifield, Jack	2030	FIF_01 LLC_05 NATRSC_09
Merritt, Ray	1445	FIF_01
Merritt, Ray	1454	FIF_01
Mery, James	1675	RSC_RSK_01
Meyer, Hal	1355	FIF_02
Michaelson, Cindy	1984	AGPA_02 AK_FINC_01 FIF_01 LEGIS_11 NATRSC_09
Micheaux, Lisa	1389	AGPA_01 FIF_02
Micol, Vic	0741	FIF_01 GENBEN_01
Mike, Robert	0589	FIF_02 WORK_COMM_01
Miles, Brian	0545	FISC_02 LLC_01
Millan, Julio	0159	FIF_01
Millen, Keith	2139	AGPA_01 CNFDL_02 FIF_02
Miller, Barbara	0948	CNSTL_01 CNSTL_02 CNSTL_04 COMM_PER_01 FISC_01 HEARINGS_03
Miller, Gerald	1864	FIF_01
Miller, Jodi	0044	CNFDL_02 CNFDL_03 FIF_01
Miller, Joe	1504	FIF_01
Miller, Lawrence	0004	AK_DMD_01 GENBEN_01 OFFTAKE_01
Miller, Mark	0288	FIF_01 OWNRISK_02
Miller, Matthew	1838	GENBEN_07
Miller, Michael	0438	FIF_01 LEGIS_10 PPT_03
Miller, Michael	1839	FIF_01
Miller, Pamela Ann	0745	AK_FINC_07 FIF_02 LEGIS_07
Miller, R.W.	1464	FIF_01
Miller, Rick	1499	FIF_01
Miller, Rob	0527	FIF_01 GENBEN_06 MRKT_01 MRKT_03 SGDA_02
Miller, Wayne	2100	TIME_01
Milligan, Mike	0227	AGPA_02 AKHIRE_03 GENBEN_01 MRKT_01 OIL_PX_01
Mills, Andy	0003	AK_NATV_01 INDG_01
Minish, Gary	1006	CNFDL_02 COMM_PER_04 ENVR_03 FIF_02 INCNT_04 POL_RSK_01 REGCON_01
Minor, Mary A.	1105	OTA_02
Mironova, Anastasia	1631	FIF_01
Mitchell, Pam	1059	FIF_01 PPT_03
Mitchell, Ronald	1331	FIF_01
Mitchell, Wayne	2057	FIF_02

Commenter	Submission #	Codes
Mitmoen, Audra	1742	FIF_01
Mondore, Paul	1757	FIF_01
Monet, Miranda	1409	CNFDL_02
Mongeau, Diane	0868	FIF_01 GENBEN_02
Monzon, Georgia	0444	AK_DMD_01 GENBEN_02
Moora, Michael	0484	FIF_01
Moore, April	0945	AGPA_01 FIF_02 FRCE_01 NATRSC_02 OFFTAKE_01 OTA_01 POL_RSK_01 PPT_03
Moore, Courtney	1108	FIF_01
Moore, Dorothy	1008	AK_DMD_01 CNSTL_01 FIF_02 FISC_01 OFFTAKE_01 WORK_COMM_01
Moore, Glen	0371	FIF_01
Moore, Gregory	0392	FIF_01
Moore, Molly	0625	ACK_01
Moose, James	1396	CNFDL_02
Morakhovsky, Vladimir	0349	COMM_03 FIF_01 GENBEN_01 GENBEN_02 GENBEN_07
Morgan, Jerry	1269	FIF_01 GENBEN_02
Morgan, Richard	0573	CNSTL_01 DISP_01 FIF_02 LCL_X_05 OTA_02 OWNRISK_02 RSRV_X_01 WORK_COMM_01
Morgan, Tina	1330	FIF_02
Morkal, Jack	0259	FISC_01 INCNT_01 INCNT_04 OWNRISK_02
Morrison, Paul	1234	CNFDL_02 FIF_02 INCNT_01 NATRSC_03
Morton, Kenneth	0874	AK_FINC_01 CNFDL_01 CNFDL_02 TIME_02 XOM_01
Morton, Patrick	1508	GENBEN_07
Moss, Cedric	1276	FIF_01
Moss, Donna	1562	GENBEN_02
Mott, Richard	0391	FIF_01 GENBEN_01 GENBEN_05 LEGIS_11 MRKT_01 OWNRISK_02 TIME_01
Mott, Richard	0890	FIF_01 GENBEN_02 GENBEN_07 MRKT_01
Motz, Stacia	0320	GENBEN_01
Mower, Kim	1753	FIF_01
Moxlow, Melissa	1503	FIF_01

Commenter	Submission #	Codes
Moxlow, William	1482	FIF_01
Moyer, Keith	1178	FIF_02
Mukl[illegible]k, Lee	2121	AKHIRE_12
Muller, Tracey	0840	GENBEN_02
Mulligan, Karen	1256	FIF_01 GENBEN_02 GENBEN_07
Municipal Advisory Group	2112	LCL_X_18
Municipal Advisory Group	2113	LCL_X_18
Municipal Advisory Group	2114	IMP_S_06
Municipal Advisory Group	2115	AKHIRE_21
Municipal Advisory Group	2159	IMP_S_07
Municipal Advisory Group	2160	IMP_S_05 OFFTAKE_01
Municipal Advisory Group	2161	LCL_X_17
Municipal Advisory Group	2162	LCL_X_07
Municipal Advisory Group	2163	LCL_X_19
Municipal Advisory Group	2164	LEGIS_03 LEGIS_07
Munk, Sam	1227	ENVR_10 FIF_01
Munoz, Dawn	1532	GENBEN_02
Murphy, Blair	0367	FIF_01 HEARINGS_04
Murphy, Blair	0763	FIF_01
Murray, Ed	1422	WEB_03
Murray, Joseph H.	0140	AK_DMD_01 FIF_01 OFFTAKE_01
Murry, John	0798	FIF_01
Mussman, Steve	1913	LEGIS_11
Myers, Dale	1710	XOM_01
Myers, Dale	1712	SGDA_15
Naar, Wendy	1851	TIME_01
Nadem, Mehrdad	0167	FIF_01
Nadezhdna, Rosita	0740	GENBEN_01 GENBEN_02 TIME_01
Nason, Wesley	0896	FIF_01 OVRRUN_03
Navarre, Mike	1042	FISC_01 LEGIS_07 LEGIS_10
Needham, Judy	0073	AGPA_01 FIF_01
Neeley, James	1996	FIF_01 MRKT_01 PPT_03
Negherbon, Jesse	0769	FIF_01
Neighbors, James	0489	FIF_01 TIME_01
Neill, Tommy	0001	FIF_01
Nelson, Bonnie	1660	AKHIRE_03 FIF_01 FISC_01 LLC_15 OTA_02 PPT_03 RSRV_X_01 TIME_02 WORK_COMM_01
Nelson, Chris	0346	FIF_01
Nelson, Dirk	0199	COMM_PER_01 EDI_06 FIF_02 PPT_02
Nelson, Margaret	0399	FIF_01 PPT_03
Nesslage, Hannah	0581	FIF_02 FISC_01
Nesslage, Jason	0577	COMM_PER_01 FIF_02

Commenter	Submission #	Codes
Nesslage, Julia	0579	COMM_PER_01 FIF_02
Nesslage, Madeline	0582	COMM_PER_01 FIF_02 FISC_01
Nesslage, Margaret	0576	COMM_PER_01 FIF_02
Neumann, Dean	1949	FIF_01
Newby, Gregory	1334	ACK_01
Newman, Darrell	1259	FIF_01
Newton, David	1904	FIF_01 GENBEN_07
Nguyen, Hong Jr.	0337	FIF_01 GENBEN_01 GENBEN_02 OFFTAKE_01
Nguyen, Omy	1403	AKHIRE_12
Nichols, Bill	1672	FIF_01
Nixon, Penny	1084	FIF_01 FISC_02 INCNT_01 MRKT_01
Noah, Pat	0418	FIF_01 FISC_02 SGDA_02
Nolen, Anthony	1843	FIF_01
Nollner, Leon	0966	FIF_01 GENBEN_02
Nordale, Mary	0183	AK_FINC_02 FIF_02 FISC_01 PPT_03 WORK_COMM_01
Noren, Matt	1788	FIF_01
Norman, Storman	0256	FIF_01
Northrop, Mike	0535	FIF_01 GENBEN_02 LLC_05 OWNRISK_02
Norton, Dave	0226	FIF_01
Nunez, David	1533	GENBEN_01 GENBEN_07
Nyvall, Oscar	1955	GENBEN_02
O'Brien, Royce	1750	FIF_01 FISC_01
O'Brien, Tim	1714	AK_DMD_01 FIF_02 HEARINGS_09
O'Connell, Kat	1278	FIF_01
O'Conner, Mark	1889	GENBEN_07
O'Connor, Kristina	0323	AK_DMD_01 FIF_01 GENBEN_02 NATRSC_09 OFFTAKE_01
O'Connor, Shawn	2001	GENBEN_02
Odden, Mary	0352	ACC_03 DISP_01 FIF_02 FISC_01 INCNT_04 MRKT_02 MRKT_03 NATRSC_02 OTA_02 POL_RSK_05 POL_RSK_06 PPT_03 WORK_COMM_01
O'Donnoghue, Judy	1367	FIF_02

Commenter	Submission #	Codes
Odum, Marvin	1673	ACC_01 ACC_02 ACC_04 ACC_07 ACC_12 FERC_01 FERC_02 FERC_04 RCA_01
O'Hoyt, Jorge	1351	TIME_01
Ohrmund, Everett R.	1442	FIF_01
Oistad, Cynthia	1932	AGPA_02 FIF_01 GENBEN_07 LEGIS_07
Olfgard, Olie	1593	XOM_01
Olson, Chris	1271	FIF_01
Olson, Mark	1452	GENBEN_05 GENBEN_07
Olson, Sa	0293	FIF_01
Ondola, Walter	1953	FIF_01
Onorato, Richard	0448	FIF_02 LLC_04 NATRSC_01 RSRV_X_01 TIME_02
O'Reilly, John	0531	FIF_01 MRKT_01 PPT_03
Ortmann, Kenneth	1929	FIF_01 FISC_01 NATRSC_09 WORK_COMM_10
Ose, Javen	0742	AK_DMD_01 FIF_02
Osen, Wendy	0427	FIF_01 GENBEN_02 TIME_01
Oshmago, Matthew	0817	AKHIRE_12 COMM_04
Osowski, Chris	0809	CNFDL_04 COMM_PER_06 FIF_01 FISC_01 LEGIS_07 PPT_03 WORK_COMM_01 WORK_COMM_08
Osterkamp, Tom	0084	FIF_01 PPT_03
Otis, Buzz	0658	AK_DMD_01 AKHIRE_02 FIF_01 GENBEN_01 GENBEN_02
Outlaw, Donna	0697	GENBEN_05
Owens, Tadd	2167	ACC_02 OWNRISK_02 RCA_01 UUFC_02
Owolabi, Olubunmi	0188	FIF_01
Packard, Gwen	1460	FIF_01
Padgett, Mack	0870	FIF_01
Pagel, David	0715	FIF_01
Painter, Gail	1512	FIF_01
Palenske, Brian	1113	FIF_01 FISC_02
Palin, Sarah	0938	CNSTL_02 FIF_02 HEARINGS_06
Palmeroy, Kevin	1592	CNFDL_02 COMM_PER_11 FIF_02 OTA_02
Palmquist, Michael E.	2147	FIF_01

Commenter	Submission #	Codes
Palomar, Jose Dante	1284	ACK_01 FIF_01
Panda, Manmath	0505	FIF_01
Pariagh, ›ert	1993	FIF_01
Parkin, Sharon	0016	CNFDL_01
Parrish, Lance	1651	AK_FINC_09 CNSTL_01 CNSTL_06 CNSTL_07 COMM_PER_01 COMM_PER_02 DISP_01 FERC_06 FISC_01 HEARINGS_08 INCNT_05 INCNT_06 INCNT_07 INCNT_09 INCNT_10 INKIND_01 LCL_X_01 LEGIS_01 LEGIS_09 LLC_02 LLC_03 LLC_09 OTA_02 RCA_01 RCA_02 REGCON_01 TIME_02 WORK_COMM_01
Pasaribu, Haikal	0492	FIF_01 GENBEN_02
Pasco, Jeff	1721	OTA_01
Paskvan, Charles	0210	AKHIRE_03 FIF_02 FISC_01 NATRSC_07 PFD_01 WORK_COMM_01
Pate, Ken	0431	FIF_01 GENBEN_01 GENBEN_02 PPT_03
Pate, Mary	1143	AKHIRE_15
Pate, Sara	1515	FIF_01
Pate, Vicki	1049	AKHIRE_01 FIF_02
Patience, Dawn	0076	AK_DMD_01 AKHIRE_14 FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 GENBEN_07
Patience, Dawn	0136	FIF_01
Patience, Dawn	0748	AKHIRE_14 FIF_01 GENBEN_02 LEGIS_06 LEGIS_11
Patkotak, Kellen	0984	AKHIRE_12 FIF_01
Paton, Bob	1486	TIME_01
Patrick, Judy	0242	ENVR_05 FIF_01
Patrick, Kelly	0407	FIF_01 FISC_02
Paul, June	1718	ACK_01
Paulino, Tom	1070	COMM_09 FIF_01 GENBEN_01 GENBEN_02

Commenter	Submission #	Codes
Paulson, John	1348	AK_NATV_01 FISC_01 LLC_02 OVRRUN_01 OVRRUN_03 OWNRISK_02 OWNRISK_03 REGCON_01 SGDA_01
Pauvit, Daniel	1429	AGPA_01
Pavlenko, Alexandra	0328	FIF_01
Pawloski, Joe	1531	FIF_01
Payton, William	1918	GENBEN_07
Pearce, Verlon	0440	GENBEN_01 PFD_01
Pearson, John	0090	ACK_01 COMM_PER_01
Pearson, Lisa	0089	COMM_PER_07
Pease, Joseph	1800	FIF_01
Pease, Mary Ann	1123	AK_DMD_01 FIF_01
Pease, Teddy	0767	FIF_01 FISC_02 GENBEN_02 GENBEN_05 LLC_01
Peek, Mike	1031	COMM_09 FIF_01 GENBEN_01 PPT_03
Peek, Robert	1909	GENBEN_05
Peger, Lisa	0667	ACC_03 AGPA_01 AK_DMD_01 COMM_PER_01 FIF_02 FRCE_01 INKIND_01 NATRSC_02 OIL_PX_02
Peirce, John	0415	GENBEN_01 GENBEN_02 GENBEN_07 OFFTAKE_01 TIME_01
Peirce, M.	1698	ACC_01 ACC_11 AGPA_06 AK_DMD_01 AKHIRE_05 CNSTL_01 CNSTL_02 CNSTL_04 CNSTL_07 DISP_01 EDI_02 FISC_07 HEARINGS_08 IMP_S_02 IMP_S_05 INCNT_02 INCNT_08 INKIND_01 OTA_01 OTA_02 PFD_03 POL_RSK_01 PTU_01 RCA_01 SGDA_14 STRND_01 WORK_COMM_01

Commenter	Submission #	Codes
Peirce, Merrick	0662	COMM_PER_01 COMM_PER_04 OTA_02
Peissig, Bill	1266	ACK_01 NATRSC_01
Pekich, Lisa	0353	FIF_01
Pellegran, Chester	1885	GENBEN_07
Pelletier, Liane	1356	FIF_01 MRKT_01
Peltier, Ann	0198	FIF_01
Peltier, David	1080	CNFDL_04 FIF_01 OFFTAKE_01
Peltier, David	1204	FIF_01
Pendleton, Jill	1418	AGPA_01
Pennington, Brett	0388	FIF_01
Perfetta, Patrick	0487	ACC_01 FIF_01 GENBEN_02 LLC_05
Perrigo, William	1029	CNFDL_02 FIF_02 FISC_01 NATRSC_07 PFD_02 WORK_COMM_01
Perry, Calvin	1919	ENVR_05 FIF_01
Petersen, Frank	1855	FIF_01
Peterson, Brenda	0109	FIF_01
Peterson, Dan and Sandra	0471	FIF_01
Peterson, Janet	1057	AKHIRE_12 FIF_01 GENBEN_02
Peterson, Maria	0007	AKHIRE_01 CNFDL_01 NATRSC_02 PPT_01 WORK_COMM_01
Peterson, Nancy	0997	FIF_02
Peterson, Rick	1598	AGPA_01
Peterson, Sonny	1095	AGPA_03 AK_DMD_01 FIF_02 LEGIS_01
Pettit, Mark	1842	GENBEN_07
Phelps, Brad	1780	FIF_01
Phillips, B.C.	1388	PPT_01 WORK_COMM_01
Phillips, Jeanne	0376	FISC_02
Phillips, Rose	0454	FIF_01
Phillips, Victor	1985	FIF_01
Phillips, William	1037	CNFDL_02 CNSTL_04 FISC_01 OWNRISK_02
Pickard, Julie	2099	TIME_02
Pike, Gary	0603	AK_DMD_01 AK_FINC_03 CNFDL_02 FIF_02 FISC_01 INDST_02 PPT_03 WORK_COMM_01
Pinder, James	0039	CNFDL_02 LEGIS_03 NATRSC_02
Pinkston, Brian	2045	ENVR_01
Pinnow, Melba	0317	FIF_01

Commenter	Submission #	Codes
Pipkin, Joel	1047	FIF_01 GENBEN_02 LEGIS_11 MRKT_01 PPT_03 TIME_01
Plaquet, Jim	0086	FIF_01
Ploegstra, Cheryl	0251	ENVR_06 FIF_01 GENBEN_01 GENBEN_02 MRKT_01 OIL_PX_01 POL_RSK_04 PTU_04
Plunkett, Kathleen	0291	FIF_01 GENBEN_02
Pock, Craig	1927	FIF_01 GENBEN_02 OFFTAKE_01
Podolak, Angie	1036	AKHIRE_01 AKHIRE_02 FIF_01
Poe, Bob	0892	AGPA_02 AKHIRE_02 CNFDL_04 FISC_01 GENBEN_02 GENBEN_06 LEGIS_11 LLC_01 LLC_05 OWNRISK_02 WORK_COMM_02
Pogany, Mandy	1734	FIF_01 INCNT_01
Pohler, Mark	2106	GENBEN_06
Pokorny, Michelle	0365	FIF_01
Pokorny, Michelle	1510	FIF_01
Poland, John	0201	FIF_01 GENBEN_01
Poole, Iann	0327	FIF_01
Pope, Pamela	0455	GENBEN_05 GENBEN_07 LEGIS_11
Poppe, David	0664	CNFDL_02 CNFDL_03 MRKT_01 NATRSC_02 OVRRUN_03
Portell, Ralph	1339	FIF_01
Pospicial, Gordon	0203	FIF_01
Pospicial, Gordon	0914	FIF_01
Potter, Jack	2049	AGPA_02 AKHIRE_07 FIF_01 PFD_02 RSRV_X_01 TIME_01
Potuis, Brij	1450	ENVR_05 FIF_01
Poulton, Don	0312	AGPA_02 FIF_01 OTA_02
Pounds, Gary	0107	FIF_02
Preble, Gary	0219	FIF_01
Presley, Daniel	1303	FIF_01 GENBEN_02
Priestley, Patrick	0146	AGPA_01 PPT_01
Provencio, Paul	0324	FIF_01
Pruitt, David	1260	FIF_01
Pruitt, Susan	0437	FIF_01
Puerner, David	0781	AGPA_01 FIF_02 FISC_01

Commenter	Submission #	Codes
Pulliam, Dea	2046	AKHIRE_21
Purcell, Dan	2119	AKHIRE_12
Quinn, Michelle	0687	FIF_01
Radonich, Marko	0533	COMM_09 FIF_01
Radonich, Victoria	0770	COMM_09 FIF_01 PPT_03
Raffle, H.S.	1474	NATRSC_02
Ragan, John David	0212	ACK_01 AKHIRE_01 AKHIRE_03 DISP_01 FIF_02 FISC_01 PPT_03 WORK_COMM_01
Rainosek, Mark	1566	FIF_01
Rainwater, Mike	1294	ACK_01
Ramirez, Aaron	2002	FIF_01
Ramirez, Jason	1805	FIF_01
Ramras, Jay	1726	ACC_09 AK_DMD_01 CNSTL_01 FIF_02 INKIND_01 LLC_09 LLC_13 SGDA_14 WORK_COMM_01 WORK_COMM_09
Randall, Jack	0934	INCNT_01 OWNRISK_03 PFD_04
Randall II, John E.	0810	CNSTL_03 FIF_02 FISC_02 GENBEN_04 INCNT_01 OWNRISK_02 PPT_03
Randell, Beatrice	1555	ACK_01
Ranger, Stephen	1440	AKHIRE_14 EDI_06 LLC_04 OTA_02 OVRRUN_01 OVRRUN_04
Rankin, John	1700	TIME_01
Rasmussen, J.A.	1558	PPT_03
Rawfrison, Brent	1524	FISC_01
Rawls, Andrew	1473	FIF_01
Rawls, Durainey	1022	FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 PPT_03
Rawls, Durainey	1154	FIF_01 PPT_03
Ray, Jeff	0624	FIF_01
Ray, Jesse	0923	AGPA_01
Ray, Jesse	1058	AGPA_01 FIF_02 RSRV_X_01
Ray, Malcolm	0463	FIF_01 FISC_02
Ray, Robert	1226	COMM_09 NATRSC_01 PFD_02
Raynor, Ted	2042	TIME_02 XOM_01
Re, Stacey	0779	FIF_01

Commenter	Submission #	Codes
Real, Traci	0228	FIF_01 GENBEN_01
Reddick, Frank	0496	AK_FINC_01 FIF_01 LLC_01 PPT_03
Redmond, Randy	1052	FIF_01 INCNT_01 MRKT_01
Reelby, J.B.O.	1642	MRKT_01
Reeves, Casey	1686	LLC_03
Reeves, John	0657	CNSTL_04 COMM_PER_09 FIF_02 LEGIS_03 OTA_02 POL_RSK_06 STRND_01 XOM_01
Reeves, John	1002	AK_FINC_01 AKHIRE_01 AKHIRE_04 COMM_PER_01 COMM_PER_09 FIF_02 LEGIS_01 XOM_01
Reeves, W. T.	0178	FISC_01 WORK_COMM_01
Reid, Donald	2039	GENBEN_01
Reimer, Dave	0330	FIF_01 LEGIS_11
Reiss, Sue	0806	AKHIRE_14
Renshaw, Anson	0722	FISC_01 POL_RSK_01
Renshaw, Rayda	0048	INKIND_01
Repoff, Gregg	1291	FIF_01 GENBEN_07
Revin, Paul	1773	FIF_01
Rhodes, Rodney	1810	FIF_01
Rice, Nicole	1994	FIF_01
Richard, Ryan	0246	FISC_01 INCNT_01 INKIND_01 PPT_01 WORK_COMM_01
Richards, Brian	0362	FIF_01 GENBEN_01 GENBEN_02 PPT_01 PPT_03 RSRV_X_01
Richards, Debbie	0408	FIF_01
Richards, Jason	0839	FIF_01 GENBEN_02
Richardson, Jan	2041	FIF_01
Riggs, George	2028	AKHIRE_07 PPT_03
Riley, Michael	0108	FIF_01
Riley, Michael	1170	FIF_01 PPT_03
Riley, Mike	1308	FIF_01
Risby, Penelope	0174	FIF_01
Roach, Frank	0725	GENBEN_02
Roadifer, Randahl	1073	FIF_01 FISC_02 MRKT_01 MRKT_02 PPT_01 PPT_03
Robbins, Robert	1335	POL_RSK_01 POL_RSK_02
Robbins, Ron	0775	FIF_01
Roberts, Bowen	1991	FIF_01 LLC_05

Commenter	Submission #	Codes
Roberts, Debbie	1016	AGPA_01 FIF_02 FISC_01 LCL_X_17 OFFTAKE_01
Roberts, Lindsay	1021	AGPA_01 AKHIRE_07 FIF_02 INFRA_01
Roberts, Malcolm	1091	AKHIRE_01 AKHIRE_03 CNSTL_04 COMM_PER_08 HEARINGS_08 LCL_X_02 PPT_03 PTU_01 WORK_COMM_01
Roberts, Malcom	1069	CNSTL_04 EDI_01 WORK_COMM_01
Robinson, Dennis	1413	AKHIRE_12
Robinson, Jeff	1061	AKHIRE_02 OTA_02
Robinson, Jeff	1137	AKHIRE_15
Robinson, Judy	0590	ACC_01 ACC_07 AGPA_01 AK_DMD_01 FISC_01 INCNT_04 OFFTAKE_01 OTA_02 OWNRISK_02 PPT_03 RSRV_X_01 SGDA_01 WORK_COMM_01
Robson, Art	0194	FIF_02
Rocereta, Kayla	0908	FIF_01
Rocereta, Michael	0338	FIF_01
Rocereta, Michael	0907	FIF_01
Rodgers, James	0297	GENBEN_01 GENBEN_02
Rodgers, Michael	0564	FIF_01 MRKT_03
Rogers, Dan	0909	FIF_01 GENBEN_02
Rogers, John	1937	AGPA_02 FIF_01
Rogers, Shaun and Gordon	2122	FIF_01
Rohkins, Katherine	1449	FIF_01
Rohrer, Dick	0225	INKIND_01 LLC_02
Rolfe, Philip	0012	AK_DMD_01 CNFDL_02 FIF_02 INCNT_01 LLC_02 NATRSC_02 NATRSC_04 NATRSC_07 PPT_03 RSRV_X_01
Rollins, Betty	0179	AGPA_01 AKHIRE_01 FIF_02 FISC_01 XOM_01
Rollins, Betty	0351	ACC_01 AKHIRE_01 AKHIRE_02 AKHIRE_07 DISP_01 EDI_03 FIF_02 FISC_01 OTA_02 POL_RSK_01 WORK_COMM_01

Commenter	Submission #	Codes
Rollison, Kay	0860	AGPA_05 CNFDL_02 CNSTL_04 OTA_02 STRND_01
Rolph, Brent	1872	ACK_01 GENBEN_07
Ronellenfitch, Wilfred 'Wolfie'	1023	AGPA_01 NATRSC_07 OFFTAKE_01
Rotan, Peggy	1298	AGPA_01
Roud, Robert	0750	FIF_01 GENBEN_02
Rowlett, Hugh	1628	MRKT_01
Roy, Jason	1250	FIF_01 GENBEN_02 GENBEN_07
Royer, Steven	1326	FIF_01
Ruby, James	2020	LLC_05
Rudd, Lloyd	1090	AGPA_01 MRKT_01 NATRSC_07 NATRSC_10
Rupp, Jack	1863	FIF_01
Rupp, Ken	0522	FIF_01 OIL_PX_01 OWNRISK_02 RSRV_X_01
Rusch, Johnny	0343	FIF_01
Russell, Margaret	0193	ACK_01 FIF_01 GENBEN_01 GENBEN_06 INCNT_01 NATRSC_02
Rutherford, Mike	0802	FIF_01 OFFTAKE_01 PPT_03
Ruud, Brenda	2003	FIF_01
Ryan, Jason	0623	PPT_01 PPT_02
Ryan, Jason	0956	FIF_01 GENBEN_05
Ryan, Jason	1162	AKHIRE_01 FIF_01
Rybachek, Rose	0823	FIF_01
Rybachek, Stanley	0822	FIF_01
Rychlik, Garrett	0255	FIF_01 GENBEN_02
Sakeagak, Cora	0396	FIF_01 FISC_02
Sakeagak, Elizabeth	0398	FIF_01 FISC_02
Sakeagak, Morgan	0397	FIF_01 FISC_02
Salas, Jose	0534	FIF_01 FISC_02 GENBEN_01 GENBEN_07 WORK_COMM_02
Samandiego, Pablo	1391	AK_DMD_01
Sampson, Jim	0216	ACK_01 AKHIRE_01 AKHIRE_02 AKHIRE_03 AKHIRE_04 AKHIRE_09 CNSTL_01 COMM_PER_01 COMM_PER_03 FERC_01 FIF_01 INKIND_01 LLC_02 RCA_01 WORK_COMM_01
Sampson, Jim	2116	AKHIRE_03

Commenter	Submission #	Codes
Samson, Mike	0189	FIF_01
Saner, Stan	2059	EXPLR_01 FIF_01 OFFTAKE_01 TIME_01
Sanguinett, Harold	1184	FIF_01
Santor-Uilliam, John	1639	TIME_01
Sateri, Mark	1151	AKHIRE_12
Sateri, Mark	1152	AKHIRE_12
Sautel, Steve	0501	FIF_01 GENBEN_02 GENBEN_07
Sawyer, Larry	0635	AGPA_01 AK_DMD_01
Saythor, Kurt	1150	FIF_01
Scanlon, Cathy	2090	FIF_01
Scearce, Mark	1906	FIF_01
Schaeffer, Douglas	1831	FIF_01
Schaeffer, Douglas	1833	GENBEN_02
Scheepeus, Claude	1492	FIF_01
Schenk, Neil	1371	AK_DMD_01
Schenk, Neil	1372	NATRSC_02
Schiller, Chuck	1876	GENBEN_02
Schiller, Micheal	1873	GENBEN_02
Schleusner, Nan	2069	LEGIS_11
Schlomor, John A.	1643	TIME_01
Schmelling, Paul	1603	TIME_01
Schmick, Patricia	0232	FIF_01
Schoephoester, Nancy	0361	FIF_01 GENBEN_01 GENBEN_02 GENBEN_07
Schoephoester, William	1998	FIF_01
Schonenbach, Ron	1649	CNFDL_02 FISC_01 OWNRISK_02 SGDA_01 TIME_02
Schowen, Mandy	1965	ENVR_09 LEGIS_11
Schrock, Sharon	2104	AKHIRE_01 FIF_01
Schroeder, Mike	1534	AKHIRE_05 COMM_PER_02 INKIND_01 LLC_04 MRKT_01 PPT_03 STRND_01 WORK_COMM_01
Schubert, Stacy	0765	FIF_01 GENBEN_05
Schuitt, George	7	GENBEN_07
Schuitt, George Paul	52	FIF_01 GENBEN_07
Schultz, Aaron	0032	WEB_02
Schuyler, Alan	0927	ACC_01 AK_DMD_01 FIF_01 GENBEN_02 GENBEN_07 OFFTAKE_01 OWNRISK_02 WORK_COMM_02
Schwartz, Anthony	0950	AK_DMD_01 AKHIRE_02 GENBEN_02 WORK_COMM_01
Schwartz, Guy	0370	FIF_01
Schwartz, John	1912	FIF_01
Schwarz, Jon	1467	INCNT_01

Commenter	Submission #	Codes
Sciuchetti, David	1840	AGPA_01 AKHIRE_03 GENBEN_07
Scott, Bibianna	1224	AGPA_01 AK_FINC_01 GENBEN_01 PFD_04
Scott, Charles	1830	FIF_01
Scott, Jacob	1790	FIF_01
Scougal, Hesden	1210	FIF_01
Scriber3, Nnarvinss	1813	FIF_01
Scudder, Bill	1220	FIF_02 XOM_01
Seaman, Chris	0296	FIF_01
Sears, Frank	0711	FIF_01 LEGIS_11 MRKT_03
Seat, Richard	2058	ENVR_09
Seaton, Mike	0221	FIF_01
Seedanee, Dean	1837	FIF_01
Seeds, Greg	0631	AK_FINC_01 FIF_01 PPT_01
Segelhorst, Jennifer	0285	FIF_01
Segelhorst, Jennifer	1477	LLC_05
Segura, Dale	1808	FIF_01
Seifert, Rich	0652	CNSTL_03 PPT_03
Selden, Joseph	0925	FIF_01 GENBEN_01 GENBEN_02
Selig, Clarence	0141	MRKT_01 NATRSC_02 OTA_02 PTU_02 RSC_RSK_01
Semaken, Olga	1980	FIF_01
Senn, Jim	1120	FIF_01
Sethi, Sunil	1615	INKIND_01
Sevak, Rita	1471	FIF_01
Sexton, Tamela	1971	FIF_01
Seymore, Jon	1246	AKHIRE_14 FIF_01
Seymour, Len	0268	FIF_01 FISC_01 FISC_03 GENBEN_05 GENBEN_06 PFD_04
Shadley, David	1905	FIF_01
Shaikh, Naeem	0375	FIF_01 GENBEN_02 GENBEN_03 OFFTAKE_01
Shallies, William	0538	AGPA_01 INCNT_01 NATRSC_05
Sharp, Samuel	1792	FIF_01
Sharp, Tim	0671	AKHIRE_01 AKHIRE_02 AKHIRE_05 COMM_PER_01
Sharratt, Helen	0690	FIF_02
Shaw, Glenn	1332	CNFDL_02 INKIND_01 PPT_03 WEB_05
Shawns, Donna	1015	AGPA_01 AGPA_05 FIF_02 FISC_01 OTA_02

Commenter	Submission #	Codes
Shea, Wev	0710	AKHIRE_13 CNSTL_04 FIF_01 FRCE_01 POL_RSK_01
Sheaffer, Matthew	1656	TIME_01
Sheley, David	1630	FIF_01
Shepard, Stanley	1914	ACK_01 GENBEN_07
Shepler, Donald and Phillip C.	1668	ACC_02 ACC_08 ACC_10 ACC_11 DISP_01 FERC_01 FERC_07 INKIND_01 LLC_11 OTA_01 SGDA_07 SGDA_20
Sheumaker, Jay	1745	FIF_01
Shifflett, Jan	0386	COMM_02 FIF_01 FISC_02 PPT_01 PPT_03
Shifflett, Jan	0734	CNFDL_04 FIF_01 GENBEN_01 GENBEN_05 LEGIS_11
Shifflett, Jeannette	0433	FIF_01 GENBEN_01 GENBEN_02 GENBEN_05
Shipman, James	1258	FIF_01 GENBEN_01
Shirey, Sonja	1962	GENBEN_02
Shirk, James	0686	FIF_01 PPT_03
Shirrell, Jim	1004	ACK_01 AGPA_01 FIF_02 FISC_02 INCNT_01 LCL_X_05 LCL_X_07 OWNRISK_01
Short, Charles A.	1025	AKHIRE_02 AKHIRE_03 AKHIRE_04 WORK_COMM_01
Short, Charles A.	1054	AK_DMD_01 FIF_02 INDST_02
Short, Charles A.	1553	ACK_01
Shorthill, Carry	1086	AK_DMD_01 FIF_02 NATRSC_02 NATRSC_09 PPT_01
Sikorski, Merrill	1040	FIF_01 GENBEN_05 GENBEN_07
Simons, Paul	0125	ACK_01 CNFDL_02 INDST_03 INKIND_01 MRKT_03 NATRSC_02
Simons, Paul	0724	AK_FINC_06 INDST_02 OTA_02

Commenter	Submission #	Codes
Simpson, Bill	1336	AK_FINC_01 ENVR_10 FISC_01 GENBEN_01 INCNT_01 INKIND_01 LLC_02 MRKT_01 NATRSC_02 OTA_02 REGCON_01
Simpson, Bradley	0516	FIF_01
Simpson, Michael	1801	NATRSC_02
Sims, Archie	0928	FIF_01
Skelton, Chelsea	1847	FIF_01
Skoglund, Dave	1616	FIF_01
Skondovitch, Patti	0666	CNFDL_02 FIF_02 OIL_PX_02 WORK_COMM_01
Smallwood, Warren James	0744	AK_DMD_01 GENBEN_01 MRKT_01 NATRSC_04
Smith, Bonnie	0903	FIF_01 GENBEN_02
Smith, Gregory	1325	AGPA_01 AGPA_05 FIF_02 FISC_01
Smith, James	0483	FIF_01
Smith, Jason	0526	GENBEN_07
Smith, Jon	1312	FIF_01 GENBEN_02
Smith, Levi	1229	FIF_02
Smith, Linda	0585	AKHIRE_01 AKHIRE_04 FIF_02 FISC_01 XOM_01
Smith, Michael	1947	FIF_01
Smith, Ron	0278	FIF_01 GENBEN_01 GENBEN_02
Sneesby, Todd	2024	FIF_01
Snisarenko, Shawn	1689	TIME_01
Snodgrass, George	0196	AK_DMD_01 CNSTL_09 COMM_09 ENVR_05 FIF_01 GENBEN_07 MRKT_01
Snodgrass, George	0326	EXPLR_01 FIF_01 INCNT_01 LEGIS_11 MRKT_01 OWNRISK_02 PPT_01
Sofay, Mark	1386	AKHIRE_12
Sorenson, Roger L.	0081	AK_DMD_01 PFD_02
Sparrell, Lisa	1012	AKHIRE_01 AKHIRE_02 AKHIRE_14 FIF_02 INCNT_01 WORK_COMM_01
Spaulding, Gordon	1027	AKHIRE_01 AKHIRE_02 FIF_01
Spaulding, Gordon	1199	AK_FINC_01 LLC_12 SGDA_01

Commenter	Submission #	Codes
Spaulding, Pauline	1028	AGPA_01 AK_DMD_01 GENBEN_01 INCNT_01
Spears, Mark	1711	FIF_01
Spencer, Jeffrey	0503	FIF_01
Spiller, Mark	1867	FIF_01
Spittler, Peggy	1978	LEGIS_11
Spooner, Douglas	1933	GENBEN_06 PPT_01 TIME_01
Sprague, Phil	1752	ACK_01
St. Pierre, Bruce	0645	FIF_01 FISC_02 NATRSC_01
Stagg, Ted	0462	ENVR_05 GENBEN_07
Stahl, Alan	2018	AGPA_02 FIF_01
Stamm, Carolyn	0069	FIF_01
Standerfer, David	1886	GENBEN_02 LEGIS_11
Standley, Chris	1041	AGPA_01 CNFDL_03 FIF_02 NATRSC_02 PPT_01 PPT_03
Stanton, W. Michael	0638	CNSTL_05 FIF_02 FISC_01 NATRSC_01 NATRSC_02 PFD_04 PPT_01 PPT_02
Stark, Clayboum	0145	AKHIRE_11 FIF_02 LCL_X_03 NATRSC_01 PPT_01
Stark, Patricia	1179	AK_FINC_01 LEGIS_03 TIME_02
Stark, Will	0998	AGPA_01 AGPA_02 AKHIRE_10 CNSTL_03 PTU_01
Stedny, Mike	0681	AK_DMD_01 FIF_02 FISC_01 PPT_03
Steer, David	0413	FIF_01 PPT_03
Steer, David	1519	FIF_01
Stemp, Ralph	1148	FISC_02
Stephens, Stan	0995	ACC_04 COMM_PER_03 ENVR_02 ENVR_03 FIF_02 FISC_01 HEARINGS_05 INCNT_01 NATRSC_02 OTA_02 OWNRISK_02 SGDA_05 SGDA_11 TIME_02
Sterley, Dan	0562	FIF_01 TIME_01
Stevens, Brian	2025	TIME_01
Stevens, Henry	1619	NATRSC_09
Stevens, Jerry	1239	AK_DMD_01

Commenter	Submission #	Codes
Stevens, Walter	1910	FIF_01
Stew, James	1187	FIF_01 GENBEN_02 PPT_01
Stewart, Ben	0682	CNFDL_02 COMM_PER_02 FIF_02 FISC_01 STRND_01
Stewart, Ben	1241	AGPA_01
Stewart, Eric	0335	INCNT_01 PPT_01 RSRV_X_01
Stewart, Gary	0811	FIF_01 GENBEN_05 MRKT_03 PPT_01
Stewart, Gary	0935	LEGIS_10 NATRSC_09 PPT_01
Stewart, Jean	1000	AGPA_01 AKHIRE_14 COMM_04 FISC_01 GENBEN_02 NATRSC_01 POL_RSK_01
Stewart, Scott	0151	ACC_01 AGPA_02 AK_DMD_01 FIF_01 GENBEN_01 MRKT_01 OFFTAKE_01 TIME_01
Stewart, Yvonne	1405	FIF_01
Stoddard, Gretchen	0609	FIF_01 FISC_01 FISC_02 OVRRUN_01 WORK_COMM_02
Stoianoff, Michael	1145	AK_DMD_01 GENBEN_01 OFFTAKE_01
Stoianoff, Michael	1345	ACC_01 AK_DMD_01 DISP_01 FIF_01 LEGIS_08 MRKT_02 PPT_03
Stoianoff, Michael	1583	AK_DMD_01 FERC_01 PPT_03 PTU_03
Stoner, Doug	0186	FIF_01
Storer, Geraldine	0111	FIF_01
Storer, Geri	0756	FIF_01 MRKT_03 SUBST_01
Storm, Joette	1669	DISP_01 FIF_02 WORK_COMM_01
Stout, Jack	0689	AK_FINC_04 FIF_01
Stout, Rita	0692	PPT_01
Strait, David	1727	AGPA_02 FIF_01 LEGIS_11 RSRV_X_01
Stramp, Ryan	0493	FIF_01 GENBEN_05 GENBEN_07 LEGIS_10 MRKT_01

Commenter	Submission #	Codes
Strand, Scott	0872	FIF_01 GENBEN_02 MRKT_01
Straub, Diana L.	1083	ACK_01 AGPA_01 FIF_02 YLINE_01
Strawser, David	1201	FIF_02 OFFTAKE_01
Streever, Bill	1848	TIME_01
Strohl, John	0506	FIF_01
Stummer, John	0378	FIF_01 GENBEN_01
Sturm, David	1374	OFFTAKE_01
Sturm, Matthew	1156	CNFDL_02 FIF_02 FISC_01 HEARINGS_05 INCNT_01 LLC_04 NATRSC_01 OIL_PX_01 PPT_03 REGCON_01
Suellentrop, Gerald	0424	FIF_01
Sullin, Robert	1600	FIF_01
Summerhays, John	0165	FIF_01
Summers, Steven	0512	FIF_01
Susort, Martin	1570	GENBEN_06 OFFTAKE_01
Swan, Herbert	1987	FIF_01
Swatlaswi Yo Hak, Galondawan	1815	ENVR_07
Sykes, Jim	0026	COMM_PER_01 COMM_PER_02 EDI_06 OTA_02
Sykes, Jim	0943	CNSTL_01 CNSTL_02 FIF_02 PFD_03 PTU_06 WORK_COMM_01
Sykes, Mr.	0131	COMM_PER_01 COMM_PER_04
Sykes, Mr.	0132	ACC_01 AK_DMD_01 CNFDL_02 CNSTL_01 CNSTL_04 COMM_04 COMM_PER_04 DISP_01 FIF_02 FISC_01 INCNT_01 LCL_X_01 LLC_02 NATRSC_01 NATRSC_02 OVRRUN_01 OWNRISK_02 PFD_03 PTU_01 SGDA_03 STRND_01 WORK_COMM_01
Taft, Loren	0006	FISC_01 NATRSC_01
Tapangco, Joseph	1092	AKHIRE_06 COMM_PER_10 FIF_01 OFFTAKE_01
Tapangco, Joseph	1146	COMM_01

Commenter	Submission #	Codes
Tapp, Maynard	0705	AGPA_02 FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 GENBEN_07
Tapp, Sam	1116	FIF_01
Tapp, Sam	1203	FIF_01
Tashjian, Bidu	1329	ENVR_10 FIF_02 XOM_01
Tate, Phyllis	0117	PPT_03
Tavis, Al	1230	FIF_02 XOM_01
Taylor, Candace	1973	FIF_01
Taylor, George	1552	CNFDL_02 COMM_PER_11
Taylor, Jarrod	1408	AGPA_01
Taylor, Neil	1255	ACK_01
Taylor, Shon	1814	FIF_01
Taylor, William	1159	AGPA_01 AGPA_05 FIF_02 POL_RSK_01
Thaxton, Jan	1455	FIF_01
Thaxton, Jan	1457	FIF_01
Thayer, David	1520	LLC_05
Therriault, Gene	1019	ACC_03 AGPA_01 FERC_02 GENBEN_03 GENBEN_05 MRKT_01 NATRSC_08
Therriault, Gene and Ralph	2110	ACC_01 ACC_07 AK_DMD_01 CAN_OWN_01 CANREG_02 CNSTL_01 CNSTL_08 DISP_01 FERC_06 FISC_01 FISC_08 FISC_09 FISC_10 FRCE_02 INKIND_01 LLC_02 LLC_08 LLC_09 LLC_11 LLC_13 OIL_PX_01 PTU_05 PTU_06 RCA_01 SGDA_01 SGDA_14 SGDA_16 SGDA_17 SGDA_18 WORK_COMM_01 WORK_COMM_03 WORK_COMM_06 WORK_COMM_08 WORK_COMM_09
Theuer, Mr.	0128	WORK_COMM_01
Theuer, Mr.	0129	CNSTL_01
Theurich, Mike	2061	PPT_03
Thomas, David	1432	PPT_01
Thomas, Dawn	0282	FIF_01 GENBEN_02

Commenter	Submission #	Codes
Thomas, Joe	0192	AGPA_01 AKHIRE_01 EDI_06 FIF_02 GENBEN_01 MCKZ_02
Thomas, Myrtle	0168	FIF_01
Thomas, Russell	1125	FIF_01 GENBEN_01 GENBEN_02 GENBEN_08
Thomas, M.D., Carl	0009	CNFDL_02
Thommes, Diane	2037	FIF_01 GENBEN_02
Thommes, Diane	2038	GENBEN_01
Thommes, Kevin	0116	FIF_01
Thompson, Craig	0423	COMM_PER_04 GENBEN_01
Thompson, Edmond	0359	FIF_01 LEGIS_11
Thompson, Jenny	1641	GENBEN_02
Thompson, Leonisa	0709	FIF_01 GENBEN_02 GENBEN_05
Thompson, Robert	1417	FIF_02
Thompson, Scott	1946	FIF_01 FIF_02
Thompson, William	1208	FIF_01
Thompson, Yancey	0079	INCNT_01 WORK_COMM_01
Thoreson, Kim	1821	FIF_01
Thorne, Nadene	2063	LEGIS_11
Thorson, Scot	0702	FIF_01 LEGIS_11
Thrapp, Virgil	0233	FIF_01
Threadgill, Greg	0478	FIF_01
Threadgill, Hanan	0688	FIF_01
Thune, Gary	1869	FIF_01
Thurbee, Tom	0936	FIF_01
Thurnau, Chris	0963	FIF_01
Thurnau, Karen	0926	FIF_01
Tillu, Padmini	0975	FIF_01
Timmerman, Sherry	0488	AK_DMD_01 AK_FINC_01 FIF_01 GENBEN_02 GENBEN_07
Tips, Remoh	0977	WORK_COMM_01
Tips, Remoh	1383	AK_FINC_01
Todd, David	1064	FIF_01 FISC_02 LEGIS_10 MRKT_01 PPT_03
Tolliver, Debra	0138	AK_DMD_01 AKHIRE_10 GENBEN_04
Tomsik, Lillian	1609	FIF_01
Tomuro, JoAnna	0537	FIF_01
Tomuro, Stacy	0599	FIF_01
Tonkins, Scott	0773	FIF_01 FISC_02 INCNT_01 PPT_01 TIME_01
Torczon, Ted	0751	FIF_01 FISC_02
Torres, Oscar	0158	FIF_01
Townsend, Darryl	0776	FIF_01 GENBEN_01 GENBEN_02 MRKT_03 TIME_01

Commenter	Submission #	Codes
Townsend, Marilyn	1547	COMM_PER_11
Townsend, Marilyn	1601	OTA_02
Townsend, Strethen	0358	GENBEN_02
Trasky, Lance	0639	FIF_02 FISC_01 MRKT_01 POL_RSK_01 PPT_01 PPT_03 SGDA_04 WORK_COMM_01
Traut, Robert	0038	FIF_01
Travis, Sandy	0629	FIF_02 WORK_COMM_01
Trefon, Patricia	1282	FIF_01 GENBEN_02
Treybig, Denyce	2080	FIF_01 GENBEN_01
Troll, Kate	0939	CNSTL_03 CNSTL_04 FIF_02 GENBEN_01 INCNT_01 OFFTAKE_01 OVRRUN_01 OWNRISK_02 WORK_COMM_01
Trombla, Matthew	2050	NATRSC_09
Tropser, Robert	1505	FIF_01
Truett, Joan	0563	AGPA_01
Truitt, Barb	0068	FIF_01
Trutanic, C. Denise	0601	FIF_01
Tuck, Chris	0133	AGPA_01 AK_DMD_01 AKHIRE_07 AKHIRE_14 CNSTL_04 FIF_02 GENBEN_02 INCNT_01 INCNT_03 LCL_X_01 NATRSC_02 POL_RSK_01 STRND_01 TIME_02 WORK_COMM_01 YLINE_01
Tucker, Daniel	0591	FIF_02 FISC_01
Tucker, Hal	1626	GENBEN_07
Tuel, J.R.	1067	CNFDL_02
Tumey, Mike	1661	INKIND_01 MRKT_01 PPT_03 TIME_02 WORK_COMM_01
Turco, Kathy	1378	FIF_02
Turner, Lisa	1992	FIF_01
Turner, Scott	0403	CNFDL_02 HEARINGS_07
Turner, Scott	1732	FIF_01
Turnes, Geraldine	2151	AK_DMD_01 GENBEN_01
Tyler, Lori	1188	FIF_01 PPT_01
Tyner, Kelly	0253	FIF_01
Udelhoven, James	0835	FIF_01 OVRRUN_03 WORK_COMM_02

Commenter	Submission #	Codes
Ulik, William	1702	AGPA_01 PPT_03
Ulrich, Rose	1948	LEGIS_11
Unknown, Eric	1407	FIF_02
Unknown, Glen	1192	AGPA_01 AKHIRE_04 AKHIRE_07 GENBEN_02 POL_RSK_01
Unknown, James	1412	FIF_02
Unknown, Jamison	2142	PPT_03
Unknown, Male Speaker	0050	CNFDL_03
Unknown, Male Speaker	0051	FERC_03
Unknown, Male Speaker	0052	ACK_01
Unknown, Male Speaker	0053	AGPA_01 POL_RSK_01
Unknown, Male Speaker	1393	FIF_02
Unknown, Male Speaker	1398	AKHIRE_12
Unknown, Male Speaker	1406	FIF_01
Unknown, Male Speaker	1427	AKHIRE_12
Unknown, Male Speaker	1428	OTA_01
Unknown, Paul	2134	FIF_02
Unknown, Paul R.	1708	FIF_01
Unknown, Speaker	0867	ENVR_03 ENVR_10
Unknown, Susan	2140	AGPA_01
Unknown, Unknown	1144	ENVR_09
Unknown, Unknown	1197	AKHIRE_12 FIF_01 GENBEN_02
Unknown, Unknown	1361	AKHIRE_01
Unknown, Unknown	1423	COMM_PER_11
Unknown, Unknown	1645	FIF_01
Unknown, Unknown	1704	COMM_PER_07 FIF_02 LEGIS_04
Unknown, Unknown	1715	FIF_02
Unknown, Unknown	1716	FIF_02 WORK_COMM_01
Unknown, Unknown	2127	AGPA_01
Unknown, Unknown	2128	AGPA_01
Unreadable, Jason	2156	FIF_01
Unreadable, Unreadable	1627	FIF_01
Unreadable, Unreadable	1676	FIF_01
Urwiller, Jessie	1251	AKHIRE_14
Uselmann, Charles	0405	FIF_01 LEGIS_11
Uselmann, Chuck	1453	LEGIS_11
Usibelli, Elizabeth	1535	GENBEN_02
Valdez, Daniel	1605	CNFDL_02 FISC_01
Valenzuela, Tiffani	0290	GENBEN_02
Van Ryn, Wendy	2075	LEGIS_11
Van Tuyl, David	1743	FIF_01
Vandergon, Mark	0910	FIF_01 LLC_05
VanderVeur, Nick	1307	FIF_01 GENBEN_07 MRKT_01
Vanhorn, Henry	2124	INDST_02
Varner, Allen	1323	AKHIRE_01 AKHIRE_04
Veldhuis, Jerry	0299	FIF_01 WORK_COMM_01
Venables, J. Robert	1697	OFFTAKE_01
Venhaus, Dan	0360	FIF_01

Commenter	Submission #	Codes
Verseput, Tim	1416	FIF_01 GENBEN_01 TIME_01
Vest, Barry	1180	GENBEN_01 LLC_04 REGCON_01 XOM_01
Viall, John	0229	ENVR_05 FIF_01
Vickery, Gregory	0096	ACC_11 AK_DMD_01 AKHIRE_04 AKHIRE_05 CNSTL_01 CNSTL_03 CNSTL_07 DISP_01 LCL_X_01 LCL_X_04 OTA_02 OVRRUN_01 PFD_03 RCA_01 STRND_01 WORK_COMM_01
Victors, Chris	0612	FIF_01 PPT_03
Vig, Jesseca	1309	AKHIRE_03 FIF_01 GENBEN_02
Vincent, Josh	1522	GENBEN_07
Vinson, Jesse	0626	GENBEN_01
Vinson, Jesse	0778	FIF_01
Vorpahl, Jenny	0250	FIF_01
Voter, Alaska	0878	CNFDL_02 FIF_02 NATRSC_02 OFFTAKE_01 XOM_01
Vought, David	1264	AK_DMD_01 AKHIRE_01 AKHIRE_14 CNFDL_02 CNSTL_01 OTA_02 PPT_03 WORK_COMM_01
W., Hollie	0112	PFD_04
Wade, Ralph	1983	AK_DMD_01
Walden, Dolores	1574	FISC_01 OWNRISK_02 TIME_02 WORK_COMM_01
Waggoner, Tricia	0883	FIF_01 FISC_02 GENBEN_01 GENBEN_02 PFD_04 WORK_COMM_02
Wagner, Dan	2132	TIME_01
Wagoner, Thomas H.	2111	ACC_01 AK_FINC_01 CNSTL_01 CNSTL_06 CNSTL_08 LLC_11 OWNRISK_02 OWNRISK_04
Wagstaff, Bernadette	0812	FIF_01
Wagstaff, Lorin	0813	FIF_01 GENBEN_01 NATRSC_09
Walker, Bill	0678	INCNT_01 OWNRISK_02
Walker, Bill	0917	FIF_02 NATRSC_02 SGDA_05 WORK_COMM_01

Commenter	Submission #	Codes
Walker, Bill	0987	CNSTL_04 FIF_02 FISC_01 OTA_02 SGDA_05
Walker, Garrett	1557	TIME_01
Walker, Kevin	1951	LEGIS_11
Walker, Nan	0289	GENBEN_02
Walker Jr., Jewel	0973	AKHIRE_14
Wallis, Tim	0197	FIF_01
Walsh, Patrick	0733	COMM_05 FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 GENBEN_08 LEGIS_11 PFD_04
Walters, Jeff	1758	FIF_01
Walters, Martin	0774	FIF_01 GENBEN_01 GENBEN_02 GENBEN_05
Wanzer, Terry	0102	AK_FINC_01 GENBEN_02 INDG_01 LLC_01
Ward, Doug	0095	AK_DMD_01 AKHIRE_02 COMM_05 OFFTAKE_01
Ward, Regina	0504	FIF_01
Ward, Regina	0902	FIF_01 GENBEN_02
Ward, Stephen	1832	FIF_01
Warfield, Michael	1183	FIF_01 GENBEN_02 PPT_03
Warren, Bill	1595	AK_DMD_01 AK_FINC_01
Warren, Bill	1596	AK_DMD_01
Warren, Eddie	2130	AKHIRE_12
Warren, William	1024	ACC_05 AGPA_01 FISC_01 INDST_02 LLC_02 NATRSC_07 OFFTAKE_01 PPT_03 WORK_COMM_01 WORK_COMM_04
Warren, William Frederick	1387	AGPA_01 FIF_02 FISC_01 PPT_03 WORK_COMM_01 WORK_COMM_04 XOM_01
Washington, Bernard	0510	FIF_01
Washington, Bernard	1097	FIF_01 GENBEN_02
Washington, Bernie	1448	FIF_01
Washington, Jeff	1209	FIF_01
Washington, Leonard	1544	AKHIRE_12 WEB_05
Washington, Leonard	1588	AKHIRE_12
Watkins, Jed	1050	COMM_03 FIF_01 GENBEN_01
Watson, Jeff	1828	FIF_01
Watson, Lewis	1402	AGPA_01
Watson, Patrick	1240	FIF_01 GENBEN_02
Webb, Kimberly	0310	FIF_01 GENBEN_01

Commenter	Submission #	Codes
Weber, Jim	0018	WEB_01 WEB_05
Weggeland, Mark	0595	FIF_01
Weinstein, Bob	0098	AGPA_01 AKHIRE_06 CNSTL_01 COMM_06 EDI_06 HEARINGS_02 INKIND_01
Weir, Louis	0942	CNFDL_03 FIF_02 RSRV_X_01 WORK_COMM_01
Weiss, Anna	1530	FIF_01
Weiss, Robert	0649	FISC_01
Weiss, William	0622	PPT_03
Welch Rodman, Nancy	1659	AK_FINC_01 CNSTL_02 CNSTL_06 DISP_01 INCNT_01 LEGIS_09 NATRSC_02 OTA_02 PPT_06 PTU_01 STRND_01 WORK_COMM_01
Welch-Pirkston, Kathleen	2044	GENBEN_07
Welker, Kevin	1347	FIF_01 INCNT_01 TIME_01
Wells, Susan	0008	CNFDL_01 LEGIS_01 NATRSC_01 NATRSC_02 PPT_02
Wendt, Steve	0584	FIF_01 LEGIS_11 PPT_03
Wenning, Linda	0350	XOM_01
Wentworth, McKenna	0027	FIF_01
West, Calvin (Butch)	0598	FIF_01
Whaley, Debra H.	1624	PPT_03
Wharton, Lisa	1357	LEGIS_11
Wharton, Lisa	1447	FIF_01 LEGIS_12
Whistler, Geoffrey	0094	GENBEN_01 PFD_01 WORK_COMM_01
Whitaker, Jim	0985	AGPA_01 CNSTL_04 FIF_02 OWNRISK_02 WORK_COMM_01
White, John	2012	FIF_01
Whitehead, John	0277	FIF_01 GENBEN_02
Whitehead, Kurt	1703	FIF_01
Whitmore, Mary	0707	CNFDL_04 FIF_01 GENBEN_05 LEGIS_11
Whitsett, Jane	2000	TIME_01
Wiese, Casey	0459	FIF_01
Wiess, Jordan	0422	AKHIRE_14 FIF_01 GENBEN_01 GENBEN_02 GENBEN_03 MRKT_01 OIL_PX_01 WORK_COMM_02
Wight, Steve	1902	FIF_01

Commenter	Submission #	Codes
Wilcox, Bill	1011	AGPA_01 AKHIRE_07 STRND_01
Wilcox, Walter	0592	AGPA_02 FIF_01 LEGIS_11 PPT_03
Wilcox, Yelizaveta	0220	FIF_01
Wilkins, Brian	1320	FIF_01
Wilkins, Christian	0621	FIF_01 PPT_01
William, Darel	0211	AKHIRE_01 AKHIRE_02 FIF_02 WORK_COMM_01
Williams, Anne	1149	AKHIRE_12
Williams, Bill	0100	FISC_01 INKIND_01
Williams, Jim	1020	FIF_02
Williams, Joe	0066	GENBEN_08 OFFTAKE_01
Williams, Joe	0099	EDI_06 GENBEN_04 OFFTAKE_01 OTA_01
Williams, Richard	0679	AK_DMD_01 AKHIRE_02 FIF_01 GENBEN_07
Williamson, Sharon	1174	ENVR_10
Willis, Cassandra	0815	FIF_02 INCNT_01
Willis, Reed	0023	FIF_02 INCNT_01 OWNRISK_02
Willson, Sara H.	0782	AK_FINC_01 FISC_01 LLC_04 OWNRISK_02 PFD_03 TIME_02
Willson, Sara H.	1678	CNSTL_01 LLC_02 PFD_02 PPT_03
Wilse, Matthew	1944	GENBEN_07
Wilsey, Debby	1941	FIF_01
Wilsey, Eddie	1939	GENBEN_07
Wilsey, Lisa	1875	GENBEN_02
Wilshusen, Chris	1820	FIF_01
Wilson, Craig	0974	CNSTL_01 FIF_02 FISC_01 FRCE_02 MRKT_01 WORK_COMM_01
Wilson, Lee	2067	GENBEN_06
Wilson, Sherry	0260	FIF_01
Wilson, Suzanne	1585	AGPA_01 OTA_02
Wilson, Tammy	0190	AKHIRE_01 AKHIRE_11 DISP_01 FIF_02 FISC_01 INFRA_03 LLC_02 OWNRISK_03
Wilson, William	0511	FIF_01

Commenter	Submission #	Codes
Winegarner, James	0369	ACC_01 AKHIRE_14 FISC_02 INKIND_01 OFFTAKE_01 TIME_01
Winegarner, Jim	1470	GENBEN_05
Winegarner, Jim	1629	GENBEN_02
Wise, William	1928	FIF_01
Withem, Bud	1353	FIF_01
Withem, Marion & Joe	1350	AK_DMD_01
Witherell, Patrick	1657	MRKT_01
Withey, Carol	0164	FIF_01
Wofford, Carol	0395	FIF_01 FISC_02 GENBEN_01 GENBEN_02 GENBEN_05 WORK_COMM_02
Wofford, Mike	0071	FIF_01
Wohlford, Cameron	0968	FIF_02 INFRA_03
Wold, Kim	0056	FIF_01
Woldstad, Bonnie	0218	COMM_PER_01 COMM_PER_04 FIF_02
Woldstad, Ken	0628	AKHIRE_01 CNFDL_02 CNSTL_01 DISP_01 FIF_02 OVRRUN_01
Wolf, Thomas	0542	FIF_01
Wolfe, David	1223	OFFTAKE_01
Womack, Ardyne	0882	CNFDL_02 CNSTL_01
Wood, Jeffrey	0258	FIF_01
Wood, Larry	1082	FIF_02 FISC_01 GENBEN_01 MCKZ_04 OFFTAKE_01 WORK_COMM_01
Woods, Nina	1514	FIF_01
Woodward, Lori	0393	AK_DMD_01 COMM_03 GENBEN_02 OFFTAKE_01
Worthington, Aras	0261	FIF_01
Worthington, Aras	0848	FIF_01
Wren, Matthew	1218	AGPA_01
Wright, Lisa	1205	AK_FINC_01 FISC_01 INCNT_01 PPT_03
WWWW, WWWW	0058	AKHIRE_01
Wymer, Dan	0222	FIF_01
Wymer, Matt	0215	FIF_01
Xavier, Norman	1415	ACK_01
Yadon, Rob	0166	FIF_01
Yates, Randy	1617	INCNT_01
Yeaton, Jeff	0372	ACC_01 AK_DMD_01 AKHIRE_14 COMM_03 FIF_01 GENBEN_01 GENBEN_02 GENBEN_07 OFFTAKE_01 WORK_COMM_02
Yett, Robert	1836	FIF_01
Yocom, Clifton	1738	GENBEN_07
York, Richard	1938	FIF_01

Commenter	Submission #	Codes	Commenter	Submission #	Codes
Young, Eddie	1784	FIF_01			
Young, Juanita	2126	FIF_01			
Young, Leonard	1767	GENBEN_02			
Youngmun, Greg	0605	FIF_01 GENBEN_01 GENBEN_05 MRKT_03			
Zabel, Leslie	1977	TIME_01			
Zanazzo, Matt	1292	FIF_01 GENBEN_05			
Zavacky, Mike	1935	GENBEN_07			
Zoerb, Don	1468	NATRSC_09			

Part 2

Index of All Submissions Associated with Organizations

This index lists submissions associated with organizations that have a direct or indirect interest in the pipeline project. The index is sorted alphabetically, and shows the submitter's name, the associated organization, the submission number and the SOCs to which the submission was coded. To find the state's responses to the concerns in a particular submission, look up the submission by the submitter's name in the appropriate index, note the SOCs to which the submission was coded, then look up the state's response to the SOCs in Chapter 3 of the Summary of Public Comments.

Submissions - Organizations only

To see the response to a comment, find the organization's name in the alphabetical lindex and note the Statement of Concern (SOC) code(s) assigned to it. Next, turn to the Response to Comments section to read the definition of the SOC and the response to the concern.

Organization	Submitted by	Submission #	Code
AFL-CIO	Sampson, Jim	0216	ACK_01 AKHIRE_01 AKHIRE_02 AKHIRE_03 AKHIRE_04 AKHIRE_09 CNSTL_01 COMM_PER_01 COMM_PER_03 FERC_01 FIF_01 INKIND_01 LLC_02 RCA_01 WORK_COMM_01
AFL-CIO	Sampson, Jim	2116	AKHIRE_03
Alaska Community Action on Toxics (ACAT)	Mathrani, Varsha	1694	CNFDL_02 CNSTL_02 CNSTL_07 CNSTL_12 COMM_PER_12 DISP_01 ENVR_07 FIF_02 IMP_S_01 INDG_01 LCL_X_05 LEGIS_04 LLC_13 NATRSC_01 OTA_02 OWNRISK_02 PFD_03 STRND_01 WORK_COMM_01

Organization	Submitted by	Submission #	Code
Alaska Conservation Alliance	Troll, Kate	0939	CNSTL_03 CNSTL_04 FIF_02 GENBEN_01 INCNT_01 OFFTAKE_01 OVRRUN_01 OWNRISK_02 WORK_COMM_01

Organization	Submitted by	Submission #	Code
Alaska Department of Revenue	Alaska Department of Revenue	1696	ACC_01 ACC_03 ACC_06 AK_DMD_01 AK_FINC_06 AK_FINC_07 AKHIRE_07 CNSTL_01 CNSTL_02 CNSTL_04 CNSTL_06 CNSTL_07 COMM_PER_06 DISP_01 EDI_02 EDI_06 FERC_04 FERC_05 FERC_06 FISC_01 HEARINGS_08 INCNT_01 INCNT_03 INKIND_01 LCL_X_06 LCL_X_07 LCL_X_08 LCL_X_17 LLC_09 LLC_10 LLC_11 NATRSC_01 OFFTAKE_01 OTA_02 OWNRISK_02 POL_RSK_01 PPT_03 PTU_01 PTU_07 RCA_01 SGDA_01 SGDA_07 SGDA_08 UUFC_01

Organization	Submitted by	Submission #	Code
			WORK_COMM_01 WORK_COMM_06
Alaska Gasline Port Authority (AGPA)	Walker, Bill	0678	INCNT_01 OWNRISK_02
Alaska Gasline Port Authority (AGPA)	Walker, Bill	0917	FIF_02 NATRSC_02 SGDA_05 WORK_COMM_01
Alaska Gasline Port Authority (AGPA)	Walker, Bill	0987	CNSTL_04 FIF_02 FISC_01 OTA_02 SGDA_05
Alaska Natural Gas Development Authority (ANGDA)	Heinze, Harold	2153	AK_DMD_01 FERC_09 FERC_10 INDST_01 INKIND_01 LLC_16 LLC_17 UUFC_01
Alaska Oil and Gas Association (AOGA)	Brady, Judith	1722	ACK_01 FIF_01 GENBEN_05 INCNT_01 MRKT_01 TIME_01
Alaska Public Interest Research Group	Cleary, Steve	1096	COMM_PER_01
Alaska Public Interest Research Group	Cleary, Steve	1171	COMM_PER_01 OFFTAKE_01
Alaska Ship and Dry Dock	Ward, Doug	0095	AK_DMD_01 AKHIRE_02 COMM_05 OFFTAKE_01

Organization	Submitted by	Submission #	Code
Alaska Supply Chain Integrators (ASCI)	Hawkins, Scott	0736	AKHIRE_14 COMM_05 FIF_01 FISC_02 GENBEN_01 GENBEN_06 INCNT_01 LLC_05 OWNRISK_02

Organization	Submitted by	Submission #	Code
All Alaska Alliance	Backes, Lori	0672	AGPA_05 AK_DMD_01 AKHIRE_04 CNSTL_01 CNSTL_03 CNSTL_07 COMM_PER_04 FISC_01 INCNT_01 INCNT_02 LCL_X_02 OWNRISK_02 PTU_01 RCA_01
All Alaska Alliance	Backes, Lori	0846	AK_DMD_01 AKHIRE_01 AKHIRE_04 CNSTL_01 CNSTL_04 FIF_02 INCNT_02 LCL_X_02 OWNRISK_02 PTU_01 STRND_01

Organization	Submitted by	Submission #	Code
All Alaska Alliance	Backes, Lori	1690	ACC_01 ACC_11 AK_DMD_01 AK_FINC_07 AKHIRE_05 CNSTL_01 CNSTL_02 CNSTL_04 CNSTL_07 EDI_02 FISC_01 FISC_07 HEARINGS_08 IMP_S_02 IMP_S_05 INCNT_02 INKIND_01 LCL_X_02 OTA_01 OTA_02 PFD_03 POL_RSK_01 PTC_01 RCA_01 SGDA_14 STRND_01 WORK_COMM_01
Anadarko Petroleum	Daniels, Robert P.	1670	ACC_01 ACC_07 ACC_11 ACC_14 ACC_15 ACK_01 FERC_06 LLC_09 RCA_01 SGDA_12 UUFC_01

Organization	Submitted by	Submission #	Code
Anchorage Chamber of Commerce	Evans, Bill	0894	AK_DMD_01 FIF_01 GENBEN_06
Anchorage Chamber of Commerce	Pease, Mary Ann	1123	AK_DMD_01 FIF_01
Arctic Controls, Inc.	Stewart, Scott	0151	ACC_01 AGPA_02 AK_DMD_01 FIF_01 GENBEN_01 MRKT_01 OFFTAKE_01 TIME_01
Backbone II	Hickel, Walter J.	1103	ACC_01 AK_DMD_01 AKHIRE_04 FISC_01 OWNRISK_02
BG Alaska E & P, Inc	Houston, Martin	1724	ACC_02
Chevron North America	LeMieux, Vince J.	1723	ACC_13 CNSTL_03 LLC_09 PTU_07 SGDA_19 UUFC_01
City of Ketchikan	Weinstein, Bob	0098	AGPA_01 AKHIRE_06 CNSTL_01 COMM_06 EDI_06 HEARINGS_02 INKIND_01

Organization	Submitted by	Submission #	Code
City of Valdez	Cottle, Bert	1003	AGPA_01 AGPA_03 AK_FINC_03 CNFDL_02 CNSTL_01 COMM_PER_01 COMM_PER_10 FIF_02 FISC_01 INKIND_01 LLC_02 OWNRISK_02 PPT_03 SGDA_05 WORK_COMM_01
City of Valdez	Cottle, Bert	1663	AK_DMD_01 AK_FINC_03 AKHIRE_03 CNSTL_01 CNSTL_07 DISP_01 INKIND_01 LCL_X_07 LCL_X_08 PTU_01 RCA_02 REGCON_01 RSRV_X_01 SGDA_01 STRND_01 WORK_COMM_01
Conoco Phillips Alaska Incorporated	Marushack, Joe	0661	AKHIRE_01 FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 GENBEN_08 MRKT_01 PFD_04 STRND_01 WORK_COMM_02

Organization	Submitted by	Submission #	Code
Doyon, Limited	Mery, James	1675	RSC_RSK_01
Fairbanks North Star Borough	Whitaker, Jim	0985	AGPA_01 CNSTL_04 FIF_02 OWNRISK_02 WORK_COMM_01
Haines Borough	Venables, J. Robert	1697	OFFTAKE_01
Haines Chamber of Commerce	Haines Chamber of Commerce	2166	AKHIRE_23 COMM_08 IMP_S_02 INFRA_04 OFFTAKE_01
Hawk Consultants	Tapp, Maynard	0705	AGPA_02 FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 GENBEN_07
Ketchikan Gateway Borough and City of Saxman	Williams, Joe	0099	EDI_06 GENBEN_04 OFFTAKE_01 OTA_01

Organization	Submitted by	Submission #	Code
Municipal Advisory Group	Municipal Advisory Group	2112	LCL_X_18
Municipal Advisory Group	Municipal Advisory Group	2113	LCL_X_18
Municipal Advisory Group	Municipal Advisory Group	2114	IMP_S_06
Municipal Advisory Group	Municipal Advisory Group	2115	AKHIRE_21
Municipal Advisory Group	Municipal Advisory Group	2159	IMP_S_07
Municipal Advisory Group	Municipal Advisory Group	2160	IMP_S_05 OFFTAKE_01
Municipal Advisory Group	Municipal Advisory Group	2161	LCL_X_17
Municipal Advisory Group	Municipal Advisory Group	2162	LCL_X_07
Municipal Advisory Group	Municipal Advisory Group	2163	LCL_X_19
Municipal Advisory Group	Municipal Advisory Group	2164	LEGIS_03 LEGIS_07
NANA Worksafe	Fagnani, Matthew	0843	FIF_01 FISC_01 GENBEN_02 INCNT_01 PPT_01
North Slope Borough	Itta, Edward S.	1695	AKHIRE_16 DISP_01 ENVR_11 ENVR_12 ENVR_13 LCL_X_09 LCL_X_10 LCL_X_11 LCL_X_12 LCL_X_13 LCL_X_14 LCL_X_15 LCL_X_16 LCL_X_17 PPT_07 UUFC_01 WORK_COMM_07

Organization	Submitted by	Submission #	Code
Northrim Bank	Langland, Marc	0467	FIF_01 GENBEN_01 GENBEN_02 GENBEN_05 LLC_05 MRKT_03 PFD_04 PPT_01 PPT_03 TIME_01
Resource Development Council	Owens, Tadd	2167	ACC_02 OWNRISK_02 RCA_01 UUFC_02
Shell Energy Resources Company	Odum, Marvin	1673	ACC_01 ACC_02 ACC_04 ACC_07 ACC_12 FERC_01 FERC_02 FERC_04 RCA_01
Tanacross Incorporated	Brean, Robert	1640	AK_NATV_03 AK_NATV_04 AKHIRE_01 AKHIRE_17 AKHIRE_18 AKHIRE_19 AKHIRE_20 IMP_S_02 IMP_S_03 IMP_S_04 INDST_02 OFFTAKE_01 SGDA_01 SUBST_02

Organization	Submitted by	Submission #	Code
Tesoro	Burden, Gene	1685	ACC_03 ACC_16 AK_DMD_01 FERC_01 FERC_04 FERC_05 OFFTAKE_01 RCA_01 RCA_02 REGCON_01
Tongass Conservation Society	Vickery, Gregory	0096	ACC_11 AK_DMD_01 AKHIRE_04 AKHIRE_05 CNSTL_01 CNSTL_03 CNSTL_07 DISP_01 LCL_X_01 LCL_X_04 OTA_02 OVRRUN_01 PFD_03 RCA_01 STRND_01 WORK_COMM_01
TransCanada	McConaghy, Dennis	1212	CAN_OWN_01 CAN_OWN_02 CAN_OWN_03 CAN_OWN_04 CAN_OWN_05 CANREG_03 CANREG_04
TransCanada	Kvisle, Hal	1213	CAN_OWN_01 CAN_OWN_02 CAN_OWN_03 CAN_OWN_04 CAN_OWN_05 CANREG_03 CANREG_04

Organization	Submitted by	Submission #	Code
Udelhoven Companies	Udelhoven, James	0835	FIF_01 OVRRUN_03 WORK_COMM_02
VECO Alaska, Inc.	Maloney, Tom	0834	AKHIRE_14 FIF_01 GENBEN_01 GENBEN_05 MRKT_03 SGDA_02

Part 3

Index of All Submissions from Legislators or Their Consultants

This index lists submissions from legislators or their consultants. The index is sorted alphabetically, and shows the submitter's name, the submission number and the SOCs to which the submission was coded. To find the state's responses to the concerns in a particular submission, look up the submission by the submitter's name in the appropriate index, note the SOCs to which the submission was coded, then look up the state's response to the SOCs in Chapter 3 of the Summary of Public Comments.

Submissions - Alaska Legislature and Legislative Consultants

To see the response to a submission, find the name of the legislator or legislative consultant in the alphabetical index and note the Statement of Concern (SOC) code(s) assigned to it. Next, turn to the Response to Comments section to read the definition of the SOC and the response to the concern.

Name	Submission #	Code
Barnes, James *Legislative Consultant*	0804	ACK_01 CNSTL_04 CNSTL_10 CNSTL_11 DISP_01 FERC_01 FISC_01 FISC_02 FISC_06 GENBEN_05 INCNT_01 INKIND_01 LLC_02 LLC_04 LLC_07 RCA_01 RCA_02 REGCON_01 SGDA_01 STRND_01 WORK_COMM_01 WORK_COMM_02 WORK_COMM_05 WORK_COMM_09
Ellis, Johnny and Ethan Berkowitz *Alaska State Legislature*	2109	ACC_07 ACC_09 AK_DMD_01 AKHIRE_03 CNSTL_12 DISP_01 FERC_01 FISC_01 FISC_04 FISC_05 FRCE_02 INCNT_08 INKIND_01 LLC_08 LLC_13 NATRSC_11 OTA_02 OWNRISK_04 PTU_08 RSRV_X_01 SGDA_03 SGDA_08 SGDA_09 WORK_COMM_08 WORK_COMM_09

Name	Submission #	Code
Gildan, Phillip C. *Legislative Consultant*	1646	LLC_11
Gildan, Phillip C. *Legislative Consultant*	1647	LLC_09 LLC_14
Gildan, Phillip C. *Legislative Consultant*	1648	LLC_09
Gildan, Phillip C. *Legislative Consultant*	1652	DISP_01
Gildan, Phillip C. *Legislative Consultant*	1653	LLC_11
Gildan, Phillip C. *Legislative Consultant*	1654	LLC_09
Gildan, Phillip C. *Legislative Consultant*	1655	FISC_01 SGDA_06
Guttenberg, David *Alaska State Representative*	1725	AKHIRE_03 CANREG_01 FIF_02 RCA_01 REGCON_01
Harris, John *Alaska State Representative*	1018	AGPA_01 AKHIRE_03 GENBEN_02 HEARINGS_03 INDST_02 NATRSC_01
Ramras, Jay *Alaska State Representative*	1726	ACC_09 AK_DMD_01 CNSTL_01 FIF_02 INKIND_01 LLC_09 LLC_13 SGDA_14 WORK_COMM_01 WORK_COMM_09
Shepler, Donald and Phillip C. Gildan *Legislative Consultant*	1668	ACC_02 ACC_08 ACC_10 ACC_11 DISP_01 FERC_01 FERC_07 INKIND_01 LLC_11 OTA_01 SGDA_07 SGDA_20

Name	Submission #	Code
Therriault, Gene *Alaska State Senator*	1019	ACC_03 AGPA_01 FERC_02 GENBEN_03 GENBEN_05 MRKT_01 NATRSC_08

Name	Submission #	Code
Therriault, Gene and Ralph Seekins *Alaska State Legislature*	2110	ACC_01 ACC_07 AK_DMD_01 CAN_OWN_01 CANREG_02 CNSTL_01 CNSTL_08 DISP_01 FERC_06 FISC_01 FISC_08 FISC_09 FISC_10 FRCE_02 INKIND_01 LLC_02 LLC_08 LLC_09 LLC_11 LLC_13 OIL_PX_01 PTU_05 PTU_06 RCA_01 SGDA_01 SGDA_14 SGDA_16 SGDA_17 SGDA_18 WORK_COMM_01 WORK_COMM_03 WORK_COMM_06 WORK_COMM_08 WORK_COMM_09

Name	Submission #	Code	Name	Submission #	Code
Wagoner, Thomas H.	2111	ACC_01			
Alaska State Senator		AK_FINC_01			
		CNSTL_01			
		CNSTL_06			
		CNSTL_08			
		LLC_11			
		OWNRISK_02			
		OWNRISK_04			

Attachment 2:

State's Official Responses to Selected Comments

Contents

During the course of the Public Comment Process, the State chose to respond individually to several comments. This attachment contains the state's official responses to these selected comments. It should be noted that all of the comments listed below were also included in the public comment database. It is also important to note that these responses were written over the course the public comment and legislative process during which several key events transpired, and therefore the content must be understood in the context and timing in which they were written. To that end the responses are presented in chronological order. Finally, it should be noted that several of the responses have been edited from the originals for typographical and grammatical errors. Where words have been added or changed they are shown in brackets [*].

- Response to Backbone II; June 2, 2006
- Response to Alaska State Representative Jay Ramras; June 2, 2006
- Response to City of Valdez Mayor Bert Cottle: June 21, 2006
- Response to Karen L. Hunt, President of Commonwealth North, with attached response to CWN's June 9, 2006 contract comments; July 12, 2006
- Response to Alaska State Senator Gretchen Guess' July 21, 2006
- Response to Alaska State Senators Ralph Seekins and Gene Therriault, with attached response to Memoranda from Rick Harper and Donald Shepler; August 23, 2006
- Response to North Slope Borough Mayor Edward Itta; August 31, 2006
- Response to Alaska State Senator Gene Therriault; August 31, 2006
- Response to Alaska State Senator Gene Therriault and Alaska State Representative Ralph Samuels; August 31, 2006
- Response to Alaska State Senator Gary Wilken; September 20, 2006
- Response to Alaska State Senator Gene Therriault and Alaska State Representative Ralph Samuels with attached response to July 2, 2006 memorandum from Greenberg and Traurig (legislative Counsel); September 25, 2006
- Response to Alaska State Senator Thomas Wagoner; September 27, 2006
- Response to Tom Irwin, et. al.; October 18, 2006
- Response to Richard (Dick) LeFebvre; October 18, 2006
- Response to Legislative Minority; October 20, 2006

Backbone II Response

June 2, 2006

This is the State's point by point response to the Backbone II's May 19, 2006 "Preliminary Analysis of the Proposed Natural Gas Pipeline Contract."

There are numerous analytical errors in Backbone II's preliminary analysis, which are addressed and corrected in this document.

Backbone II's purpose in preparing its May 19th memorandum seems to be to stop the gas pipeline contract:

> "The first quick analysis of the Governor's proposed gas pipeline contract shows many serious problems, any one of which should disqualify [it] from consideration" (Backbone II May 19, 2006 memorandum at page 1)

Moreover, the Backbone II memorandum resorts to the use of fear, hyperbole and mistruth to influence the reader to be against the gas pipeline contract:

> "The proposal gives most of the profits to the oil companies while the State takes much more than its share of risk, including the possibility of exposing the Permanent Fund. (Backbone II May 19, 2006 memorandum at page 1)

Because the contract is the result of give and take negotiations with the State agreeing to items important to the Producers in exchange for items important to the State, we request that the reader consider the contract as a whole. Will it reasonably progress the gas pipeline project without unreasonable risk to the State? Will the rewards received by the State outweigh the risks? Is there a viable, better alternative? We are seeking a thoughtful discussion on the merits to answer these questions.

We urge the reader to seek additional information to that contained here.

Our website address is: http://www.gov.state.ak.us/gasline/

1. The contract is in conflict with the current legal definition of "Stranded Gas."

Backbone II contends that the contract conflicts with the current legal definition of "Stranded Gas" and the "only way to prove the gas is stranded is to open up sufficient gas purchases to free market forces and to have somebody show up."

The suggestion that the gas should somehow be "opened up to free market forces" makes no sense. The large North Slope producers have property rights in their gas leases. Does Backbone seriously contend that the State can auction off gas held by leaseholders with whom the State has executed valid leases? Or should the State attempt to revoke the leases, thereby provoking years of litigation over the billions of dollars of value that those leases represent? Why does Backbone II think those leases would go to its client given the obligation under Alaska law to place such leases out to bid? In any event, the object of the SGDA was to find the surest way, given prevailing conditions, to move the gas to market, thereby monetizing our gas. The Administration's choice, after weighing the circumstances and the options of competing projects, was to negotiate a contract with those who have the gas because that was the most expeditious way to secure a gas pipeline.

Over the last 30 years other projects with lower costs, lower risks, higher rates of return or other attributes have been developed while Alaskan natural gas has not. In fact, natural gas production worldwide has more than doubled from 97.2 billion cubic feet per day in 1970 to 258.8 billion cubic feet per day in 2005. The average growth rate was 4.9% per year. Thus, other natural gas projects [likely less expensive] have been developed, while Alaskan natural gas has not.

The Governor has acknowledged that today's price forecasts are encouraging to the project. However, both he and the Commissioner of Revenue recognize that increased gas prices also increase the viability of competing international projects. The Alaska Gas Pipeline Project must be enhanced to make it more competitive.

As contemplated by the Stranded Gas Development Act, the Commissioner of Revenue in his "Preliminary Findings and Determination of the Commissioner" using the above information and other analysis "has determined that ANS gas is stranded for purposes of the SGDA." FIF Section 9.2.1 at 242; see also Section 1.4.3 at FIF 24-25. The economic analysis that supports his conclusion is contained in Appendix C.

That analysis satisfies the definition in the SGDA.

Backbone II may object to the process followed by the Commissioner of Revenue, but it is the process that the Legislature set out in the SGDA. If the requisite qualifications are met, the Commissioner of Revenue "may develop a contract" (43.82.200) and include within the contract a variety of terms relating to royalty and taxes, among other matters. The Legislature specifically provided for confidentiality to attend to information supplied in the negotiations. Acting within the confines of the SGDA's requirements, the Commissioner also kept key members of the Legislature informed about the progress of the negotiations. Not only were confidential negotiations in keeping with the SGDA, they are the norm for business negotiations.

2. The contract violates Title IX of the Constitution by contracting away the taxing authority of future legislatures.

Backbone II's assertions are not grounded in the language or history of Article IX and relevant federal Contract Clause case law, which collectively make clear that the Alaska Constitution allows a legislature to temporarily contract away its taxing power.

The Attorney General has issued a lengthy and well researched opinion which concludes that the proposed contract is in accordance with sections 1 and 4 of Article IX of the Alaska Constitution. The Administration has acknowledged that this is a case of first impression in Alaska and that it is likely to be litigated.

Also see answer to item 6.

3. **The contract states that "any failure to comply with Article 6 (the Alaska hire provisions), does not constitute a material breach of the contract..."**

Backbone misleadingly quotes only a portion of this sentence of the Alaska hire section of the contract. The full section reads as follows: "Any failure to comply with, or breach of, Article 6 does not constitute a material breach justifying the termination of this Contract." (emphasis added).

A breach of Article 6 does not fall within those circumstances of the parties' agreement to limit the termination penalty to a failure to advance the project with diligence. Article 6.7 does set forth those remedies available to the State for breaches of the Alaska hire provisions.

Termination of the contract under Article 5 is the ultimate contractual penalty the State can seek. It is one that is available only prior to project sanction -- the point at which FERC and NEB have issued certificates and the entity owning the pipeline has given notice that it will proceed with construction. Because the consequences of termination are so severe, the State must demonstrate by "clear and convincing evidence" that the Producers have not acted with "diligence", thereby causing a material adverse impact on the project. The parties have agreed that the termination provision under Article 5 should be a remedy limited to a very narrow set of circumstances as befits a penalty this drastic.

4. **The contract forbids disputes between the State and the participants regarding their obligations under the contract from being adjudicated and requires that they be decided by an appointed "Tribunal".**

The contract does not forbid the adjudication of contract disputes between the State and one or more participants. All disputes under the contract are subject to adjudication; the form of the adjudication is arbitration according to a carefully balanced set of rules modeled on the rules of the International Institute for Conflict Prevention and Resolution ("CPR"). Arbitration is widely utilized in US and international commercial contracts to resolve disputes.

The State has agreed to an arbitration clause in a number of existing contracts and has successfully invoked it—most recently in an action against ExxonMobil.

Back' one II shifts back and forth between the general provisions of the dispute resolution and the special process for termination of the contract under the work commitments clause in a confusing manner. It alleges that the arbitration process is "heavily biased to virtually assure that the producers would prevail in any attempted arbitration." They cite generally the alleged absence of a damage remedy, alle ed unfairness in selecting the arbitrators, and alleged unbalance in discovery rights. They also make an argument that the producers are exempted from arbitration for failure to move the project forward. Their general allegations about the dispute resolution process will be answered first followed by an answer to the issues they raise about termination under the work commitments clause.

Contrary to Backbone's allegation that damages cannot be awarded, Rule C.10 provides that "the Tribunal may grant any remedy or relief, including provisional relief and specific performance, that is within the scope of this Contract and permissible under the Law applicable to the Dispute." Damages are available as part of "any remedy" except in a few limited circumstances.

With regard to arbitration, Backbone is simply wrong in stating that the producers are granted greater rights than the State in selecting arbitrators. Disputes may take the form of a dispute between the State and one company or between the State and more than one company. In each case, the parties to the dispute jointly try first to agree on the arbitrators. At this stage, there is no voting process; the parties discuss who is qualified and seek to agree on the panel. If agreement is not reached within 75 days, then a neutral body, not the parties, provides a list of qualified arbitrators from their standing lists of experienced arbitrators. The producers do not have greater rights than the State at either stage.

After that, each party may strike one candidate. In a single participant dispute, each side gets a single strike from the list. In a multi-participant dispute, each party, whether there are three or

four parties, gets a strike but there is no reason to assume that in all cases the producers will take a unified position. Indeed, in a dispute over the expansion provisions, for example, the State and one producer or even two producers could line up in exercising the right to strike against a third company. Even so, the value of striking a potential arbitrator from the list is quite limited because neither the State nor the companies will have the right to nominate preferred candidates to the neutral list proposed by CPR.

Backbone also misunderstands the discovery provisions. Discovery is scaled according to the size of the dispute. The largest disputes that could arise under the contract would be disputes concerning the payment in lieu of the new PPT. Those disputes are not subject to any pre-set limit on discovery. The Tribunal decides what discovery is appropriate to the circumstances. That is virtually the same standard as courts apply.

The other large disputes that the State has faced in the past such as the disputes about the value of oil or gas for tax or royalty purposes should not arise. The reason is that the State is taking its royalty in kind and receiving tax payments as gas, not cash, accordingly to a pre-arranged formula.

For small disputes -- generally under one half or one million dollars -- there are limits on depositions. This is sensible unless one believes in enfranchising lawyers to litigate disputes at any cost regardless of the size of the dispute. Moreover, in multi-participant disputes, the producers are not given three times the number of depositions as Backbone claims. Rule C.11(b)(iv) (E), says clearly "in a Multi-Participant Dispute, each side to a Dispute is entitled to no less than two (2) oral depositions." So if the State is on one side and all three companies are on the other side, each side, not each party, has equal rights.

Backbone also distorts termination under the work commitments clause. They claim that the producers are exempted from arbitration for such issues as failure to move the project forward because of commercial disputes or regulatory issues.

What Article 5.5 actually says is that in deciding whether to terminate the contract due to the absence of "diligence" the

Arbitration Tribunal shall "take into account" various factors. Taking reasonable facts into account is hardly an exemption from arbitration. Among the factors are the plain and obvious facts that project development may be delayed by US or Canadian regulatory processes. Since construction cannot begin on the gas pipeline without prior approval of the US and Canadian regulators, requiring the Tribunal to take that into account is not a concession but a fact of life.

Finally, Backbone's argument about the burden of proof is equally misguided. The burden of proof is neither the highest -- beyond a reasonable doubt -- nor the lowest -- more likely than not. Given the huge commitments that all parties are making to this giant project, the contract should not be too easily terminated. Rather, if the State feels that termination is warranted, it should be convinced and be convincing. A clear and convincing standard fits that goal.

5. **The contract grants the producers an exclusive right and monopoly to build and operate the gasline, and the ability to prevent anybody else from doing so. Without the risk of forfeiture for nonperformance within mandated timeframes.**

The Governor has followed the direction of the Stranded Gas Act to negotiate a business deal. Because the producers already hold rights to the gas that would support any pipeline and have been willing to negotiate a business deal, pursuing hypothetical alternative projects that have no rights to gas makes no sense.

Moreover, the State has no right to dispose of its royalty gas until it is produced. There are legal theories that, if successfully pursued in litigation, might force relinquishment of leases or the sale of gas. But litigation would take years and any project would be delayed while costly and complex litigation played out in the courts with no certainty of result. Even if the State got back its gas leases through litigation, under current law the State would have to re-bid new leases. There is no assurance that Backbone II's client would get those leases as part of such a re-bid.

The State obtained a bundle of rights in return for the fiscal certainty that the contract provides the Producers. It obtained the right to own a substantial share of the pipeline, it obtained the right to receive production tax payments in gas, not cash. It obtained the right to have the producers ensure that its gas will have proportionate access to capacity to move its gas to market, and it obtained special expansion and other rights. As part of the overall gas pipeline negotiations the State obtained the producers' agreement to increase their taxes on oil by approximately a billion dollars a year.

Finally, only the FERC and NEB have the legal authority to authorize construction and operation of a gas pipeline. Their requirements must be satisfied. Among those requirements are that a pipeline has financing, gas supplies and shippers. The producer project is the project most likely to meet those tests.

6. The contract violates Title VIII of the Constitution requiring maximum development for the maximum benefit of Alaska.

We believe that the proposed contract is consistent with Article VIII's mandate to develop the state's gas for the maximum benefit of Alaska's citizens. The framers recognized that developing Alaska's resources according to the mandate of Article VIII might require an innovative tax regime as reflected by their rejection of a more restrictive version of section 1 of Article IX and instead providing that a legislature may temporarily contact away the taxing power in order to maximize the development of industry in Alaska.

Three key ingredients are required to obtain a gas pipeline contract: fiscal certainty, State equity participation and the State taking gas in kind and committing to ship it on the pipeline. The combination of these three factors significantly improve the project's internal rate of return, thus making it more likely that the gas pipeline project will in fact be built. Moreover, total state oil and gas revenues will be comparable to those the State would have received under the 2005 fiscal regime. Therefore, the State will obtain substantial revenues from a gasline and encourage development of our vast ANS gas resources which will benefit all Alaskans. Moreover, the gas pipeline will result in a twenty year extension of

the TransAlaska Pipeline System. Finally, there will be thousands of construction jobs for which we are training Alaskans to fill. Alaskans will also be able to perform pipeline work in Alberta.

Also see Answer to Item 2.

7. The contract is incomplete.

The contract is complete, although we're still reviewing the Accounting Procedures in Exhibit A and Example Calculations in Exhibit F to ensure they accurately represent the provisions of the contract. The contract that we posted on May 10th included all terms with the exception of the complete integration of the terms associated with PPT. The updated contract posted on May 24th added provisions in Article 11, 20.3, and in Exhibits P, Q, R, X, Y, and Z. No other changes were made to the contract. As the Governor and the Producers announced on May 24th, the parties are prepared to sign the contract released on that date. We have always acknowledged that changes to the SGDA are required before the Legislature can ratify the contract.

The SGDA was enacted in 1998 long before negotiations for a gas line actually began, and certain features of the contract that will benefit Alaskans were simply not anticipated in 1998. We are now in the public comment period in which the contract, proposed legislation and numerous other documents are available together as a package for the public and the legislature to review.

8. The contract prohibits the state from regulating the pipeline.

Legally, the FERC has the exclusive right to authorize the construction and operation of an interstate natural gas pipeline system, specifically the Alaska natural gas pipeline in the United States. In this case, that authority extends to the gas treatment plant and gas transmission pipelines between the producing fields and gas treatment plant. The FERC has already exercised its jurisdiction by extending the open season regulations to the GTP. We also expect that gas transmission pipelines that supply an interstate gas pipeline also will be regulated by the FERC. This is

unlike TAPS in which federal regulation is far less pervasive and there is dual regulation of rates with RCA.

Thus, the RCA is powerless under federal law, not because of the contract to regulate the gas mainline, the GTP or the gas transmission pipelines. If the RCA should attempt to assert jurisdiction where it has none, its actions would interfere with the scheme of federal regulation and would precipitate unnecessary delay and litigation. Article 8.3 of the contract confirms existing law and is designed to avoid regulatory misadventures.

In the totally remote hypothetical case in which the RCA tried to extend its regulatory authority to the project in a way that conflicted with federal principles, the State would seek to cure the conflict. If it failed, the companies could initiate a dispute but recovery in such a dispute would be limited by Article 37.2 (Limitation on Remedies and Damages).

The other Backbone criticisms are truly remote and speculate. For the federal government to turn over regulation of an interstate pipeline to the State, as Backbone suggests, is farfetched. It would require the federal government to exempt one interstate gas pipeline from its comprehensive regulation of all interstate gas pipelines and the one pipeline that would be exempted would be the one with the highest national interest.

The analogy to the RCA's decision on TAPS intrastate rates is inapt also. Legally, the RCA found that the TAPS intrastate rates were too high because the profit component of the rates was far too high. Backbone argues that if a parallel indemnification clause were in effect for TAPS, the State would have had to "eat the difference." Backbone has not carefully read the contract. Article 37.2 precludes an award of lost profits. So, even if the RCA had jurisdiction to determine that the gas pipeline rates were too high, which it does not, the State would not have to "eat the difference" of lost profits.

9. The contract requires the Legislature to enact amendments to bring it into compliance with the law, and only then will the

parties agree to it. The contract is badly out of compliance with current law.

As noted above in our answer to Item #7, we have long acknowledged that changes to the SGDA would be required. In fact, the AG's Response to Commissioner Irwin's memo stated that the potential need for conforming amendments to the SGDA was recognized early on in the negotiation process. Those amendments were presented to the Legislature on May 31, 2006.

10. **The contract contains no start date, no requirement to actually spend the several billion dollars the companies say it will cost to perform the first tasks to design and begin permitting the project much less a commitment to actually build and complete a gas line.**

The contract includes a specific start date for the work to begin, which is 90 days after the effective date of the contract. The contract also requires the Sponsors to diligently implement the Qualified Project Plan from then onwards until Project Sanction. Project Sanction is the date on which the Producers will decide whether or not to build the project. It is not until then that the State and Producers will have completed their design engineering and permitting, and thus know the costs of the Alaska and Canadian portions of the project and the costs associated with FERC's certification. On Project Sanction date the Sponsors must decide whether or not to accept the time table set by FERC and the NEB for completing the project. Therefore, the work commitments under the contract are stronger than anywhere else in the world. The Producers do not have an open ended contract.

In addition, the project sponsors will be providing an annual update of the Project Summary, which is a public document. The major components of that update will include a description of the work accomplished and an updated project schedule. These updates will provide all Alaskans the opportunity to understand the progress that is being made on the project.

Many projects in the world are indeed built with intermediate steps and gates, sanctioned by boards. Typically in other

countries, a project plan is presented **after** the contract has been signed. The decision points of the Alaska Gas Pipeline are clearly laid out in the Qualified Project Plan and were presented and approved **prior to** the effective date of the contract. No major project has contractually required timelines as is claimed by Backbone II.

No investor in the world would agree to a contract in which it was obligated to build the line by some specified date four years prior to having the cost and other information the State and Producers will have at Project Sanction. Four years from now gas prices could be $ 2.50 per mmBtu or the price of steel could have gone up dramatically and the project would be completely uneconomic for any investor—including the State.

The Project includes the Mainline. The Mainline is clearly defined as the Alaska Highway Route in the definition of Mainline. So the contract does not apply to an over-the-top route. Nor does the contract provide any rights for an over-the-top route.

The State is not giving up enumerable rights and huge economic values as Backbone II claims. The State will receive approximately the same revenues on gas as it would have received under the 2005 fiscal terms. Furthermore, the Alaska Gas Pipeline should induce more exploration, and the State would benefit from the resulting oil and gas discoveries. Therefore it is misleading to say that the State receives absolutely nothing in return for this contract.

Also see answer to Item 13.

11. The contract is being falsely portrayed as the only option Alaska has to build a gasline.

The State has always been willing to consider all applications under the SGDA. A review of the record shows that the State engaged in serious dialogue with all applicants and seriously considered all proposals. Based on the State's discussions and negotiations with all SGDA applicants, it became clear that because they [the Producers] had the gas and were ready, willing

and able to negotiate and build a gas pipeline which would allow the State to monetize its gas, pursuing a contract with the Sponsor Group would be the most expeditious way to secure a project under terms favorable to the State.

The State had numerous discussions and negotiations with MidAmerican Energy Holdings Company. The State has always been willing to explore a contract for fiscal terms related to the gas pipeline project. However, in the State's view, without a commitment from the North Slope lease holders to supply gas, MidAmerican's demand for an exclusive right to build, own and operate the gas pipeline would not have resulted in a project. MidAmerican's demand for exclusivity was non-negotiable from its point of view and it therefore withdrew its application when the Governor refused to agree.

Similarly, the State engaged in numerous and serious discussions with TransCanada. While the State and TransCanada achieved consensus on many major issues and began development of a contract, the State determined that it was in Alaska's long term interests to concentrate on the Sponsor Group application because the North Slope Producers have the rights to ANS gas that is necessary to underpin the project. This will lead to more timely development of the gas pipeline. The State has always sought TransCanada's involvement in the project. The State believes that TransCanada's involvement in the Canadian portion could expedite the project.

Enbridge, Inc. also submitted an application and the State held preliminary talks with it. Enbridge was not willing to incur significant expenditures related to its application and did not, therefore, enter into a reimbursable agreement with the State. A reimbursable agreement would have enabled the State to retain independent contractors to review the Enbridge proposal. Thus, negotiations with Enbridge have not advanced beyond the application stage.

12. The contract prohibits the State from enforcing Point Thomson leasehold development and production requirements

The amended DNR decision of October 27, 2005 found the Point Thomson Unit (PTU) Agreement to be in default. Contrary to Backbone II's implied conclusion, that decision did not call for the return of the PTU leases to the state. The decision did call for "a plan to bring the PTU into commercial production within a reasonable time frame", and provided dates for initiation of development operations, commencement of drilling, and commencement of production. Because these dates are inconsistent with the work commitments contained in the contract, that default decision has been stayed, pending conclusion of deliberations on the contract by this legislature.

The state recognizes that:

1) historically, continuance of the PTU unit and leases has, until the latter half of 2005, been with the concurrence of DNR commissioners of several administrations of varied political perspectives;
2) PTU gas is critical to successful conclusion of a gas pipeline contract and to completion of the project;
3) no DNR or State rights have been given away or extinguished by granting the stay; and
4) if the current owners fail to meet PTU commitments specified in the contract (commit PTU gas in the initial open seasons and apply within 6 months to AOGCC for pool rules) or if the contract fails after execution for any reason, the current owners' rights to Pt. Thomson expansion leases terminate unless they initiate development within one year of the contract termination.

The state can also embark on the process of terminating the unit and reclaiming the remaining leases.

13. The only work commitment in the contract is for the participants to "begin project planning".

Producer company work commitments to the Alaska Gas Pipeline project have already begun, and have been actively pursued by the producer companies for several years. They spent 125 million dollars in 2001 and 2002 to develop a preliminary project plan,

including assessment of cost, technology, regulatory and environmental issues associated with the project. In 2004, the producer companies paid the state 1.5 million dollars to reimburse state contract negotiation costs. In addition, each company has incurred its own substantial ongoing costs in support of negotiations, development of the contract and other agreements, and related Alaska Gas Pipeline matters.

The work commitments contained in the contract are simply the next stage in the commitment already shown to-date by the producer group to complete the Alaska Gas Pipeline project. The work commitments contained in the contract are comparable, and actually stronger, than those contained in agreements with other governments for development of large and very large, complex, international projects.

The producer group has committed to start the "Project Planning" of the project within 90 days of execution of the project, and then to advance the project as diligently as is prudent under the circumstances. In fact, the producers must continue to advance the project even in the event of a judicial challenge, until either the project planning phase is completed, $120 million have been spent, or 15 months have passed.

Proper project planning is critical up-front to revalidate the 2001-2002 work and to prepare for the major investments and commitments made during the next stages: front-end engineering, field evaluations, the Open Season, and permitting. As project development proceeds; particularly on a project of this magnitude, scope, and complexity; information must be continually integrated and incorporated into the project scope, design, timing, and cost forecasts. Control of the process will be documented with periodic updates to the project plan.

If, instead of work commitments appropriate for such mega-projects, schedule-driven commitments are imposed, the project development begins to be driven by schedule, rather than sound planning, assessment, engineering, implementation and construction practices. Experience has shown that the result is always cost overruns – usually massive cost overruns on a mega-

project such as the Alaska Gas Pipeline. Because of this experience, the producers cannot prudently commit to build the Alaska Gas Pipeline if they are contractually committed to a strict development schedule. No prudent corporate management could commit to a tight timetable before it knows the terms and conditions of the federal authorization (FERC) or permits it must receive before it can start construction.

Any applicant which claims to be willing to do so should be viewed by the state very critically, because that applicant has demonstrated willingness to violate stern lessons-learned from many mega-projects in the past, and, by doing so, to magnify the likelihood that the state, directly or indirectly, will bear the brunt of major project cost overruns and delays.

The work commitments contained in the contract were crafted to ensure the next stage of the project is started promptly, and that a disciplined, thorough project management process is implemented and maintained to control development and construction of the Alaska Gas pipeline, ensuring the most cost-effective and timely project completion possible, and minimizing risk to both the state and the producers.

Also see answer to Item 10

14. The contract provides for Alaska hire only if Alaskan workers' rates are equal to or less than the costs of non-Alaskans and companies.

This is a misleading statement. Article 6.1 requires, to the extent permitted by law, the employment of Alaska residents and contracts with Alaska businesses provided, among other things, that they are "competitively priced in that they offer goods or services ... at a total cost that is equal to or less than the total cost of equivalent goods or services offered by a non-Alaska resident or a non-Alaska business." Backbone II interprets this to mean that Alaska workers' "rates" must be equal to or less than those of non-Alaskans. Presumably, by using the term "rates", Backbone is suggesting that if an Alaska labor rate is, say," $20 per hour and a Louisiana labor rate is, say, $10 per hour, the Alaskan need not be

hired. This is not correct. The language of Article 6.1 speaks to comparability in terms of "total cost" to the project, not just hourly labor rates. Thus, travel costs to and from Alaska, as well as food and housing costs to the project would all enter into a determination of whether the total costs of hiring a Louisiana worker exceeded those of an Alaskan.

Certainly, Backbone II cannot be taking a position that if an Alaska worker or business costs the project more than a non-Alaska worker or business the project nevertheless must hire the Alaska worker or business, and even be required to do so regardless of how large the disparity. Financing of this project, of which the State is a 20 percent owner, requires that costs be kept to a minimum and if workers or businesses must be hired even if they are not competitively priced, financing may become impossible. No responsible organization should be advocating a provision that could make the project uneconomic. As now written, the Alaska hire provision fully meets the Governor's Principle #6 that Alaskans deserve and will be trained for pipeline jobs.

15. The contracts allows the participants to amend the project plan each year.

All amendments to the Qualified Project Plan are subject to the diligence standard. Producers cannot amend the plan just to delay the project. As anywhere else in the world, a project plan of such a large project is amended whenever to do so is prudent under the circumstances. The companies receive fiscal certainty under the contract and provide an active work commitment and high gas revenues to the State and municipalities as agreed in the contract.

Also see answers to Items 10 and 13.

16. The contract specifically states that the parties are not required to sell natural gas to an Alaskan purchaser.

Again Backbone II misleads by engaging in selective quotation from the contract. What the contract says is that "Any Party may supply

Gas to Alaska purchasers, but no Party is required to sell Gas to an Alaska purchaser."

First, the State will itself have nearly 20 percent of the gas to market. It can elect to sell gas from its share to serve in-state markets as needed and on such commercial terms as the dictates of the Alaska constitution and State law require.

Second, Backbone II ignores the fact that the contract provides for:

(1) a study of in-state needs before the open season,
(2) for four offtake points for in-state delivery at the expense of the project,
(3) mileage sensitive in-state rates in the open season, and
(4) cooperation by the mainline over interconnections with parties who desire to build in-state laterals.

Potential in-state buyers will face the commercial reality that no party will want to sell gas for less than its market value. A contractual requirement otherwise would have required an economic concession, or subsidy, that would have cost the State an equal economic concession elsewhere in the contract.

17. The contract does not require the producers to expand the pipeline to take third party explorer gas, or for incremental expansions for instate use.

Backbone II argues that because the producers will bid for capacity in the State's name, the State's gas will go to Alberta and the State will have to pay the full cost to Alberta if it wants to take its gas off in Alaska. Backbone appears to be arguing about expansion in the above bold face type but the text that follows deals with the entirely different subject of how the capacity management article operates.

Again Backbone II has misread the contract and its point is misleading. First, the pipeline must offer in the open season a tariff for in-state usage computed without regard to costs outside

Alaska as well as a long haul tariff. Under the capacity management article, the State has the right to bid for some short-haul capacity (with a short haul rate) as well as long haul capacity according to the State's desires at the time of the open season. This carve out for in-state capacity means that the State's gas will not automatically go to Alberta if the State wants part of it to travel to in-state markets. Because there will be a short haul rate by order of the FERC, the State can take advantage of that rate for shipments in Alaska and will not pay the full cost of sending the gas to Alberta.

If a third party cannot find capacity on the Alaska portions of the project once it is operational, the contract gives the State the right to initiate the expansion process within the entity owning the pipeline provided certain conditions are met. The expansion process then becomes subject to the FERC process, including its open season requirements. As a general matter, the open season process is available to all so the third party explorer must bid against other potential users of the capacity. To require that the open season for the expansion capacity be limited to independent explorers would raise an issue of potential unlawful discrimination. So the contract goes as far as it reasonably can by giving the State the right to initiate an expansion on behalf of an independent shipper.

The independent explorer also has an alternative remedy. It can invoke the unprecedented mandatory expansion provisions of the Alaska Natural Gas Pipeline Act (ANGPA) enacted by Congress in 2004. If it makes it case at the FERC, then ANGPA provides that the expansion capacity must be contracted for by the shipper that filed the expansion application. In this case, the specific statutory provision appears to override the more general prohibition against unlawful discrimination.

18. The contract requires the State to defend and indemnify the participants against any loss arising out of their failure to perform an obligation under the contract.

This is a vast overstatement at best. Contrary to Backbone's claim, the contract does not allow "an outrageous transfer of potentially

immense risk to the State", nor does it "allow the industry to act recklessly at the expense of the State." Rather, the contract requires the participants to perform many obligations (*e.g.*, build the project with diligence) where indemnification by the State is simply not relevant.

In a few specific instances, there are indemnification provisions added, and for good reason. For example, under Article 10 dealing with capacity, the State has agreed to indemnify each producer and producer capacity holder against losses arising out of the producer capacity holder's action or inaction regarding its capacity obligations, except where fraud is involved. The quid pro quo for this is the unprecedented obligations that the producer capacity holder will assume in order to ensure that the State can acquire and maintain capacity rights on an equal footing with the producers.

Backbone II further claims that the State "alarmingly indemnifies the producers from the costs associated with state regulatory actions and actions by other governments." This presumably is a reference to Article 8.3, which addresses the RCA's authority over the project, and to Article 21.3, which addresses actions that may be taken by political subdivisions.

As already discussed in Item 8, the RCA has no regulatory authority over the pipeline itself, the GTP or interstate gas transmission lines. If nonetheless the RCA asserts jurisdiction and takes actions inconsistent with federal regulatory principles, and a loss to the companies results, then the companies could initiate a dispute to recover from the State losses they incurred. (Those losses would not include any lost profits.) The potential State liability under this provision must be considered in light of the almost non-existent likelihood that this string of events will occur.

With regard to losses incurred on account of actions taken by political subdivisions (*e.g.*, a new tax forbidden under the contract), the State has agreed to indemnify the participants against any losses they may incur insofar as they relate to the participants' fiscal obligations under the contract. In the contract, the State is agreeing to provide fiscal certainty to the participants and it is

reasonable to indemnify them in the event a political subdivision takes an action that attempts to undercut that certainty.

Finally, the contract also provides for State indemnification in situations where the State fails to make full payments of amounts due. Article 22 provides that in those situations a producer may recoup or affect an amount due by either receiving payments due under a State gas sales contract or reducing the volume of gas that the producer would otherwise deliver to the State. The contract further provides that where the producer reduces the volume, the producer shall acquire from the State the capacity related to the reduced volume and may acquire an assignment of State gas sale contracts also related to that reduced volume. For any such capacity or assignment actions, the State has agreed to indemnify the producer from any loss (as limited under Article 37.2). By making full and timely payments, the State is entirely in control of whether it will have to indemnify.

19. The contract forces the state to agree to binding "take or pay" shipping commitments costing billions for a quantity of gas it doesn't control.

In order to further the project, the state has agreed to take gas in-kind for both royalty and tax payments. That decision requires that the state make long-term shipping commitments just the same as would any other major shipper of gas. Those commitments will be paid from the revenues gained by marketing state gas. As a result, the state is accepting risk that gas marketing revenues might be inadequate to meet those shipping commitments. This risk is mitigated, as provided for in the contract and as discussed in the fiscal interest finding, in several ways:

1) because the magnitude of the monthly shipping commitment is directly related to the total construction cost, including all cost overruns, work commitments must provide the flexibility for the state and the other parties to plan and manage this mega-project in the most disciplined and effective manner to ensure construction costs are minimized;

2) the contract ensures that the state does not incur disproportionate shipping commitment ("Capacity") risk – the

contract ensures the state can get our gas to market when produced and that the state does not bear disproportionate risk, with respect to the producers, of holding unused capacity;

3) the PPT legislation and the Uniform Upstream Fiscal Contract provide incentives for investment and a level playing field for new explorers – minimizing the risk that the pipeline might not be kept full for the term of the contract;

4) the state "rides the coattails" of the producers when it comes to managing shipping commitments in the pipeline; and

5) under the terms of the contract the state marketer will receive the same information (production forecasts, field maintenance and pipeline operational bulletins) at the same time as producer marketers.

The state's risks incurred in accepting shipping commitments, and the state's risks with respect to the producers have been evaluated and have been found to be measurable and limited, when compared with the benefits and revenues available to the state as a result of the project.

20. The contract requires the State to invest 20% of the costs in all upstream pipelines between the gas treatment plan[t] and the producing units.

The State participates in the gas transmission pipelines in proportion to its expected share of gas in those pipelines, no more and no less. That varies by field. The State has the right to back out of participation in any individual component of the project after it takes capacity in the Open Season for that component. The particular project entity agreements will define those rights. If the State believes that it is not in its interest to continue to invest in one of the gas transmission pipelines, all it has to do is invoke its withdrawal rights under the entity agreements. Specifically, the State will have the right to withdrawal from participation with full recovery of its prior investment in the event the State decides not to proceed with the investment on the project sanction date. If it continues as an owner in the upstream

pipelines, the state will receive the commensurate reward for its investment based on the tariffs that have been established. Therefore, the State receives the same reward as the other investors with respect to such investments.

Under the current Status Quo, the State already pays for the processing costs of the gas in Prudhoe Bay through a reduction of royalty values, which is 2/3 of the gas in the pipeline during the first 20 years.

The 35% commitment allowance is intended to increase the internal rate of return on the project in the most efficient manner without giving up in total general government revenues. The 35% commitment allowance is designed to reward all shippers who have made a firm transportation commitment to the project.

21. The contract requires the state to take its royalty and taxes as gas-in-kind and directly compete in the market with the producers where they are advantaged by position, special knowledge and mass.

The fiscal interest finding, in sections 6.3.1, 6.3.2, and 8.2.3.4, provides extended discussions of market risks and the options available to the state to market our gas. The state will indeed compete directly with the producers. The producers are not likely to be advantaged upstream due to the unique position of the state marketer, which, alone, will enjoy the perspective from upstream information received from each of the North Slope producers.

Producer marketers are not treated the same. Their interactions in the marketing world are tightly constrained by regulation. They employ very different market strategies all the way from highly proactive marketing operations to simply delivering gas for spot sales at available markets. In addition, many of the largest natural gas marketing entities do not produce their own gas, but seek and enter into contractual commitments to supply their market delivery requirements.

Partnerships, joint ventures or contract marketing arrangements with such entities have the potential of combining the strengths of

the state (large, steady, long-term supply of gas) with the strengths of those entities (highly refined marketing capabilities, presence in multiple markets, forecasting and long-range market development skills, etc.). Some of them have already contacted the State with the idea of entering a marketing agreement. The risks incurred by the state by the decision to market our own gas are manageable and reasonable, and, although of much greater magnitude, are not that dissimilar from past decisions to market some of our own state oil, rather than leaving it in value with the producers. For example, the State currently takes royalty oil in kind and sells it at a premium to Flint Hills and Tesoro.

Moreover, the State has a key competitive advantage relative to the producers – the State pays no federal income tax, giving the State an edge in competing for customers and markets. The State can also preferentially direct its sales to in-state markets.

Finally, the concept of RIK / RIV switching is incompatible with the contract carriage of gas pipelines and the SGDA recognizes this.

22. The contract bases construction impact payment amounts on 2001 prices with no accommodation for inflation.

This is factually inaccurate. Information Insight did a study (that is on the Municipal Advisory Group website, and all the numbers in this paragraph are on page 94) and concluded that impact costs to Municipalities would about 120.6 million dollars in 2004 dollars, offset by about 10.7 million dollars in increased property taxes (though no analysis was done of increases from other tax sources.) Thus the maximum incremental costs to municipalities would be about 109.9 million in 2004, (not 2001) dollars.

Instead under Article 18, owners of the pipeline are making six payments that total 125 million in money of the day (although any payment made more than 9 years after the effective date is also escalated.) Recent historical inflation rates suggest the 125 million dollars as defined in the contract may yield a higher dollar figure than the actual 109.9 million dollars identified in the study.

23. All the risks that the State of Alaska is being asked to take on are designed to protect the oil companies. It puts the Permanent Fund at risk on matters over which the State has no control, as the oil companies will be in control.

Nothing in the proposed contract involves payments or investments by the Permanent Fund. In fact the opposite is true. The royalty contributions to the Permanent Fund are specifically assured in the contract. These contributions will be essentially the same as under the Status Quo since there was no change in the royalty percentages.

The State is not being asked to protect the Producers. The State only assumes risks with respect to its own share of the gas and its own share of the midstream investments. The State has full control over how it wishes to manage its own risk exposure, it is not dictated by anyone. In fact, the State has specifically negotiated provisions under the contract under which the State gets favorable treatment from the companies in capacity management and options in capital contributions during the investment in the gas line.

The State has full ability to reduce much of the risk significantly if it so wishes by selling large volumes of gas at the wellhead under large contracts and thereby avoiding shippers and marketing risks.

24. The contract contains no fiscal certainty for the State.

There is complete certainty that the State will receive all the payments that have been agreed to. There is complete fiscal certainty for the State. In addition, the Political Subdivisions will also have stability in the portion of PILT payments made payable directly to them.

25. The contract locks in oil and gas tax breaks for up to 45 years, with or without a gas line.

There is absolutely no provision in the contract that gives the companies a monopolistic right to market the gas of the State or

the gas in Alaska. The PPT tax regime under very conservative oil price forecasts will increase State revenues by a billion a year. It is therefore not correct to call this a low tax rate scheme. And if future legislatures see fit to adjust PPT downwards to attract additional investment, the producers will continue to pay PPT under the contract rate.

The fiscal stability period for oil is not 45 years but 30 years. If the project sponsors do not diligently advance the project in accordance with Article 5, the fiscal contract will be terminated, including the provisions for fiscal stability.

It is not correct to proclaim that the State has concluded the contract in exchange for absolutely nothing. Under average gas price forecasts the State will receive $ 1.7 billion per year in constant 2006 $.

It is completely normal to dedicate gas reserves to a project of this magnitude. Finally, if the producers do not develop the project with diligence, the State can terminate the contract by the terms of the contract and, once terminated, the companies lose the benefits of fiscal stability. They also lose the benefits of fiscal stability if they withdraw from the contract.

26. The contract allows tax breaks to apply to producers, affiliates and subcontractors.

The harm from this, Backbone II goes on to assert is that "there is a multiplier effect of the credits that works against the revenue interests of the State, the impacts of which can not be forecast."

The contract minimizes taxes on the project while under construction, recapturing that value in Payments in Lieu of Tax (PILTS) once the project is up and running and producing cash flow. To do that effectively, (and not make it less advantageous for the project sponsors to use local contractors and subcontractors) the contract is structured where a tax might increase the cost of the project, whoever is paying it in the first instance gets the "tax break". A contractor will only have the exemptions in this contract if they can demonstrate that the costs were directly passed on to the Project or the properties.

On a general note, while the Alaska portion of the project is estimated to cost 7 (or 9 or some other figure) billion dollars, we do not know how much of that will be spent instate and how much out of state, and thus cannot precisely forecast all the potential tax effects. More specifically, as there are no tax credits created under the contract it is easy to forecast their effect: zero.

27. The contract allows tax breaks to apply to facilities and activities outside the state of Alaska. (Section 9.5)

Section 9.5 of the contract requires the owners of the gas line to conduct a feasibility study for NGL processing opportunities in Alaska. This is intended to create economic opportunity for Alaska. Without the required study, some of the producers' prejudices might only be to examine NGL plants closer to existing NGL infrastructure farther south. If the plant is located outside of Alaska, Alaska can't tax it so there would be no taxes to give inappropriate breaks on. If the NGL plant is located in Alaska, its PILT payment will be negotiated under article 16.6

28. The contract was unfairly negotiated as a sole-source contract.

The State has scrupulously followed the requirements of the SGDA in negotiating the current contract. It is not sole source. As discussed earlier, the State accepted numerous SGDA applications. It engaged in serious and substantial discussions with all applicants. The State then focused its resources on the proposal most likely to result in timely construction of a gas pipeline project without undue litigation delay.

Backbone II seems to represent that all proposals are easily comparable. The fact is, however, that the producers' proposal is the only one that brings the leaseholders to the table and commits their gas to the project. This is a determinative advantage over all other proposals.

The maximum benefit for residents of Alaska occurs as a result of a contract that leads to a gas pipeline project being timely built, not as a result of a contract that may sound attractive but does not commit gas to and advance the project. The contract is not sole source, but recognizes the desirability of negotiating and reaching agreement with parties that actually have gas to commit to the project.

29. The contract prohibits the right to seek court action regarding the legality or constitutionality of the contract.

Any party except the parties to the contract may challenge the legal or constitutionality of the contract. It is nonsensical to allow a party to a contract to execute it and then turn around and challenge it in court. If a party has such grave doubts about a contract, it should not enter into it in the first place.

It should also be noted that the State wanted to make sure that if a judicial challenge is filed, that the project continues to work on project planning and development. For this reason the contract provides that work on the project cannot be suspended until fifteen months has elapsed while the judicial challenge proceeds.

30. The contract trumps the rights of Alaska citizens to impose a tax by the initiative process.

It is the opinion of the Attorney General that it is entirely Constitutional to provide fiscal stability for oil and gas and protect investors from changes in future tax laws either as a result of the initiative process or as a result of legislation by the Legislature. It is not a challenge to the sovereignty of Alaska.

It is an integral sovereign right of the State and countries to conclude long term contracts and provide the related fiscal stability. The railroads would have never been built in the United States without States exercising the sovereign right to enter into such contractual arrangements.

31. The contract requires the State to pay the participants' municipal tax obligations above a certain cap set in the contract (section 11.)

On this moral/ethical issue, Backbone has it exactly backward. Under section 11.3, with certain exceptions, most already existing in law, participants will pay any municipal tax levied on them. The local taxing jurisdictions are kept whole, and can make sure they are kept whole under their own ordinances, boards of equalization and other democratic institutions. Then under the contract, if those payments have exceeded certain amounts or other tests, the state will reimburse the taxpayer. The state is never paying a municipality for "a participants municipal tax obligation." That remains the taxpayers' obligation.

32. The contract prohibit municipalities from seeking court or other administrative action regarding the parties' fulfillment of obligations under the contract. (Section 21.3)

Despite the fact the municipalities are not parties to the contract, "Backbone" goes on to suggest that "this is another taking of our normal and traditional democratic rights of due process, only to benefit the oil industry." Taxpayers – including the oil industry – either pay taxes to local jurisdictions under local ordinances, or make Payments in Lieu of Tax (PILT) under the contract. In the former situation, for sales taxes, gravel severance taxes, excise taxes etc. the local jurisdictions retain all the rights they currently have. In the latter situation a series of tax payments that could have been appealed by either side are replaced by a series of predictable PILTs driven by the variables of inflation and throughput.

33. The contract requires the State to own a percentage of the total project including pipelines and facilities in Canada and the lower 48 states.

This statement ignores the right of the State to withdraw from the project without cost. To begin with, the contract commits the State to taking a share of the various pipelines and facilities equal

to its expected share of gas in each element of the project. This is sound from an economic point of view and is what producers aim for in a project. Even so, the State can withdraw from its participation in each element according to the terms of the LLC agreements for each element of the project. In those agreements, if, at the time of the vote on project sanction, the State does not want to go ahead with the project, it will have the right to withdraw from the project with full recovery of its investment to date.

The State is not required to take an ownership interest in the Alberta to Lower 48 Project if no firm shipping commitments for State Gas are made on that portion of the project. The provisions in Article 7 regarding the Alberta to Lower 48 Project preserve an ownership right in any new infrastructure that might be built if it is needed for adequate takeaway capacity out of Alberta.

34. The contract protects the producers from being liable to the State for any loss arising out of their failure to perform their obligations regarding capacity.

No fair reading of Article 10, which deals with capacity management terms, can lead to the conclusion that only the State has obligations and only the producers have choices, as Backbone charges. Capacity management issues were painstakingly negotiated over many months as the parties sought to create a unique but even-handed way for solving those issues.

The oil companies have assumed obligations to the State that are unprecedented. For example, they have agreed to provisions that, once the pipeline is less than full, ensure to the extent possible that the State and each company will share any excess capacity proportionally. Thus, if the State owns 20% of the capacity and there are 100 units of excess capacity for the entire pipeline, then the State's share of that excess should be no greater than 20 units.

As another example, the producers' capacity holders have agreed to provide the State the same capacity-related information, and to do so promptly, that they become privy to from either an operator or their related producer. In this manner the State and the producers

will be on equal footing in responding to changing production levels that in turn will affect capacity needs.

It was because the Producers were assuming capacity obligations and responsibilities greater than for any other interstate pipeline in this country that they insisted on loss indemnification, except in the case of fraud. In the State's judgment, this is a reasonable tradeoff.

35. The contract was negotiated in secret.

The SGDA sets out specific requirements with respect to applicant confidentiality. When it enacted the SGDA in 1998, the Legislature recognized that for negotiations that involve highly confidential commercial terms to be successful, the State would have to be able to insure confidentiality of proprietary and commercially sensitive information. The State simply could not, in good faith, nor consistent with the terms of the SGDA, negotiate with any SGDA sponsors using confidential information, and then reveal that information.

However, when negotiations were concluded, the State immediately published the contract and a multitude of relevant documents. The State also arranged for extensive public education on the contents of the contract, both on the internet and through numerous public hearings throughout the State.

Thus, the negotiations were conducted in such a way as to protect the legitimate commercial concerns of all applicants. But the contract will not be authorized until it is fully discussed and analyzed by the public and the Alaska Legislature.

36. The contract does not preclude an "over the top pipeline" as preferred by Exxon.

The Alaska Natural Gas Pipeline Act of 2004 prohibits the federal government from permitting an over the top pipeline. This provision was enacted at the behest of the Governor when he was in the Senate. No over the top project is lawful. Further, the

privileges, rights and benefits of the contract extend only to the "project" defined in the contract. The "Mainline" of the "project" is defined as a "large diameter pipeline that is routed generally along the TAPS pipeline and the Alaska Canada Highway." The contract provides benefits only for an Alaska Highway route. That is a complete and total prohibition against an over the top route.

37. The contract subjects construction impact payments to municipalities to appropriation and debate by the legislature. (Section 18.1)

"Backbone" goes on to suggest that "moving the venue of these decisions to the ... Legislature, where the oil industry has great sway" is unfair to individual jurisdictions. Section 18.1 of the contract establishes 125 million dollars in impact payment which will be appropriated by the legislature to those communities being impacted. The contract can hardly direct the payments to the affected municipalities since we do not now know which communities will feel what effects. The legislature can look at and balance relative needs, and coordinate those funds with other programs and spending. The legislature is only going to be directing the use of the funds. It will not - under the sway of the oil industry – be allowed to change the terms of the contract and only ask for impact payments of 110 million, or 100 million. This will most likely be a less chaotic process than having every impact municipality trying to change its fiscal system for just the several years of construction, with all the attendant effects on other taxpayers within the municipality.

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June 2, 2006

The Honorable Jay Ramras
Alaska State Representative
State Capitol, Room 104
Juneau, AK 99801-1182

Dear Representative Ramras:

This letter contains the questions posed during yesterday's House Resources Committee's hearing on the Stranded Gas Development Act Amendments (HB 2004) and the corresponding answers.

1. What are the terms of members of a Municipal Advisory Group (MAG)?

Representatives are appointed to a MAG by the mayor of a municipality. AS 43.82.510(b). State law does not prescribe a term for the representatives. The SGDA does require that a MAG itself is to serve only until final action is taken on the application for which the group was appointed. AS 43.82.510(c).

Section 15 of HB 2004 will amend the law to provide that the MAG serves until the final distribution of impact payment money or until commencement of commercial operations.

2. Whether a tax rate incorporated into a payment in lieu of tax provision of a contract ratified by the legislature can be later modified by mutual agreement of the parties.

This administration does not view the fiscal contract as allowing for any material amendments to the tax related provisions.

However, after careful review of the contract, we believe there is an argument that such an amendment is, at least theoretically, possible. Article 39.1 allows the contract to be amended in writing by mutual agreement of the parties.

To avoid there being such an issue, the legislature could consider amending AS 43.82.435 by adding: "A contract authorized by this section and executed by the Governor may contain provisions that provide for amendment of contract terms without further action by the legislature except that any term relating to taxes described in AS 43.82.210(a), or payments in lieu of such taxes, may not be amended without further legislative authorization under this section."

3. The proposed amendments to AS 43.82.020, in Sec. 2 of HB 2004, authorize the commissioner to negotiate terms for inclusion in a proposed contract for certain adjustments regarding oil and gas lease agreements, unit agreements and other agreements. What are some examples of modification of lease and unit agreements?

The proposed contract provisions (1) redefine upstream royalty responsibilities of the state with respect to payment of gas-related field costs such as cleaning, gathering, treating, and dehydration; (2) assign responsibility to the state for conditioning of royalty gas and disposal of impurities associated with the conditioning of that gas; (3) limit over the term of the contract the state's ability to switch between royalty in kind and royalty in value; (4) define points of delivery for royalty gas; (5) assign responsibility for downstream NGL extraction; and (6) provide an optional alternative royalty rate for certain sliding scale royalty leases.

The contract also contains provisions that amend the requirements for the Point Thomson Unit lessees to submit further plans of development and establishes certain work commitments for the Point Thomson Unit lessees.

4. The issue of Section 6(c) of HB 2004, 43.82.220(1)(c), and ramp up of local gas use–

Many questions were raised concerning the availability of gas for in-state use. The amendments to the Stranded Gas Act are intended to ensure the State has the necessary authority to provide opportunities for in state gas use.

We will have FERC counsel from Morrison Foerster available telephonically to respond to these questions and discuss opportunities for in state gas use under the contract.

5. Compare the case law relating to *"in best interests of the state"* to *"in the long-term fiscal interests of the state"*?

AS 43.82.200 sets standards under which the commissioner of Revenue may develop a contract under the Alaska Stranded Gas Development Act. Under current law, the commissioner may include terms or conditions "necessary to further the purposes of [AS 43.82]; or in the best interests of the state."

Once a contract is developed, before the commissioner presents his preliminary and final findings and determinations to the legislature, he must determine that the contract terms are "in the long-term fiscal interests of the state." AS 43.82.400(a); AS 43.82.430(b).

In our view, having a standard to be met for developing contract terms that is potentially different that the standard necessary to be met for forwarding contract terms is ambiguous and confusing. To date, we have not been able to find any legislative history on the SGDA that discusses why there are different standards for contract terms contained in the act.

It is difficult to describe precisely the practical difference between the standards because the standard "long-term fiscal interests of the state" neither appears elsewhere in Alaska statutes nor has it been interpreted by the Alaska Supreme Court.

The standard "in the best interests of the state," however, does appear in statute and has been interpreted numerous times by the Alaska Supreme Court. The statute most analogous to the SGDA is probably AS 38.05.035(e). Under that statute, the commissioner of Natural Resources may approve contracts for sale, leases or disposals of state land "upon written findings that the interests of the state will be best served."

The Alaska Supreme Court has found that this standard can be traced to Art. VIII, of the Alaska Constitution. Art. VIII, sec. 1 says that "[i]t is policy of the State to encourage . . . the development of its resources by making them available for maximum use consistent with the public interest." In turn, sec. 2 of Art. VIII authorizes the legislature to provide for the utilization, development, and conservation of all natural resources belonging to the state . . . for the

maximum benefit of its people." *Kachemak Bay Conservation Society v. State, Department of Natural Resources*, 6 P.3d 270, 276 (Alaska 2000).

In our view, the standard "long-term fiscal interests of the state" would probably be traced to the same constitutional provisions as the "best interest standard" described above, although it may be a somewhat narrower test than "best interests of the state."

This is because a "long-term fiscal interests of the state" standard focuses on fiscal interests (although it should be noted that the Stranded Gas Development Act requires the commissioner to consider factors such as safe management and operation of the project, mitigation of increased demand for public services. AS 43.82.120(b)), while a "best interests of the state" standard is, arguably, broader.

Because the Stranded Gas Development Act deals primarily with fiscal issues, the "long-term fiscal interest of the state" standard is arguably more relevant and in keeping with the purposes of the Act.

Again, including two distinct standards in the Stranded Gas Development Act raises the issue of why the legislature chose to include a "in the best interest of the state" standard for terms and conditions in AS 43.82.200 and a "long-term fiscal interests of the state in AS 43.82.400 and AS 43.82.430 since all three sections deal with the development of the same contract. There appears to be no particular reason in either the legislative history or from a reading of the rest of the Stranded Gas Development Act. The language change proposed in section 3 of SB 2004 will merely insure that a court considers the commissioners' proposed contract terms and preliminary and final findings under the same standards.

6. Could state law be amended to impose a tax on limited liability companies (LLC) owning a portion of the project?

Under Article 11.1 of the fiscal contract, participant's interests are exempt from taxation except for income tax PILT (SCIT) set forth in Article 19 of the fiscal contract, which is limited to the law in effect as of October 1,2005. If the state were to impose a general income tax on LLCs it is unlikely under the terms of the contract that it could be made to apply to the LLCs that are midstream entities under the terms of the contract.

The members of the LLCs which would be affiliates of the producers would pay corporate income tax under the terms of Article 19 as part of the unitary business of the producer.

In accordance with Article 31.1(b) an assignee of a membership interest in an LLC, that is not an affiliate of a producer, would not receive fiscal certainty with regard to corporate income tax.

We hope this answers the committee's questions.

Sincerely,

Kevin Jardell
Legislative Director

Cc: Representative James Elkins
Representative Carl Gatto
Representative Gabrielle LeDoux
Representative Kurt Olson
Representative Paul Seaton
Representative Harry Crawford
Representative Mary Kapsner

STATE OF ALASKA

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DEPARTMENT OF REVENUE

OFFICE of the COMMISSIONER

June 21, 2006

The Honorable Bert Cottle
Mayor of the City of Valdez
P.O. Box 307
Valdez, AK 99686

Dear Mayor Cottle:

Enclosed is the state's reply to the points raised in your June 7, 2006, letter regarding the gas pipeline contract. We would welcome any additional thoughts on these issues you may have.

We know Valdez wants the "all-Alaska" Alaska Gasline Port Authority (AGPA) line. But please consider: to provide the state's gas to AGPA, it would take years of litigation by the state, followed by a successful AGPA bid for the oil and gas leases made available by such successful state litigation. The likelihood of both of these events occurring is low.

Instead, why not have AGPA work with this ongoing process, reserve capacity during the FERC open season, and build a spur line from Glennallen to Valdez? We would like to discuss this with you at your convenience.

Sincerely yours,

s/s William A. Corbus

William A. Corbus
Commissioner of Revenue

cc: The Valdez Alaska Gas Pipeline Public Hearing Attendees

Response to Mayor Bert Cottle's June 7, 2006 Letter

1. No Commitment to Build a Gasline

This assertion reflects an inadequate understanding of the contract terms and sound management of megaprojects. The work commitments contained in the contract are the next stage in commitment already being exhibited by the producers to complete the project. The producer companies have been actively pursuing the Alaska gas pipeline project for several years. They spent $125 million in 2001 and 2002 to develop a preliminary project plan, including assessment of project cost, technology, regulatory and environmental issues. In 2004 the producer companies paid the State $1.5 million to reimburse State contract negotiation costs. In addition, each company has incurred its own substantial ongoing costs in support of negotiations, development of the contract and other agreements, and related pipeline matters.

The work commitments contained in the contract are but the next stage in the commitment already shown to-date by the producers to complete the project. Those commitments are comparable, and actually stronger, than those contained in agreements with other governments for development of large and very large, complex, international project. For example, the producer group has committed to start the "project planning" of the project within 90 days of execution of the contract, and then to advance the project as diligently as is prudent under the circumstances. In fact, the producers must continue to advance the project even in the event of a judicial challenge, until either the project planning phase is completed, $120 million have been spent, or 15 months have passed.

Proper up-front project planning is critical to revalidate the 2001-2002 work and to prepare for the major investments and commitments made during the next stages: front-end engineering, field evaluations, the open season, and permitting. As project development proceeds - particularly on a project of this magnitude, scope, and complexity - information must be continually integrated and incorporated into the project scope, design, timing, and cost forecasts. Control of the process will be documented with periodic updates to the project plan.

The project timeline is included in the Project Summary (Article 5.4) and must be updated annually and shared with the Alaska public. The most recent timeline was provided just last month. This document is the mechanism by which the project entities will communicate to all Alaskans how they have been diligently advancing the project. They will provide in this plan a project overview, a description of the work that has been accomplished in the last year, the estimated project schedule with proposed development activities, and a description of expenditures and programs implemented under the Alaska hire provisions of the contract.

It is important to remember that as a 20% owner of the LLC and a member of the LLC's management committee, the State through Alaska PipeCo. will participate in the project planning and oversight of the operator that builds the pipeline. State ownership will provide Alaska PipeCo. a continuing opportunity to know what is going on inside the project company, be heard on key issues and influence the course of the project development.

Providing hard dates in the contract to begin construction would be contrary to all industry best practices for project management. A schedule driven construction project will not deliver the highest value project to the companies or the State. If, instead of work commitments appropriate for such mega-projects, schedule-driven construction commitments are imposed, the project development will be driven by fixed dates rather than sound planning, engineering, and construction practices. Experience has shown that the inevitable result will be cost overruns – usually massive cost overruns on a mega-project such as this one. Because of this experience, the producers cannot prudently commit to build the pipeline if they are contractually committed to a strict construction schedule. Indeed, no prudent corporate management would commit to a tight timetable before it knows the terms and conditions of the federal authorization (FERC) or other federal and state and Canadian permits it must receive before it can start construction.

The fact is that no one can guarantee a date for delivery of gas from this project. Nor can anyone be assured on when they will receive the necessary permits from the U.S. federal government, the Canadian government, and from provincial and state governments for the project, or know what the terms of those permits will be. Given

the uncertainties on permitting, no one today can know the desired delivery date of the 5 to 6 million tons of steel that will be needed for this project. Finally, no one today can hire the thousands of skilled workers to construct the project in the anticipated time frame.

Any applicant who claims to be willing to provide hard dates should be viewed by all very critically, because such an applicant will have demonstrated a willingness to violate stern lessons-learned from many mega-projects in the past, including the early attempts to build the ANGTS, and, by doing so, will magnify the likelihood that the State, directly or indirectly, will bear much of the major project cost overruns and delays.

The work commitments contained in the contract were crafted to ensure the next stage of the project is started promptly, and that a disciplined, thorough project management process is implemented and maintained to control development and construction of the pipeline, ensuring the most cost-effective and timely project completion possible, and minimizing the risk to both the State and the producers.

If, at any time, the State doesn't believe that the project is being advanced diligently, it can terminate the fiscal contract. The potential for terminating the very deal that the parties have spent 3-years negotiating is significant leverage over the producers, as the producers will lose all of the benefits of fiscal certainty if this contract is terminated by the State.

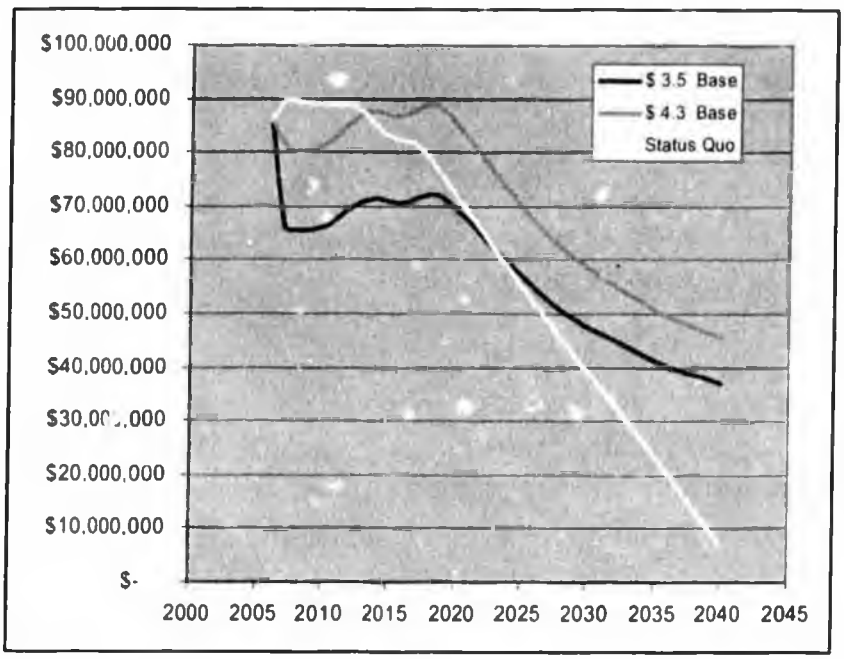
2. Interference with Taxation of Oil Property in Violation of AS §43.82

a. It establishes a new valuation methodology for TAPS.

The cash flow from the PILT on TAPS in the contract translates into a value for TAPS higher than any value seen since 1995 – 3.5 billion dollars. None-the-less, it does not represent the 2006 value of $4.3 billion which is found in the decision – now under appeal by the owners in Superior Court - from the State Assessment Review Board. Our modeling, which State Petroleum Property Assessor, Randy Hoffbeck, has shared with you, shows that some years out, the inflation and throughput driven calculation based on a 2006 value of $3.5 billion results in higher cash flows to the taxing jurisdictions

then the traditional inflation and depreciation driven calculation based on $4.3 billion in 2006.

Although everyone can fully agree that the contract would present a change in this arena, given that we don't know the outcome of the current court appeals and other difficult to forecast events such as post TSM valuation, I urge you to work with us on this problem before rejecting the contract's solution. The following chart shows the cash flows from the status quo and the PILT structure using a $3.5 billion dollar base and a $4.3 billion base.



b. Contract targets the Valdez vessel tax.

We do not agree that the outcome you describe is possible under the words we have drafted. And since that outcome was not our intent we can certainly restate the contract sections so there is no chance for the scenario you have laid out. As we explained to Valdez' attorney, Bill Walker, last month, our intention was to treat this tax like any other tax under AS 29.45 with two exceptions: The first is that unlike any other existing tax, the fundamental question of whether the tax itself is constitutional may still be open. If the tax is declared unconstitutional the contract would not require the producers to keep paying those amounts to the state for the remainder of the fiscal stability period.

The second difference is that because certain taxpayers have signed settlement agreements, it is our intent to treat those, and not the tax as enacted by the Valdez assembly, as the baseline. The contract demonstrates the State's determination not to reimburse a producer a pro forma premium that it had avoided by signing a settlement agreement with the City. Since you have read a different interpretation into the contract, we would like to work with you to make these outcomes crystal clear in the contract.

c. Current cap on oil and gas property is 30 mills.

While you are correct that under law there is 30 mill cap for operating funds in law and no limit on taxes to repay debt, for all practical purposes there appears to be an effective informal 20 mill cap. A history of the City of Valdez' mill rates which rose steadily until bumping into the informal cap may be as persuasive a piece of evidence as any. Thus we believed that fixing the valuation by removing depreciation from the TAPS calculation is a worth while trade for the cap. Depreciation has in fact been eating up the value of TAPS over the prior decades while over that same time period a mill rate above 20 has never been more than a hypothetical possibility.

3. <u>Significantly Weakens the Producers Obligation to Develop Point Thomson</u>

Point Thomson will be developed most efficiently with a gasline. In the absence of a gasline, the gas would have to be re-injected, which due to the very high pressure required would be very costly. With a gasline, much of the gas would come from Point Thomson, and high pressure re-injection would be unnecessary. Accordingly, the greatest incentive to develop Pt. Thomson is a gasline.

Point Thomson development commitments have been subsumed to the terms of contract – but only as long as the contract is in force, and only until after commencement of commercial operations of the pipeline. If the contract fails for any reason, specific Point Thomson development commitments fall back upon the producers and the State retains its full unit management authority. Within the terms of the contract, the producers have recognized their duty to develop Point Thomson as part of their overall work commitments.

Attempts to independently enforce a "duty to develop" will result in protracted legal action, as the producers point out the substantial technical hurdles facing Point Thomson development, as they assert the State's ongoing acceptance through 2004 of their Point Thomson development efforts, and as they provide substantial evidence that since 2004 they have exerted good faith attempts to develop Point Thomson as an integral part of major gas sales. Also, it has yet to be determined whether a Point Thomson development absent major gas sales is consistent with State conservation regulations – because of this, it is not clear that the producers can even obtain State approval of a Point Thomson development scenario in which produced gas cannot be sold.

The amended DNR decision of October 27, 2005 found the Point Thomson Unit (PTU) Agreement to be in default. That decision called for "a plan to bring the PTU into commercial production within a reasonable time frame", and provided dates for initiation of development operations, commencement of drilling, and commencement of production. Because these dates are inconsistent with the work commitments contained in the contract, that default decision has been stayed, pending conclusion of deliberations on the contract by this legislature.

The State recognizes that:

a) historically, continuance of the PTU unit and leases has, until the latter half of 2005, been with the concurrence of DNR commissioners of several administrations of varied political perspectives;

b) PTU gas is critical to successful conclusion of a gas pipeline contract and to completion of the project;

c) no DNR or State rights have been given away or extinguished by granting the stay; and

d) if the current owners fails to meet PTU commitments specified in the contract (commit PTU gas in the initial open seasons and apply within 6 months to AOGCC for pool rules) or if the contract fails after execution for any reason, the current owners' rights to Pt. Thomson expansion leases terminate

unless they initiate development within one year of the contract termination.

The State can also embark on the process of terminating the unit and reclaiming the remaining leases.

4. **Elimination of Judicial Branch**

All disputes under the contract are subject to arbitration according to a carefully balanced set of rules modeled on the rules of the International Center for Dispute Resolution ("CPR"). Arbitration is widely utilized in US and international commercial contracts to resolve disputes. In a number of existing contracts the State has agreed to an arbitration clause and has successfully invoked it. While some may argue that the State is giving up "home court advantage" by agreeing to arbitration, it must be kept in mind that the arbitrators will be applying the substantive law of Alaska. In any event, the relevant question critics should ask is whether the State will be disadvantaged under these arbitration rules. We submit that the answer is clearly no as the rules were specifically designed to treat all parties in an even-handed manner.

For one, the very selection of arbitrators will contribute to a fair, non-partial process. Disputes may take the form of a dispute between the State and one company or between the State and more than one company. In each case, the parties to the dispute jointly try first to agree on the arbitrators. At this stage, there is no voting process; the parties discuss who is qualified and seek to agree on the panel. If agreement is not reached within 75 days, then a neutral body, not the parties, provides a list of qualified arbitrators from their standing lists of experienced arbitrators. After that, each party may strike one candidate. In a single participant dispute, each side gets a single strike from the list. In a multi-participant dispute, each party, whether there are three or four parties, gets a strike but there is no reason to assume that in all cases the producers will take a unified position. Indeed, in a dispute over the expansion provisions, for example, the State and one producer or even two producers could line up in exercising the right to strike against a third company. Even so, the value of striking a potential arbitrator from the list is quite limited because neither the State nor the companies will have the right to nominate preferred candidates to the neutral list proposed by CPR in the first instance.

Likewise, discovery is even handed although you apparently misunderstand the discovery provisions. Discovery is scaled according to the size of the dispute. The largest disputes that could arise under the contract would be disputes concerning the payment in lieu of the new PPT. Those disputes are not subject to any pre-set limit on discovery. The Tribunal decides what discovery is appropriate to the circumstances. That is virtually the same standard as courts apply. The other large disputes that the State has faced in the past such as the disputes about the value of oil or gas for tax or royalty purposes should not arise because the State is taking its royalty in kind and receiving tax payments as gas, not cash, accordingly to a pre-arranged formula.

For small disputes -- generally under one half or one million dollars -- there are limits on depositions. This is sensible unless one believes in enfranchising lawyers to litigate disputes at any cost regardless of the size of the dispute. For disputes over one million dollars, depositions are generally limited to five per party, but the Tribunal may enlarge that. And, "in a Multi-Participant Dispute, each side to a Dispute is entitled to no less than two (2) oral depositions." In other words, there is no maximum limit in these disputes for any party. It should be noted that the Alaska Civil rules also contain limitations on depositions. Hence there is no "absolutely astounding giveaway" as you charge.

With regard to most taxes, municipalities will still have their full rights under their own ordinances and procedures, and appeals may proceed through the normal court processes. For those taxes such as the 43.56 property tax you are correct that, as explained above, we have opted for a value tied to inflation and throughput rather than an uncertain value. But for sales taxes, excise taxes and most property taxes under 29.45, the municipality should notice no difference.

5. Elimination of the Legislative Process

The economics of this project are very fragile. With high prices and no cost overruns it would be a very good project. With low prices and a sizeable overrun it would be a very bad project. The producers are willing to take the downside risk, but it must be offset with upside potential. If the upside, should it materialize, will

be taken away with high taxes, the r k symmetry will be destroyed. That is why the contract contains the fiscal stability period.

6. **Citizen Legislative Initiative Process**

The Stranded Gas Act was structured to replace the statutory basis of administering taxes with a contractual basis. That is the mechanism by which fiscal stability is created. If the ballot initiative process can override the contractual terms, then there would be no fiscal stability.

Moreover, we believe the reserves tax would be very harmful to the State. Even though there is ample evidence the producers are serious about the project, the tax appears as a punitive measure for not having built it previously, even though it did not make sense to seriously consider building the project until recently. Moreover, the producers would have to pay the tax even while building the project. This would create a morbid investment climate in Alaska, and depress the project economics. In addition, lawsuits by the producer companies to overturn the reserve tax could delay the project as well.

7. **Elimination of the State Assessment Review Board Process in the Valuation of the Trans-Alaska Oil Pipeline**

You have correctly characterized this for the signatories to the contract, though not to the other owners of TAPS. Interestingly, while some owners of TAPS may qualify under the model upstream contract, others, which are not producers, may not qualify and may continue to have their portion of the pipeline valued under the general law. You also expressed concern that the contract would not account for reserve additions, presumably by not reflecting the longer pipeline life. The result of basing the PILT on throughput actually creates a more robust and responsive cash flow as new discoveries are brought on line, with the result being additional revenue that will far exceed what would be generated by merely extending field lives. Again, we urge you to closely examine the possible outcomes without a contract with the outcomes under the contract.

8. **Elimination of the Regulatory Commission of Alaska's Jurisdiction Over In-State Use**

This charge reflects a misunderstanding of federal and state jurisdiction over gas pipelines. Legally, the FERC has the exclusive right to authorize the construction and operation of an interstate natural gas pipeline, specifically the Alaska natural gas pipeline in the United States. In this case, that authority extends to the gas treatment plant ("GTP") and the FERC has already demonstrated its jurisdiction by extending the open season regulations to the GTP. Feeder pipelines that supply an interstate gas pipeline also will be regulated by the FERC so long as they are not gathering lines. This is unlike TAPS where federal regulation is far less pervasive and there is dual regulation of rates by the FERC and the RCA.

Thus, the RCA is powerless under federal law, not because of the contract, to regulate the gas mainline, the GTP or the feeders, even if some of the gas in those facilities will be "gas distributed in Alaska." If the RCA should attempt to assert jurisdiction where it has none, its actions would interfere with the scheme of federal regulation and would precipitate unnecessary delay and litigation. Article 8.3 of the contract confirms existing law and is designed to avoid regulatory misadventures. In the totally remote hypothetical case in which the RCA tried to extend its regulation to the project in a way that conflicted with federal principles, the State would seek to cure the conflict. If it failed, the companies could initiate a dispute but recovery in such a dispute would be limited by Article 37.2 (Limitation on Remedies and Damages). Article 37.2 precludes an award of lost profits. So even if the RCA had jurisdiction to find the gas pipeline rates too high, which it does not, the State would not have had to "eat the difference" of lost profits.

Finally, the contract does not prohibit RCA "jurisdiction over gas pipelines for gas distributed in Alaska, as you claim." Section 108 of ANGTA reserves exclusive jurisdiction to the RCA of any local distribution facilities, for example, a spur line from the gas mainline to the Anchorage area. Hence, while those facilities upstream of the spur line would be regulated by FERC to the extent they are not gathering lines, the RCA will have jurisdiction of all local distribution facilities which, by definition, will transport "gas distributed in Alaska." Similarly, if there are local distribution facilities built in Valdez, they would be RCA jurisdictional.

9. <u>Auditing</u>

It is true that the producers can require the State to audit for targeted taxes. However this will seldom occur because (i) existing taxes (such as the tanker tax) can, by definition, never become targeted taxes, and (ii) if it turns out that the tax in question was not a targeted tax, the producers must pay for the cost of the audit. Although we believe the concept of a targeted tax is a worthwhile idea to keep in the contract, we invite your thoughts as to better ways of enforcing it.

10. Royalty In-Kind vs. Royalty in Value

The decision to take royalty in-kind is related to the decision to accept transportation shipping commitments, thereby relieving the producer companies of those commitments and providing improvement to the project economics without giving up the State's share of the resource. Federal regulations governing the shipping of oil and those governing the shipping of gas are very different. The benefits of switching the taking of royalty gas and the taking of royalty oil between in-value and in-kind are very different because of the separate and very different regulatory regimes. Because, according to federal regulations natural gas is shipped under fixed contract arrangements, existing lease rights to switch the taking of royalty gas between in-value and in-kind are of little or no practical value to the State. Acceptance of royalty in-kind requires that the State establish a gas marketing function, but it also frees the State to obtain value for our gas according to our own priorities and strategies.

Taking State gas in-kind provides the state the best opportunity to ensure the most benefit out of our royalty gas. For instance, a producer may be willing to accept higher risks while seeking higher value for Alaska gas, whereas the State might find those incremental risks unacceptable. Conversely, a producer may be willing to accept lower gas prices, whereas the State would prefer to market more aggressively. Rather than attempting to enforce "higher-of" lease provisions in a 'royalty in-value' world, and incurring the legal costs and continuing contentious relationships with the very producers we are expecting to become our partners, the State has the opportunity to help ensure the pipeline is built and to market our gas to best meet the strategies and policies of the State.

The State has a successful record taking some of our royalty oil in-kind and marketing it ourselves. A wide variety of alternatives exist for developing a State gas marketing authority. Major third-party gas marketers exist willing to partner with the State, who are not producers of their own gas and by the very nature of their companies would be natural partners with priorities which would be consistent with those of the State. Gas marketing experts, both within the State and outside, have consistently confirmed the opportunity and potential value available to the State by taking our gas in-kind.

Taking State gas in-kind also enhances the State's ability to meet the critical needs of Alaskans. The State can ascertain the needs of in-state use, determine the policies to be met to meet those needs, and determine the share of State gas to be committed to in-state use.

11. No Penalty for Non-Performance

If the contract is terminated, the producers lose fiscal certainty on all their oil and gas operations in Alaska. That is a substantial "penalty" because obtaining fiscal certainty was one of the primary, if not the primary, objective of their negotiations. Termination would leave the Legislature free to enact changes in the State's tax laws that would be in the best interest of the State in light of changed circumstances. Similarly, if one or more of the producers withdraws from the contract after the open season, there is a different penalty – they must relinquish their holdings in Alaska either by sale to a third party or by forfeiture. The exclusion from the penalty clause of consequential or punitive damages works both ways – it is protective of the State because consequential or punitive damages cannot be recovered against the State if it fails to perform one of its obligations under the contract. Suffice it to say, the State always has available the remedies of the antitrust laws if the producers collectively engage in anti-competitive behavior.

12. Local Hire

Article 6 requires, to the extent permitted by law, the employment of Alaska residents and contracts with Alaska businesses. The SGDA, in turn, requires the hiring of Alaska workers and the contracting with Alaska businesses "to the extent the residents and businesses are available, competitively priced, and qualified." This does not mean, as some have claimed, that Alaska workers' labor rates must

be at the same price or cheaper than labor rates from outside Alaska. Travel costs to and from Alaska, as well as food and housing costs to the project would all enter into a determination of whether the Alaska worker or business was competitively priced. The present wording of 6.2(b) will be changed to assure Alaskans of your intent that Alaskans are hired for these jobs. There will be no repeat of what happened on TAPS. We will have Alaskans now in middle school trained and ready to work on this project.

In addition, we propose, once the contract becomes effective, to begin negotiations with the producer companies regarding a project labor agreement that would expedite the construction of the project. Finally, we also intend to propose initiating discussions and negotiations with the government of Canada concerning a cross-border labor agreement.

13. Gas is not "Stranded"

"Stranded" is defined in the Stranded Gas Act as not being marketed due to prevailing cost and market conditions. We interpret "prevailing" to mean during the construction and operation of the project.

No one can predict with any assurance the level of gas prices over the next 45 years. It is possible to present rationale for prices being anywhere from $1 to $20 or more. What are now considered low probability events will no doubt unfold as history proceeds over this time period. Accordingly, prices could be very high or very low. And coupled with whether costs come in on budget, or whether there are overruns, this could turn out to be either a very good or very bad project.

The prospect of a very bad outcome, in recognition of the great size of this project, raises particular concern. A bad outcome coupled with the size of the project could be a financial catastrophe. Investors look at risk asymmetrically, as well. Downside risk, if it cannot be tolerated by the company, is worse than upside potential is good. It is for these reasons that the gas is considered stranded from an economic perspective. This is described in more detail in the Fiscal Interest Finding.

But there is an additional dimension, as well. Given the factors above, producers are willing to take the downside risk, but they must have upside potential to balance it. If the upside, should it materialize, can be taken away by higher taxes, the risk symmetry of the upside potential and downside risk is distorted. It is for this reason that the lack of fiscal stability itself also contributes to the gas being stranded.

14. State Ownership

The conflict of interest allegation is not correct. The LLC will be established in Delaware. In the draft LLC Agreement under negotiation, the State can exercise its voting rights in the LLC specifically in the best interests of the State without any fiduciary obligations to the other parties, because Delaware corporate law permits the parties to waive fiduciary duties in an LLC; Alaska law does not. This is an important benefit to the State of having a Delaware LLC. Nothing in the fiscal contract restricts the State's rights in this regard and it would be free to terminate the fiscal contract according to its termination provisions. Further, the State intends to have the right under the LLC agreement to withdraw from the project at project sanction and be paid back for its investment to that date.

The question also refers to "other conflicts of interest" in areas of regulatory oversight. As explained previously, by long established federal law the RCA has no lawful regulatory responsibility with respect to an interstate gas pipeline. The State is also completely free under Article 8.4 to challenge or comment upon tariffs or other regulatory matters at the FERC. Again, there is no conflict. The State's authority for other areas of enforcement of its police powers, such as enforcement of its environmental laws, is intact and not modified in any way by the fiscal contract.

15. The Sale of Natural Gas in Alaska

During the contract negotiations Governor Murkowski and his State team insisted on specific, significant terms to provide for in-state needs. A key distinction of each of these producer concessions is that they have been agreed upon, rather than relying upon some form of forced taking of the gas, infringing on the producers' existing lease rights and inviting protracted and expensive litigation which will only further delay an Alaska gas pipeline project.

The contract provides for in-state use in at least 8 separate provisions:

- It reiterates that the pipeline will traverse Alaska thereby providing cost-effective, local access.
- It includes a commitment to support funding of four gas off-take points in Alaska at locations selected after consultation with the State, to be included in the initial construction design.
- It includes commitment to a new study of in-state gas needs, made available before open season plans are filed with the FERC.
- It includes a commitment to conduct a feasibility study for in-state NGL processing opportunities before commencement of the open season.
- It provides for mileage sensitive instate gas transportation rates to be offered at the open season.
- It includes a commitment to cooperate in planning and design with sponsors of facilities downstream of an off-take point.
- It provides for the State to bid at the open season for in-state capacity, separate from export capacity.

It is true that the contract does not force any producer to sell gas to in-state users; however, each producer, and the State itself, has the right to compete for in-state gas sales. Taken together, the above provisions ensure that a healthy in-state market should develop, to the maximum benefit of all Alaskans.

Concerns about the dependability of the State's gas supply have been carefully examined by Governor Murkowski and his team. The gas shipping commitments made by the producers ensure that they will deliver the gas needed to keep the pipeline full during the term of those shipping commitments. Further, the contract specifies that the State's 20% share of the gas must be transported when it is produced to market along with producer gas. With its control of this large volume of gas, the State can ensure that all of the in-state market needs are met.

The contract specifies also that the State gas marketer receives the same information with which to manage State gas marketing activities as producer marketers receive. Finally, if the unforeseen happens, the contract specifies that the State will not bear a disproportionate share of the cost of unfilled shipping commitments.

Finally, it should be kept in mind that ANGDA - a State agency - is currently actively working to ensure delivery of gas for in-state uses. Many of their studies are currently underway and will address in detail in-state use. In addition, ANGDA worked with the Department of Energy on its just-issued (June 2006) study of in-state gas needs.

16. <u>Tariff for In-State Off-take Points</u>

This conclusion that in-State shippers will pay the full fare is incorrect and reflects a misunderstanding of what Mr. Loeffler said. Under its open season regulations for the pipeline, FERC requires the pipeline to offer estimated rates for initial capacity as well as for voluntary expansion capacity. 18 CFR § 157.30. With regard to estimated rates for capacity for in-State delivery points, they "must be based on the costs to make such in-state deliveries and shall not include costs to make deliveries outside the State of Alaska." 18 CFR § 157.34(8). Hence, in the initial open season as well as any subsequent open season in connection with a voluntary expansion, in-State shippers will be offered rates that are considerably less than the full length rate to Alberta or Chicago.

Mandatory expansions, Section 105 of ANGPA speaks directly to that. While the FERC chose not to make the recently enacted open season regulations applicable to such mandatory expansions, it did so with the caveat that these regulations are not applicable only "[a]bsent a Commission order to the contrary." 18 CFR § 157.32. Section 105(e) further provides that the FERC "may issue such regulations as are necessary to carry out their section."

FERC therefore has two avenues to provide for lower in-State rates in connection with any mandatory expansion: 1) it can simply issue an order making 18 CFR § 157.34(8) applicable to any mandatory expansion open season, or 2) it can promulgate new mandatory expansion open season regulations and include the same or similar in-State rate requirements that are in the existing open season regulations.

Given that FERC has now forcefully spoken about the need for lower rates for in-State offtake points in connection with any initial and voluntary expansion open seasons, it is hard to envision any circumstance where a mandatory expansion ordered on account of a shipper request for in-State deliveries would not impose the same in-

State rate methodology. Even in the event that a mandatory expansion proceeding was initiated because of a request by a full length shipper, if there was an in-State need for gas at that time, an in-State shipper could participate in the mandatory expansion proceeding and seek the same lower in-State rates. The State would expect that such a request for a lower in-State rate would be granted by the FERC given its pronouncements to date.

17. **Prohibits its Municipalities from Seeking Court or Administrative Action under the Contract**

This is true – but only for matters under the contract. For remaining local taxes while no course of action is available under the contract, none is needed because the municipality (or the producer as a taxpayer) has all the traditional enforcement and protest pathways still open to it under law.

18. **School Funding**

We agree with your analysis of the school funding issue, and it was never our intent to diminish the school funding mechanisms. Thus as the outlines of the contract became clear, we requested (and both the bodies of the legislature accepted) language to make sure the assets which though tax free had associated PILTs, would remain in the tax base at full and true value. While this bill did not pass out of the legislature in the first special session, we encourage you to support this bill when it comes up in the next special session.

FRANK H. MURKOWSKI
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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

July 12, 2006

Ms. Karen L. Hunt
President, Commonwealth North
810 N Street, Suite 202
Anchorage, AK 99501-3293

Dear Ms. Hunt:

RE: June 9, 2006 Critique of the Stranded Gas Fiscal Contract

Enclosed please find the administration's response t the June 9 critiques of the proposed Stranded Gas Fiscal Contract as reported in the media. I would also like to raise a more fundamental concern that contract critiques have tended to neglect the bottom-line question: What is the overall risk and return to the state—with and without this gas pipeline project?

From the administration's perspective, we are confident that the risks to the state of not approving this contract far outweigh any risks in this contract. We believe that this fiscal contract provides the best chance of getting North Slope gas to market as soon, and as economically, as possible. Our analyses show that the state has retained its fair share of the resource value, while providing the producers the economic incentives and fiscal stability they need to proceed with this enormous undertaking and invest substantially in the North Slope.

For the purpose of public policy debate among your members, I am enclosing other response documents, which the administration's team has prepared. I encourage you to post the administration's white papers on your website and give copies to your membership. We would be happy to provide any other follow-up papers for additional discussion.

We greatly appreciate the opportunity to participate in the educational briefings that your organization has held during this past month, providing a

forum for the administration's gas team to discuss the contract, our reasons for arriving at this agreement, and the implications to the state with and without a contract.

Very truly yours,

James F. Clark
Chief of Staff

Enclosures:
Gas Pipeline Criticisms Response
Backbone II Response
Mayor Bert Cottle Response

cc: Rick Barrier – Executive Director, Commonwealth North
Kay Cashman – Petroleum News
Rose Ragsdale – Alaska Journal of Commerce
Larry Persily – Anchorage Daily News
Rod Boyce – Fairbanks NewsMiner

Responses to Contract Criticisms
Presented on June 9, 2006 to Commonwealth North

The Murkowski administration has presented a proposed Stranded Gas Fiscal Contract between the state and the producers. The case for this contract has been presented in the related fiscal interest finding, in presentations to the legislature, and during eight public hearings and numerous community presentations held around the state. Nevertheless, I feel it necessary to respond specifically to statements attributed to former DNR officials in the June 18, 2006 issue of Petroleum News. In that article, subtitled "Contract a bad deal", I counted well over 20 specific misrepresentations or unsupportable conclusions presented as fact. These can be summarized in five general categories:

- The contract includes unacceptable risks and costs to the State
- The state isn't getting the best deal
- The contract isn't fair
- The state is giving up its sovereign rights
- The state is accepting a disadvantaged position

Each of these categories is discussed below, providing a concise rebuttal to each misconception, and explaining the agreement negotiated with the producer companies.

"The contract includes unacceptable risks and costs to the State"

At a gas price of $3/mmbtu, the state makes 47 billion dollars. At a gas price of $5.50/mmbtu, the state makes 100 billion dollars. Both figures are net of all costs to the State and are far from the negative position portrayed for the state. In fact, the terms of the fiscal contract align costs and risks, allowing the producers to move forward with the costs and risks of pipeline investment and providing the State a major source of new revenues for the future. The terms of the fiscal contract also provide the state with bottom-line economic benefits similar to those benefits which would be available to the state in the illusory 'status-quo' world.

Acceptance of specific costs within the contract, portrayed as a "$13.25 billion dollar cost to the State", has been criticized – in particular the upstream cost allowance (UCA), processing subsidy, marketing costs, loss of the 'higher-of' benefit, and upstream and midstream credits – while the fact that all of these costs are in fact incorporated in the bottom-line benefit to the state, discussed above. The UCA continues an existing upstream payment structure imposed as the result of court settlement. Under the contract, though, the state obtained other contract benefits in exchange for expanding the UCA. The processing subsidy, estimated to be $440 million dollars, is incurred over 35 years at the rate of about 4 cents/MCF shipped and sold. The cost of marketing state gas, reported as $1.4 million, was estimated by DNR analysts to be $310 million in undiscounted dollars. These costs, taken together, are part of the overall contract balance and are incorporated into the overall benefits to the state, as discussed in the fiscal interest finding.

The history of the 'higher-of' benefit is that, for oil, it has been highly contentious. The state and the producers have spent millions of dollars, and many years in multiple court battles arguing over just what this provision means and what that value is. For that reason, the 'higher-of' benefit for oil has largely been contracted away in royalty settlement agreements unrelated to this contract. In each of these agreements, the DNR has determined that it is in the state's best interest to give up the lease "higher-of" provision in exchange for clarity in the determination of oil value.

The Fiscal Contract makes a similar trade for gas – but in this case the "higher-of" provision is of far less value to begin with. The benefits of switching state take of royalty gas and the benefits of switching state take of royalty oil between in-value and in-kind are very different because of the separate and very different transportation regulatory regimes. Because, according to federal regulations, natural gas is shipped under fixed contract arrangements, existing lease rights to switch the taking of royalty gas between in-value and in-kind are of little or no practical value to the State.

The upstream and midstream credits actually are part of the proposed PPT tax structure, and are available only once investments are made. The PPT raises the tax rate. As a result, in addition to the benefits of the fiscal contract, at current prices the State will make, through 2050, over $50 billion more under the governor's 20/20 PPT on oil with a gas pipeline than under the status quo ELF system.

These payments and costs have been mischaracterized as subsidies. They are not. The Contract is a business arrangement between the state and the producers to promote construction of an enormous gas pipeline project where otherwise one may well not be built. Payments from the producers to the state and from the state to the producers occur at multiple points along the construction, production, treatment, and transportation process defined in the Contract, but the economic return to the state is maintained. These payments are also each clearly spelled out. They recognize the varying risks associated with costs at various stages of the project. They also recognize the existence of multiple entities with diverse interests including the state; several separate affected municipalities; and the producers, shippers, and pipeline owners which may be affiliates of each other in the beginning, but need not be affiliated as time goes on. The complexity of these relationships demand that the provisions be extensively described in the Contract, to ensure that they are clear and that nothing is hidden or left to dispute.

The decision to take royalty in-kind is the result of the decision to accept transportation shipping commitments, thereby relieving the producer companies of those commitments and improving project economics without giving up the State's share of the resource. Taking State gas in-kind also enhances the State's ability to meet needs of Alaskans. The State can ascertain the needs of in-state use, determine the policies to be met to meet those needs, and determine the share of State gas to commit to in-state use.

Firm transportation costs are incurred as gas is transported to market. The only significant risk related to those firm transportation commitments which the state would not incur in a 'status-quo' world, is the cost of meeting unused pipeline transportation commitments if inadequate gas reserves exist to keep the pipeline full for the term of commitments. This risk has been evaluated and found to be extremely low. In addition, through state leasing practices, tax rules, and the Uniform Upstream Fiscal Contract, the state can adopt policies which encourage the exploration and development to further marginalize the risk of unused pipeline capacity commitments.

"The state isn't getting the best deal"

It seems to be generally assumed that construction of an Alaska gas pipeline is just another project which should be put out to bid so that the most competitive applicant can be accepted. This assumption ignores basic facts. One basic fact is that the producers hold a contract right to the gas through the leases which they won in competitive bidding. A second basic fact is that the producers have spent billions of dollars developing the oil potential and recycling gas to increase oil production and total oil reserves recovered from these same leases. Rather than seek another entity to ship the gas reserves to which they hold rights, the producers have already spent 125 million dollars in 2001 and 2002 pre-planning this pipeline project, and have continued spending millions of dollars moving this project forward.

Granted, much has changed in just the three years since the SGDA was last amended; however, it is incorrect to assume that the fact those changes have occurred means Alaska North Slope gas is no longer stranded. Gas prices have climbed, but steel prices have also risen, and are forecast to rise significantly again by year-end. Labor costs have climbed, and the very availability of adequate skilled construction labor is in question. The uncertainty of forecasting all of these prices and costs over the next decades is tremendous; and the fact is, the changes over the last three years have led to greater – not less – risk to those constructing the pipeline.

The fact is that, even though numerous economic price forecasts have been developed, natural gas prices ten years from now, and through the remaining 35 years of the contract, are unknowable. The history of price forecasting has proven that the ability to foresee long-term prices is poor, at best. The drivers of high gas prices are well known; limited supply, cost of supply, demand growth, infrastructure constraints, and international tensions. Reasons also exist for why gas prices could be low, including technological shifts, re-emerging acceptance of nuclear energy, global warming concerns which affect hydrocarbon consumption, and other low probability events which have ample opportunity to materialize over the term of this Contract.

In addition, given the high cost and complexity of the pipeline, large cost overruns could occur. Coupling the reasonable ranges of price outcomes and of cost outcomes suggest the economics of this project could turn out very positively or very poorly. This economic uncertainty, coupled with the severity of a negative outcome, is one of the primary reasons Alaska North Slope gas is stranded.

Another primary reason the gas is stranded is fiscal instability. The producers are willing to make huge long-term capital investments, accepting the downside risk associated with the range of economic outcomes discussed above, but they must also have the upside potential from the investment. If the upside, should it materialize, be taken away by higher taxes, the expected risk balance is destroyed. This is the reason fiscal stability was called for in the Stranded Gas Development Act, and this is the reason fiscal stability is in the Fiscal Contract.

"The Contract isn't fair"

As written, the Contract is predicated upon the producer companies moving forward diligently to project sanction. The contract includes a specific start date for the work to begin, which is 90 days after the effective date of the contract. The contract also requires the Sponsors to diligently implement the Qualified Project Plan from then onwards until Project Sanction. The effort required to demonstrate that diligence is

massive. The Alaska gas pipeline project will be one of the largest, most complex projects ever undertaken. Planning alone will require multi-million dollar annual budgets; a large, integrated project organization with clear authorities and accountabilities established; long-term, short-term, and immediate-term planning functions with clearly established deliverables; and constant measurement of project team performance vs. those established deliverables. The State, as part of the pipeline LLC, will be part of all of this. Such a massive effort cannot be disguised – nor can it be 'faked' by window dressing. Lack of diligence, if it occurs, can be clearly established by the absence of key project management components. Once the project is sanctioned, substantial commitments will exist such that the producers and the state are equally motivated to complete the project as quickly and as cost-effectively as possible.

Incentives "tied to completion of the project" – in other words incentives which decline with project delay or with cost overruns add risk to the producer companies, and also add risk to the State. Such incentives ensure the producer companies that if this unprecedented, massive, complex project encounters difficulties, their costs will not only increase in order to respond to the delays or overruns – but, they will be further penalized by the incentive provisions for the difficulties. Such incentives also create a tendency to try to 'force' the project to stay on schedule. History and experience with a myriad of large and smaller projects has taught industry that this tendency is the single direct cause of many projects going terribly awry and destroying massive amounts of value for both industry and government. This sort of incentive is exactly the type of provision which the State does not want in this Contract – and for these reasons intentionally did not include.

If, instead of a diligence standard appropriate for such mega-projects, schedule-driven commitments are imposed, the project development may tend to be driven by that schedule, rather than sound planning, engineering, and construction practices. Experience has shown that the result is always cost overruns – usually massive cost overruns on a mega-project such as the Alaska Gas Pipeline. Because of this experience, the producers cannot prudently commit to build the Alaska Gas Pipeline if they are contractually committed to a strict development schedule. No prudent corporate management could commit to a tight timetable before it knows the terms and conditions of the federal authorization (FERC) or permits it must receive before it can start construction.

Any applicant which claims to be willing to do so should be viewed by the state very critically, because that applicant has demonstrated willingness to violate stern lessons-learned from many mega-projects in the past, and, by doing so, to magnify the likelihood that the state, directly or indirectly, will bear the brunt of major project cost overruns and delays.

The diligence standard and work commitments contained in the contract were crafted to ensure the next stage of the project is started promptly, and that a disciplined, thorough project management process is implemented and maintained to control development and construction of the Alaska Gas pipeline, ensuring the most cost-effective and timely project completion possible, and minimizing risk to both the state and the producers.

The contract does provide for a 60-day termination period (Article 5.5(c)(i)). This applies only to termination initiated by the State and consented to by all of the producer companies – in other words, a mutual decision by all to terminate. This is far from the lopsided provision it is characterized as.

"The State is giving up its sovereign rights"

The Fiscal Contract is an exercise of the State's contracting authority to offer fiscal certainty for a period of time to those companies willing to make the commitments and invest the enormous sums of capital necessary to build the Alaska gas pipeline project.

The Contract does change the relationship of the state – as the royalty owner and taxing authority – with the producers for the term of the Contract. It is, however, not a "total rewrite" of the relationship. Contractual commitments are made by the producers as well as by the state. With the exception of specific provisions supplanted by Contract, DNR authorities remain intact. Other State regulatory authorities, including environmental permitting, remain unchanged. Those DNR provisions which are supplanted are supplanted only for the Contract term or until Contract termination.

The State's leasing programs remain intact. The Fiscal Contract does not constrain the state's leasing authority, nor does it destroy the normal competitive leasing environment. The state's competitive oil and gas lease sales are unaffected by the contract. The state's abilities to set royalty rates, the length of primary lease terms, and conditions for lease-term extension are unaffected by this contract.

The Uniform Upstream Fiscal Contract legislation submitted to the legislature along with this contract ensures a level upstream playing field for all producers and explorers. The contract provides that if gas is committed to the Alaska gas pipeline project from a lease and deliveries start within a specific timeframe, the producer receives fiscal certainty under the contract. This provision does not affect lease primary term provisions.

"The State is accepting a disadvantaged position"

Article 10 of the Contract explicitly recognizes that the State, because it does not directly control production, development or explorations decisions, could be disadvantaged with respect to making and meeting gas transportation commitments on the pipeline. The provisions of Article 10 were demanded by Governor Murkowski's negotiating team, in order to compensate for this situation. Those provisions ensure that, throughout the term of fixed transportation commitments, the state obtains shipping capacity to transport state gas to market when it is produced, and that the state does not hold a share of shipping commitments disproportionate with the state's share of production. Mechanisms are defined within Article 10 by which the State and a producer can adjust shipping commitments to maintain this equity.

Acceptance of royalty in-kind does require that the State establish a gas marketing function, but it also frees the State to obtain value for our gas according to our own priorities and strategies. By taking gas in-kind, the State is better able to meet in-state needs, and to market State gas consistent with State risk vs. return priorities. The State has a successful record taking royalty oil in-kind and marketing it ourselves. A wide variety of alternatives exist for developing a State gas marketing authority. Major third-party gas marketers exist, who are not producers of their own gas and by the very nature of their companies would be natural partners with priorities which would complement, rather than compete with, those of the State. Gas marketing experts, both within the State and outside, have consistently confirmed the opportunity and potential value available to the State by taking our gas in-kind.

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

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The Honorable Gretchen Guess
Alaska State Senator
716 West Fourth Avenue, Suite 410
Anchorage, Alaska 99501-2133

July 27, 2006

Dear Senator Guess:

In response to your follow-up question:

> **"Were upstream costs associated with gas development for the proposed pipeline included in your analysis? If so, would you provide me the assumptions behind these costs."**

The answer is **Yes** – upstream costs for gas development were included in the analysis.

The costs that were included in the analysis are the following:

- Point Thomson capital costs = $2.0 billion
- Yet-to-Find oil capital costs = $3.0 billion
- Feeder line capital costs = $600 million
- Upstream gas operating costs = (about) $300 million
- Upstream Payments in Lieu of Tax [PILT] payments per gas contract = (about) $90 million per year

With best regards,

Bill Corbus

Bill Corbus
Commissioner

printed on recycled paper

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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

August 23, 2006

The Honorable Ralph Seekins
119 North Cushman Road Suite 201
Fairbanks, AK 99701

The Honorable Gene Therriault
716 West 4th Avenue, Suite 660
Anchorage, AK 99501-2133

Dear Senators:

Thank you for having Rick Harper and Donald Shepler document their concerns related to "basin control". The Murkowski Administration takes seriously any suggestion that the parties to the proposed Alaska Stranded Gas Fiscal Contract would use ownership of the pipeline for anti-competitive purposes. It is in the best interest of the State of Alaska for there to be fair and reasonable access to the Alaska Gas Pipeline for owners of gas yet to be discovered as well as owners of existing natural gas resources. As a basin-opening infrastructure, we expect the pipeline to spawn a vibrant natural gas industry on the Alaska North Slope and encourage further exploration for new gas resources.

Addressing issues raised by these consultants retained by the Legislative Budget and Audit Committee has been somewhat of a moving target. One reason for this is that "basin control" is not a legally established concept. There are no FERC cases or oil or gas treatises that address that concept. Neither Mr.Shepler nor Mr.Harper made clear whether they thought any of the issues that they raised under the umbrella of basin control were either illegal or legal but otherwise undesirable for various reasons. If they are illegal, there is a wide variety of legal controls and sanctions that apply. If they are not illegal but undesirable in their personal views, then one must examine whether the problems are real or fanciful and whether the remedies are appropriate or do more harm than good.

Initially, Mr. Harper and Mr. Shepler were concerned that BP, ConocoPhillips and ExxonMobil would use their majority interest in the proposed Alaska Gas Pipeline to prevent non-affiliated producers from getting capacity in the initial open season. Following comprehensive testimony by the State's counsel, Bob Loeffler of Morrison Foerster, the concern shifted to the way potential future expansions of the pipeline could be manipulated by these three producers to harm non-affiliated producers. Following testimony by Rob Cupina of the Federal Regulatory Energy Commission (FERC) and based on the

Harper and Shepler memos of July 31, 2006, we have summarized the following concerns related to competition that these gentlemen have identified:

1. The specific design parameters of the initial pipeline should be specified in the Fiscal Contract to ensure expandability.
2. The State may want to prohibit a design pressure that is supercritical (dense phase) because the pipeline may not be as expandable.
3. The take-in-kind point for State gas should be moved to Alberta to dispense with the anti-competitive Capacity Management provisions.
4. The preclusion of RCA regulatory oversight should be removed from the contract.
5. Identical fiscal terms should be offered to all other ANS producers without the requirement for firm transportation commitments.
6. Fiscal Contract provisions should provide for a mandatory "voluntary" pipeline expansion under certain conditions.
7. All expansions must have proposed rates that are on a "rolled-in" basis, no matter the financial impact on existing shippers
8. The State should not rely solely on the FERC to prevent anti-competitive behavior of the producer-owners of a pipeline.
9. An independently-owned pipeline is preferable over a producer-owned pipeline.

Responses to each of these concerns are provided in the attachment. You will see that many of the recommendations from Mr. Harper and Mr. Shepler in their effort to address "basin control" actually run counter to the interests of the State of Alaska as an owner and shipper of natural gas and as an owner in the pipeline.

If you would like the Administration to appear before your committees to discuss this analysis, please let me know.

Sincerely,

James F. Clark
Chief of Staff

Response to Memoranda from Rick Harper and Donald Shepler
Dated July 31, 2006
Issues of Basin Control Arising from the Alaska Stranded Gas Fiscal Contract

1. The specific design parameters of the initial pipeline should be specified in the Fiscal Contract to ensure expandability.

The Alaska Natural Gas Transportation Act (ANGTA) of 1976 specified all the design parameters for that originally proposed gas pipeline. That design is of course now out of date. The Sponsors also considered a certain pipeline configuration during their 2001 study but new engineering studies will be conducted following execution of the Fiscal Contract and commencement of Project Planning. Initial pipeline size will be a direct function of AOGCC approved offtake rates for North Slope fields and results of the binding open season. A pre-determined design could result in a suboptimal design that could jeopardize the project. In any event, the FERC has stated in its open season orders that when it receives the application for the project, it will review the design and size of the pipeline to ensure that the needs of present and future shippers can be accommodated.

As indicated in the Qualified Project Plan and the Project Summary, the Sponsors and the State have stated their intention to design the initial pipeline to be expandable. Even though these three companies have significant discovered natural gas resources, they too will have the incentive to explore for additional natural gas once the pipeline is advanced. Additionally, the Sponsors may consider marketing their interest in the pipeline once it is operational. A pipeline that lacked the ability to be expanded would have a lower market value.

2. The State may want to prohibit a design pressure that is supercritical (dense phase) because the pipeline may not be as expandable.

Gas that is above its critical point (i.e., supercritical) is in a dense phase where all the hydrocarbon components of the gas have the same physical characteristics. That means the liquefiable hydrocarbons (e.g., ethane, propane and butane) would behave like the gaseous methane. This design feature is necessary in order to transport liquefiable hydrocarbons that cannot otherwise be injected into TAPS or can be commercially extracted on the North Slope. Using high strength steel and high-pressure would allow such a design.

Contrary to the suggestion of Mr. Harper, the gas will not be in a "plasma" phase. Rather, the gas will be at high pressure, and will have a high BTU content, containing primarily methane, but also ethane, propane and perhaps a small amount of butane. Special metallurgy or stainless steel pipe will not be required, as suggested by Mr. Harper. Systems for in-state distribution will need to be designed to receive the gas at the operating pressure of the mainline, currently expected to be 2500 psi.

We know of no reason why a dense phase pipeline would be less expandable. As previously stated, the lowest cost expansion would be to install intermediate compressor stations. These intermediate stations would operate under the same conditions as the initial stations – both would be designed to handle natural gas that is above the critical point.

The fact is that substantial North Slope reserves will remain stranded if, as Mr. Harper recommends, a sub-critical pressure gas pipeline is built. TAPS, the only pipeline existing from the North Slope, is currently transporting the maximum amount of high vapor pressure petroleum components it is capable of handling. If the gas pipeline is built without dense phase capability, these components – the heavier components in a gas pipeline – will remain stranded, thereby denying the producers, future explorers, and the State of Alaska revenues from a substantial proportion of North Slope hydrocarbon resources.

3. The take-in-kind point for State gas should be moved to Alberta to dispense with the anti-competitive Capacity Management provisions.

The Capacity Management provisions of the Fiscal Contract are not anti-competitive. The only objections received to this provision were from Anadarko and Shell and these were based on a concern that they could not participate in the capacity transactions between the State and a producer. Article 10 was negotiated and designed to comply with all applicable FERC regulations. As stated in testimony, the Administration views the terms of Article 10 as a "pre-arranged deal" which is provided for under current FERC policy. In addition, the Administration plans to have Article 10 vetted with the FERC.

The Capacity Management provisions of the Fiscal Contract are structured to be as close as reasonably possible to the current "royalty-in-value (RIV)" structure. Article 10.3 in the Fiscal Contract provides that if a producer and the State are not in need of Capacity, the producer and the State can release that capacity through normal posting regulations. This provides the State the ability to follow producer

transactions, comparable to the RIV world, but also allows the market to work if there is unused capacity. Therefore, we don't see how this arrangement could be viewed as anti-competitive.

Further, by virtue of the provisions of Article 10, the State will be a competitor in the gas market, so the Administration believes the provisions of Article 10 are actually pro-competitive, not anti-competitive.

Notwithstanding the Capacity Management provisions, moving the take point for State gas away from the unit boundary to delivery points in Alaska or Alberta would fundamentally alter the commercial arrangements at the heart of the Fiscal Contract. State gas, State transportation commitments and State ownership in the pipeline are inextricably linked. If a producer transported State gas to a delivery point downstream of the Mainline, that producer would have to hold corresponding amounts of firm transportation rights. FERC does not allow shippers to ship third-party gas. Shippers must have title to any gas they ship. If the State takes delivery of State gas at AECO, the producers will hold the shipping commitments for the State's gas. As has been testified to repeatedly, removing that responsibility from the producers is the basis for improving producer economics, and that provided the breakthrough needed to give the State the best opportunity to get a pipeline built through negotiations with the sponsors.

4. The preclusion of RCA regulatory oversight should be removed from the contract.

The Fiscal Contract does not prohibit the regulation of the project by the Regulatory Commission of Alaska. If the FERC does not regulate a portion of the Alaska Gas Pipeline Project, the RCA would not be precluded from asserting jurisdiction. However, it is the Administration's expectation, as stated in Article 8, that the project will be regulated by FERC. In that context, it should be noted that Congress gave the FERC unique powers to order expansion of this pipeline. The RCA does not have corresponding powers.

5. Identical fiscal terms should be offered to all other ANS producers without the requirement for firm transportation commitments.

The Stranded Gas Development Act provides for the development of a fiscal contract with project sponsors. The main purpose of the act is to grant fiscal stability to sponsors as a way to encourage development of an Alaska gas pipeline.

In order to address any inequities associated with giving fiscal stability to the producers who are the Sponsors, the Administration has developed the Uniform Upstream Fiscal Contract (UUFC). We will submit a separate UUFC bill to the Legislature and request enactment concurrent with the approval of the Fiscal Contract. This bill will provide an opportunity for other ANS producers to receive essentially the same fiscal [stability] available to the Sponsors.

As a matter of policy to encourage investment in and development of a gas pipe line, the State did not want simply to grant fiscal stability to all ANS producers without a commitment from them to support the project financially. In order for a producer to qualify for the UUFC, that producer must underpin the Alaska Gas Pipeline with a firm transportation commitment. While many of the UUFC terms will be identical to those in the Fiscal Contract, because the other producers will not actually be participating in the building of the pipeline, some of the provisions, although substantially similar, will be modified, and others will not be applicable.

6. Fiscal Contract provisions should provide for a mandatory "voluntary" pipeline expansion under certain conditions.

The Administration is comfortable with FERC policy and FERC regulation. Mr. Shepler and Mr. Harper, however, appear to lack confidence in FERC's ability to implement appropriate regulation:

> "I recommend not presuming that existing FERC regulations and policies will protect the State's interest and prevent basin control, either overtly or through subtle device." (Mr. Harper, July 31, 2006 to Sen. Therriault)

> "If there is reasonable certainty that: (1) the line will be expanded to meet new demand; and (2) the pricing of expansion capacity will be appropriate, most of the concerns about Basin Control will be resolved." (Mr. Shepler, July 31, 2006 to Sen. Therriault, Sen. Seekins, and Rep. Samuels)

The State and the independent producers were very successful in lobbying the U.S. Congress to add the mandatory expansion provisions to ANGPA of 2004, thereby granting FERC the unprecedented authority to force the expansion of a gas pipeline. The Mainline LLC agreement also includes a voluntary expansion provision. These two added vehicles, and the enforcement provisions available under FERC regulation, will protect the interests of non-affiliated producers.

Mr. Shepler's recommended changes, which are also collateral attacks on ANGPA and FERC Orders 2005 and 2005-A, are not necessary and could work against the interest of the State.

- "Mandatory period open seasons" - Requiring periodic open seasons would be costly and unnecessary in light of FERC's authority and other contract protections.
- "Sole-risk expansion" - Giving a single LLC member, whether the State member or a producer member, the unilateral right to cause the LLC to take action that could foster a bad commercial arrangement. The LLC will be most successful in an environment that fosters consensus building.

7. All expansions must have proposed rates that are on a "rolled-in" basis, no matter the financial impact on existing shippers

The State and the independent producers were successful in including the rebuttable presumption of "rolled-in" rates in the recently released FERC open season rules for the Alaska Gas Pipeline. The LLC must propose rolled-in rates for a pipeline expansion unless it can prove that rolled-in rates would not be appropriate and would qualify as a subsidy.

Obviously expansion shippers would want rolled-in rates when they face the potential for paying higher 'incremental' rates when an expansion is inefficient. For the State, this is not necessarily the case. Based on taking our share of gas in kind, we expect to receive and transport about 20% of ANS gas production. The State has a financial interest is protecting its transportation costs for State gas committed in the initial open season. Mandating rolled-in rates could increase the transportation costs for State gas, lowering net back values and reducing the benefits to the people of Alaska, including reduced Permanent Fund deposits. Because there can be no assurances that the volumes that will be proposed for the expansion will be from State lands or even State waters, there is financial exposure to the State.

Mr. Shepler believes that an independently-owned pipeline would always fight for rolled-in rates for expansions. This is not necessarily true because there is the potential for shippers to enter into negotiated rate agreements with pipeline operators. These negotiated rate agreements can, and often do, provide rate certainty to the shipper. This means the shipper is not exposed to rate increases except as defined in the agreement. If such a provision can be negotiated, this would allow the shipper to be isolated from the effects of rolled-in rates. This would mean the pipeline operator would be the one exposed to absorbing the cost of inefficient expansions if the rate charged to the new shipper can only be on a rolled in basis. Mandating rolled-in rates in all

circumstances would expose all LLC members, including the State, to a loss.

The Administration's objective in developing contract terms is to reduce risk to enable a gas pipeline project to proceed, not to create additional risk. Mandating rolled-in rates creates the risk that terms of a long-term deal (shipping commitments) entered into by the State (and others) at the open season could be changed by the action of a third party. This creates additional commercial risk associated with entering into these essential long-term agreements, and also raises a simple question of fairness. FERC has a policy in place to deal with the issue of rolled-in versus incremental rates that will effectively deal with this concern. Rate issues should be addressed at the appropriate time in the appropriate forum, once all the relevant facts are available.

In ANGPA, Congress struck what it determined was the proper balance between encouraging investment by those willing to commit to pay for capacity to get an Alaska pipeline built and encouraging development of additional gas resources in Alaska by providing an opportunity for future access to the pipeline. Congress addressed the issue of how potential shippers may access initial capacity and, if needed, expansion capacity on the pipeline. Competition for initial capacity and voluntary expansions is to be guided by the open season regulations. In any voluntary expansion, the regulations would "provide the opportunity for the transportation of natural gas other than from the Prudhoe Bay and Point Thomson units." Potential shippers who want more capacity than is available or voluntarily proposed can apply for a mandatory expansion

To ensure that a pipeline is constructed, it must be economically attractive to shippers at the time they make their initial commitments. Shippers, particularly those who must invest so substantially to explore for, develop and produce gas resources, may not be willing to enter into long-term financial commitments for the transportation of gas if they believe there is a substantial likelihood that their rates will be increased in the future in order to accommodate expansions. A component of fiscal certainty for the producer must include rate certainty for the transportation of its gas. Increasing uncertainty for initial shippers regarding future rates is inconsistent with the overriding goal of facilitating the timely permitting and construction of an Alaska pipeline project. Mr. Harper and Mr. Shepler appear to ignore the implications for those shippers who are making the pipeline a reality and "opening the basin" in the first place.

8. The State should not rely solely on the FERC to prevent anti-competitive behavior of the producer-owners of a pipeline.

The Administration fully expects FERC to regulate the Alaska Gas Pipeline and is confident with FERC's ability to adjudicate pipeline-shipper disputes fairly and effectively. There is no plausible reason to disregard or discount the FERC's ability to regulate the gas pipeline industry. It has been doing so since the Federal Power Commission (FERC's predecessor agency) was given authority over natural gas transmission in the Natural Gas Act of 1938.

Following the Western energy problems of 2000-2001, the FERC affiliate rules were made stronger than ever. FERC Order 2004 is extremely powerful and gives FERC significant tools to ensure pipelines operate without discrimination.

Mr. Shepler has suggested that pursuing a complaint with FERC is very costly. The State has had a lot of experience pursuing complaints before FERC and has not been deterred by the cost. It would expect to pursue complaints vigorously against any pipeline where the State's interests are being damaged. Further, it is not the case that formal complaints are the only method by which the State can seek remedies. As discussed by Mr. Loeffler and FERC Staff official, Mr. Cupina, FERC has a 'Hotline' which has a good record of resolving issues without a formal proceeding. FERC's Office of Enforcement will rigorously and promptly act if there are questions of noncompliance.

To reiterate earlier testimony, remedies available to FERC for violations of affiliate rules and other regulations include:

- Civil Penalties of up to $1,000,000 per day per violation
- Divorcement (prohibition against pipeline providing discriminatory services to affiliates)
- Incarceration - criminal penalties for willful and knowing violations (5 years per violation)
- Disgorgement of illegal profits

The severity of these penalties provides a substantial incentive to ensure that the producer-owners of an Alaska gas pipeline do not discriminate against other producers.

One point made by Mr. Shepler is that if the Sponsors agree in advance to a position favorable to a non-affiliated producer, that non-affiliated producer would save the cost of FERC counsel and the risk of an adverse FERC decision. This argument does not hold true as other shippers could protest or the FERC could reject on its own motion.

9. An independently-owned pipeline is preferable over a producer-owned pipeline.

By arguing for an independently-owned pipeline, Mr. Harper and Mr. Shepler seem to ignore the reason the producers and the State want to own the pipeline in the first place. A producer-owned pipeline only recognizes the obvious fact that a pipeline will not be built without the backing of the owners of the gas. The right to produce and develop ANS gas is held by the producer Sponsors with the State having the royalty interest. A producer and State-owned pipeline is the most economically efficient way to develop the State's natural gas resources and manage the risk and minimize the costs of that project. There is no independently-owned pipeline company with a balance sheet strong enough to build this pipeline without firm transportation commitments. The way FERC rates are structured, the costs to the shippers are based primarily on the actual cost of the pipeline. If there are cost overruns, normally the shippers, not the pipeline owner, are required to pay. As a matter of fact, the pipeline company has exactly the opposite commercial incentive to a shipper in that if the pipeline costs do grow, the pipeline can actually make more money with a larger rate base. The cost of a higher rate base would be a direct reduction in the value both the State and the producers receive for their gas.

Given the substantial risk of cost overrun on the Alaska Gas Pipeline, the Sponsors and the State are motivated to own the pipeline so they can control the costs. It makes sense for the one who bears the risk of overrun to manage the risk of overrun. BP, ConocoPhillips and ExxonMobil have worldwide experience managing mega projects.

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August 1, 2006

The Honorable Edward S. Itta
Mayor of the North Slope Borough
P.O. Box 69
Barrow, Alaska 99723

Dear Mayor Itta:

We would like to thank you for your hospitality at the Alaska Gas Pipeline public forum in Barrow and for your comments.

This letter contains the state's reply to your points raised in your July 24, 2006 comment submission on the Stranded Gas Development Act Contract and Preliminary Fiscal Interest Finding. We would welcome any additional thoughts on these issues you may have.

Sincerely yours,

William A. Corbus

William A. Corbus
Commissioner of Revenue

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Responses to Mayor Edward S. Itta's July 24, 2006 Comments

Mayor Itta has articulated important issues in his July 24 Comments. The contract, developed by the State as authorized under the Stranded Gas Development Act, was the result of give and take negotiations and as such was a compromise with the Producers to get a pipeline. In reviewing the State's response the Mayor's Comments, the reader should bear in mind the risk that the pipeline does not go forward at all, current declining North Slope oil production and the prospect of declining revenues to the North Slope Borough. The proposed contract will bring a pipeline and provide the fiscal certainty on oil that is necessary to stem the decline in oil production, the combination that will insure the North Slope Borough an increased and steady long term revenue source.

1. The "Targeted Tax" definition is problematic

Both the sponsor group and the Municipalities acknowledged early on in the process the need to protect the project against targeted taxes. The state was also aware that the use of the 20 percent threshold as a measure of targeted taxes could create a situation where an otherwise typical tax might be classified as targeted. To eliminate the financial risk on the Municipalities while still giving fiscal certainty to the sponsor group, the state agreed in the contract to require that these taxes be paid to the municipalities regardless of whether they are targeted or not. The local taxing jurisdictions are kept whole, and can make sure they are kept whole under their own ordinances, boards of equalization and other democratic institutions. Then under the contract, if those payments have exceeded certain amounts or other tests, the state will reimburse the taxpayer. Under this contract provision the North Slope Borough will be able to recover the revenue from the EIAP, but it will require the implementation of a sales and use tax to do so.

2. Local education funding is reduced by the Contract

We agree with your analysis of the school funding issue, and it was never our intent to diminish the school funding mechanisms. Thus as the outlines of the contract became clear, we requested (and both the bodies of the legislature accepted) language to make

sure the assets which though tax free had associated PILTs, would remain in the tax base at full and true value. While this bill did not pass out of the legislature in the first special session, we encourage you to support this bill when it comes up in the next special session.

3. The Contract may affect municipal bond ratios and ratings

When this issue was first brought to the state's attention it checked with its bond council to determine the effect of switching from a tax structure to a PILT structure. We believe that if revenue streams are sufficient to carry the bonds that the switch to a PILT would probably have little effect on the bonds. The greater problem appears to be that by limiting the payment to the Municipalities to 100% of the PILT, the contract has removed the assurance of an unlimited taxing authority. Under current law there is 30 mill cap for operating funds in law and no limit on taxes to repay debt. Although, for all practical purposes there appears to be an effective informal 20 mill cap, the state understands the North Slope Borough's concerns over their bond solvency but believes, based on its review with its bond council, that the North Slope Borough's concerns, although warranted, are sufficiently addressed in the contract.

4. The Borough unfairly loses revenues due to valuation and NPV calculations

The North Slope Borough is correct in pointing out that the contract does not replace all traditional tax payments with PILTs of an equivalent Net Present Value. This issue will be addressed in more detail as it relates to specific comments of the NSB. You are also correct in pointing out that under the current contract they potentially stand alone as the only local government that will sacrifice revenues during the operation of the pipeline. However the North Slope Borough is not alone in the reduction in revenues during construction of the pipeline.

Although there is no specific language in the Stranded Gas Development Act that dictates the level of payments to Municipalities, the State in negotiating the contract

language as it relates to Municipal revenues attempted to maintain an income stream of equivalent NPV during the life of the contract. In order [to] determine whether the contract language met that goal, it is necessary to look at the entire PILT revenue stream rather than individual PILTs in determining the equivalency of the payments.

It is clear that the calculation of the NPV equivalency is directly related to the assumptions used in determining inflation rates, production rates, and discount rates and as such is open to debate. However, it is reasonable to estimate that the contract, assuming a 4.5 bcf pipeline, will make available, to the North Slope Borough, an additional $80,000,000 in annual gas related revenues once the pipeline is completed. In addition, the PILT structure for the oil related assets generates as much as $1.5 billion in additional revenue over and above the status quo tax structure during the life of the contract.

5. The Contract methodology undervalues North Slope Borough properties, and the Gas Treatment Plant is undervalued by the Contract

The North Slope Borough is correct in pointing out that the contract does not replace the traditional tax payments that would be associated with the GTP with PILTs of an equivalent Net Present Value. However, in order to determine the sufficiency of the payments under the PILT structure in the contract it is necessary to look at the entire PILT revenue stream rather than individual PILTs in determining the equivalency of the payments.

It is clear that the calculation of the NPV equivalency is directly related to the assumptions used in determining inflation rates, production rates, and discount rates and as such is open to debate. However, it is reasonable to estimate that the contract, assuming a 4.5 bcf pipeline, will make available to the North Slope Borough an additional $80,000,000 in annual gas related revenues once the pipeline is completed.

6. The Oil Properties provisions in the Contract undervalue TAPS in the Borough

The cash flow from the PILT on TAPS in the contract translates into a value for TAPS higher than any value seen since 1995 – 3.5 billion dollars. None-the-less, it does not represent the 2006 value of $4.3 billion which is found in the State Assessment Review Board decision. (Under appeal by the owners in Superior Court) Our modeling, which State Petroleum Property Assessor, Randy Hoffbeck, has shared with you, shows that some years out, the inflation and throughput driven calculation based on a 2006 value of $3.5 billion results in higher cash flows to the taxing jurisdictions than the traditional inflation and depreciation driven calculation based on $4.3 billion in 2006.

7. The Oil Unit of Production method of assessment must have a logical and defensible tie to the capital assets

The use of a volumetric measure of value was proposed by the state in 2002 and had been in a test mode for the tax years 2003 - 2005. The contract language adopted the methodology and included escalators starting in the 2007 tax year. In addition, to help in the transition to a PILT structure, the contract allowed for the use of a five year average production in the 2006 and 2007 tax years. Based on the current production forecasts it appears that this will result in a cumulative loss in potential revenue to the North Slope Borough of $22,000,000 through 2010. However, after 2010 it results in revenues in excess of status quo. During the life of the contract that additional revenue could equate to as much as $1.5 billion dollars.

In switching to a PILT system the state acknowledges that the use of a volumetric approach as structured in the contract will not equate directly to full and true value under the current tax system. It is also clear that this will result in revenue shortfalls in the near term to the North Slope Borough. However the long term benefits of the volumetric PILT appear to far offset the short term losses.

8. The inflation and depreciation calculations in the Unit of Production methodology for oil undervalue the assets

In switching to a PILT system the state acknowledges that the use of a volumetric approach as structured in the contract will not equate directly to full and true value under the current tax system. However the long term benefits of the volumetric PILT appear to far offset the short term losses.

9. The Oil Unit of Production method of assessment does not protect municipalities from large revenue fluctuations

Revenue fluctuations have been a part of the assessment of ANS assets long before a volumetric approach was implemented. In fact the use of a volumetric approach has eliminated the use of redesign studies by the taxpayers as a tool in controlling their tax liabilities. In the past these studies resulted in large adjustments to the assessed values by as much as 10% in a single year. The studies were initiated by the tax payer at an ever increasing rate during the late 90's and early 2000's and were impossible to forecast and difficult to defend against. The use of a volumetric approach has allowed for much more accurate assessment forecasts on an annual basis.

Although the proposed PILT structure does not provide downside protection on revenues, it is true to say that the current tax system did not offer protection either. In addition, the current PILT has no upside limit and will respond quickly and significantly [with] increase[d] revenues if new production is brought on line.

10. The Unit of Production methodology for oil must be subject to periodic review

The state agrees that the "per barrel rate" cannot remain fixed and must adjust over time. Rather than provide for reopeners that would result in fiscal uncertainty to both the producers and the North Slope Borough the state included annual inflation adjustments within the contract. A review of the cash flows from the PILT indicates that the inflation adjustment is sufficient to account for changing costs anticipated during the life of the contract.

11. The Gas Unit of Production method of assessment must have a logical and defensible tie to the value of the capital assets

The Stranded Gas Development Act gave the commissioner the authority to modify the current tax system within any gas line contract developed under the Act. There is no specific language in the Stranded Gas Development Act that dictates the level of payments to Municipalities that the contract must provide. The State in negotiating the contract language as it relates to Municipal revenues attempted to maintain an income stream of equivalent NPV during the life of the contract. Although the state acknowledges that the revenue stream from the GTP PILT is not equivalent to the income stream generated from a property tax on the GTP, the state estimates that the contract will make available, to the North Slope Borough, an additional $80,000,000 in annual gas related revenues once the pipeline is completed.

12. The Gas Unit of Production methodology must fairly treat inflation and depreciation

The 80% CPI factor is used to account for the effects of technology changes and depreciation on the existing and new upstream gas assets. As far as the use of the Urban CPI factor for measuring inflation, the contract sought to have a single inflation adjustment for all components of the contract. Although the particular factor chosen may not be oil field specific, it is a widely accepted measure of inflation.

13. Any gas valuation methodology has to meet the concerns of the North Slope Borough; The Gas Unit of Production method of assessment must protect municipalities from large revenue fluctuations

History shows that gas pipelines tend to run at steady and full capacity for a significant portion of their economic life. The state believes that PILT structure in the contract will result in a more stable and predictable revenue stream to the North Slope Borough than a status quo tax structure.

14. The Gas Unit of Production method of assessment must include a plan for review and re-implementation

The state agrees that the rate per MMBTU/MCF cannot remain fixed and must adjust over time. Rather than provide for reopeners that would result in fiscal uncertainty to both the producers and the North Slope Borough the state included annual inflation adjustments within the contract. A review of the cash flows from the PILT indicates that the inflation adjustment is sufficient to account for changing costs anticipated during the life of the contract.

15. The Contract should recognize the potential for cost overruns

The state fully understands that all parties take certain risks in locking in the PILT structure prior to completion of the pipeline. If the pipeline costs overrun, the PILTs might not meet the goal of equivalent NPV. Conversely, if major expansions occur that require less capital investment per MCF than the original project the PILT revenue could exceed the NPV of a status quo tax structure.

The state was fully aware of the concerns of impacts on communities during construction. The North Slope Borough, along with the Fairbanks North Star Borough has the advantage of recapturing revenues deferred during construction with the revenue PILTs. Other municipalities are actually being asked to shoulder more of the burden of the lost construction property tax revenue than the North Slope Borough. The need to address specific impacts during construction is why the construction impact PILT was included in the contract with the flexibility for funds to be allocated to the areas of greatest need. Section 18.1 of the contract establishes 125 million dollars in impact payment which will be appropriated by the legislature to those communities being impacted. The contract can hardly direct the payments to the affected municipalities since we do not now know which communities will feel what effects. The legislature can look at and balance relative needs, and coordinate those funds with other programs and spending. This will most likely be a less chaotic process than having every impact municipality trying to change its fiscal system for just the several years of construction, with all the attendant effects on other taxpayers within the municipality.

16. Any Contract reopener creates the potential for municipal losses

The reopener discussed by the governor was in reference to the oil tax provisions of the contract, and most specifically the production taxes. There has been no discussion related to the renegotiation of municipal PILTs.

17. The Contract audit and confidentiality terms must protect municipal rights

Technically, the contract is between the State and the industry sponsors. Municipalities are not third party beneficiaries under the contract. However, when the contract is read along with current law concerning mill rates, quite a bit of cash will flow to municipalities as PILTs, primarily the North Slope Borough. If the borough believes that it has not been paid appropriately, it must raise that issue with the State which will then act under the contract.

To be able to raise the issue though, the borough needs to have the information upon which payments are based. The vast majority of the NSB's payments will be driven by volumes and a close examination of the definition of "Non-confidential information" should reassure the NSB that volumetric and ownership information will be available. The only case where other information (property valuation records) is required would be for an oil pipeline under construction under article 17.2 (a). As that material is under the control of the commissioner there should be no problem in making it available to the Borough.

While we believe the concern raised by the Mayor is addressed in the contract, we could certainly look into expanding the definition of non-confidential information to include those specific pieces necessary for a borough to confirm their PILT payment.

18. Municipalities need the opportunity for dispute resolution

Your letter raises a question about the consequences if a producer, the midstream entity, or a participant does not make timely payment or any payment of the amounts due under Articles 15, 16 and 17 of the Fiscal Contract, monies which ultimately flow to the municipalities. Any delay in payment or failure to pay would subject the delinquent payor to an increasing obligation due to the interest that would begin the first day after the failure to pay. Article 26.2. The Contract provides that the amounts due under Articles 15, 16, and 17 are contractually owed to the State, and that only the State will have the responsibility for pursuing the amount due through the dispute resolution mechanism. As a consequence, the municipalities will have no direct remedy against the delinquent because the contractual obligation is to the State but the municipalities will have the right to seek redress from the State for the missing payment. *See* Article 21.3. ("A *Political Subdivision's* exclusive recourse is against the *State*").

The fundamental point is that there has to be a measure of good faith in assuming all parties to the Contract will carry out their obligations, especially the obligations in question. The calculation of the amounts due under Articles 15 through 17 is straightforward and leaves little room for dispute. The State is confident that the Article 15 through 17 payments will be made in the ordinary course of business and will not be delayed. Further, because the payments are due under a contract, not a statutory scheme of taxation, it was thought inappropriate to include penalty provisions as opposed to a requirement for interest.

One point raised by the question is whether the interest on the delinquent payment would flow through to the State. The Contract is silent on that point but we will consider adding language to address this. It would appear fair that some or all of the interest should flow to affected municipalities in appropriate circumstances. The relevant question would be how soon the State acted to relieve the municipalities of the consequences of the delinquent payment. If, for example, the State acted quickly to provide funds to the municipalities in lieu of the delinquent payment, then logically only a portion of the interest corresponding to the delay in passing through the funds to the municipality should be passed through. If, hypothetically, the State did not provide funds to the municipalities until it had resolved the dispute with the delinquent payor, then it

would appear all of the interest should be passed through. Because this is a prospective issue between the State and the municipalities, it should be addressed outside the Contract, which is concerned with the core obligations between the State and the Sponsor Group.

19. The Unit of Production methodology should not exempt line pack or field use

All gas and oil, owned by a signatory to the contract, that is transported through a pipeline segment is used in calculating the PILTs.

20. The inflation rates used in the Contract must be revised

The 80% CPI factor is used to account for the effects of technology changes and depreciation on a mix of existing and new upstream gas assets. The 70% factor is used to account for these same effects on the existing oil assets but further recognizes that fewer new oil assets are expected to come on line in the future changing the mix of new and existing assets and requi a greater recognition of obsolescence. As far as the use of the Urban CPI factor for measuring inflation, the contract sought to have a single inflation adjustment for all components of the contract. Although the particular factor chose may not be oil field specific, it is a widely accepted measure of inflation.

21. The Stranded Gas Development Act amendments must address unintended consequences of the PILT

We agree with your analysis of the school funding issue, and it was never our intent to diminish the school funding mechanisms. Thus as the outlines of the contract became clear, we requested (and both the bodies of the legislature accepted) language to make sure the assets which though tax free had associated PILTs, would remain in the tax base at full and true value. As part of the legislation the state will be required to value the assets in order to establish the proper level of state and local contributions to education. While this bill did not pass out of the legislature in the first special session, we encourage you to support this bill when it comes up in the next special session.

22. Contract provisions should take effect when the project is sanctioned

Recognizing that a purpose of the Contract is to drive the producers to a decision on sanctioning the project as opposed to a decision today to build the pipeline absolutely, you ask whether "most benefits to the producers under the contract should have a trigger date of project sanction" rather than from the effective date? In point of fact, the value of most benefits of the Contract will accrue if and only if the project is sanctioned. That is true, for example, for the essence of the gas benefits because the start of gas production triggers those benefits. The State considered the option whereby fiscal benefits would accrue only at sanction, but that was not the outcome of the negotiations. The Sponsor Group argued that they need certainty about the economics from the effective date because they would be making substantial outlays and evaluating the overall economic risk of the project from that time. For example, over the period of project planning, regulatory process, engineering and the other steps that lead to project sanction, the companies will spend up to $1 billion. The companies argued successfully that it was necessary to provide fiscal certainty from the outset to contain the risk of tax changes on the project economics, which are measured in a way that includes the early substantial outlays for the project.

23. The Contract must accommodate new local government formation in the Unorganized Borough

The contract provides a mechanism for new boroughs to receive a portion of the PILT associated with the gas line and TAPS. If in the future the gas line PILTs are insufficient to fully fund payments to new boroughs the payments would be prorated under the contract but the legislature could still act to make up the difference. TAPs PILTs are sufficient to fully fund payments to new boroughs.

24. The Contract must provide for baseline data collection and mitigation of effects

The State of Alaska relies on resource development to support the services provided to the citizens of the State. The State has always recognized the importance of balancing the need to develop natural resources with the protection of fish and wildlife habitat. The gas pipeline project, through FERC, will be subject to an Environmental Impact Statement with the State as a participant. In addition, the Department of Natural Resources Commissioner will perform a parallel public process prior to making a final decision on the right-of-way lease. These processes serve to identify possible impacts of the project, including environmental impacts. Mitigation of potential impacts is accomplished through existing law or through stipulations to the lease and grant of right-of-way.

25. Expanded exploration and development bring new impacts that must be addressed

The primary reason that the contract does not address impact payments from future development is that most of this development is anticipated to occur in NPRA or the OCS, and there are other mechanisms in place to address impact payments from these areas.

The construction and operation of the gasline, and any future gas exploration and development, will bring greatly increased revenues to both the state and North Slope Borough governments. In addition to the direct revenues, there is also the Coastal Impact Assistance Program that provides coastal political subdivisions (such as the North Slope Borough) with revenue from OCS oil and gas leases and activities

26. Local residents must be involved in planning

Any significant development on the North Slope will require numerous permits and authorizations. Most of the State and federal permitting processes (including State and federal oil and gas leasing and permitting programs) involve a public process designed to involve and gather input from the public and local residents. In addition to the permitting process, the State also has designed project permitting teams to work on proposed large

resource development projects. Part of the purpose of assembling those teams is to ensure that all issues and impacts of a project are considered and addressed. In addition, the Alaska Coastal Management Program ensures local review and input on development projects in the coastal zone, including the OCS.

Any significant development on the North Slope, including the gasline and associated facilities, will require a federal Environmental Impact Statement. As part of that EIS, there will be extensive public involvement opportunities during the development of an EIS, including compliance with the federal Executive Order 13084, Consultation and Coordination with Indian Tribal Governments. This directs federal agencies to establish regular and meaningful consultation and collaboration with tribal officials. This 'government-to-government' consultation means more than simply providing information about what the agency is planning to do and allowing comment. Rather, the consultation means a two-way communication that corks toward a consensus reflecting the concerns of the affected federally recognized tribes. This consultation is an important method for making sure that traditional knowledge from the local residents and elders is incorporated into the planning process for significant development projects.

27. North Slope residents need to be trained and hired for gas line jobs

The Alaska Department of Labor and Workforce Development was planning for the potential of a mega project when the decision was made to open a job center in Barrow. The role of the job center is to connect Alaskans with training and employment opportunities.

The Alaska Gas Pipeline project is an example of the mega projects. To design, build and operate the Alaska Gas pipeline will require skilled workers in many fields. The most common occupations in demand for the project are welders, heavy equipment operators, truck drivers and general laborers. Preparing Alaskans for these occupations requires specialized facilities and equipment.

Congress allocated $20 million for the training and development of workers associated with construction of an Alaska Gas Pipeline. $3 million has been earmarked for a specialized training facility to be located in Fairbanks. Fairbanks was chosen because of the extreme temperatures that are similar to those experienced along the proposed route and its reliable access to transportation, resources and other community supports. Employees of the local job centers are prepared to assist rural residents to obtain training from the Fairbanks training facility and other facilities that will help an individual prepare for work on the project.

Additionally, the department is developing alternative training strategies that will bring training opportunities closer to rural communities but still provide the same level of quality. An example of the new training strategies is the construction academies that were held in several rural communities and regional hubs. Where appropriate, the department will seek to improve local access to quality training.

28. Solid waste issues need to be addressed in planning for the gas line

Hazardous and solid waste issues will be addressed in the right-of-way leasing process. The lessee will be required to develop a solid and hazardous waste plan prior to receiving a notice-to-proceed for construction. The plan will be available for public review as part of the DNR Commissioner's proposed decision.

29. The TAPS corridor must be closed for security and wildlife protection

It is the policy of the ADNR that access roads and the right-of-way, including work pads, will be open for the use and enjoyment of the public unless the Commissioner approves the regulation/restriction. Upon completion of construction of the pipeline, the public will have access along the right-of-way, except at compressor stations, other permanent facility locations, areas where the pipeline is above-ground, and locations where access must be limited for security or safety purposes. Access roads leading to the right-of-way, whether currently existing or constructed by the lessees, may, with the

Commissioner's approval, have limited public access during construction and termination activities. At all other times, unless the lessee receives the written permission of the Commissioner to restrict access for operation and maintenance or public and wildlife safety purposes, the pipeline right-of-way access roads must remain open for public access. If public access is limited on existing highways, trails and access roads, the lessee must provide alternative routes. The lessee must also provide appropriate warnings and safety measures when using access roads or when limiting public access to the access roads.

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August 31, 2006

Senator Gene Therriault
Alaska State Legislature
119 N. Cushman Suite 101
Fairbanks, Alaska 99701

Dear Senator Therriault:

This is in response to your July 24 letter to the Murkowski Administration regarding the Alaska Stranded Gas Fiscal Contract between the State of Alaska and BP Exploration (Alaska) Inc., ConocoPhillips Alaska, Inc. and ExxonMobil Alaska Production Inc. /Preliminary Findings and Determination.

The Murkowski administration's gas team has carefully considered your 49 pages of comments on the Stranded Gas Fiscal Contract. Your comments were grouped into four summary issues, followed by contract modification recommendations. The four summary issues you presented are:

1. Market dynamics have changed significantly since passage of the SGDA;
2. The Contract is not ripe for consideration or execution because it fails to address critical issues;
3. The Contract represents an unbalanced set of commitments and obligations; and
4. The findings suffer from factual errors, incorrect treatment of shipping commitments and misplaced fears regarding LNG.

We do not agree with your characterization of these issues. This document provides our reasons, and a response to your Contract modification recommendations.

Response 1: Variations and shifts in the North American market dynamics have not undercut the premise or the justification for the SGDA.

The proposed contract between the Participants and the State is a Stranded Gas Development Act "fiscal" contract that was never intended to mitigate the volatility of natural gas prices. The purpose of the Stranded Gas Development Act was to *"allow the fiscal terms applicable to a qualified sponsor or the members of a qualified sponsor*

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Notwithstanding, arguments that market dynamics are fundamentally changed are without merit. The December 2004 Division of Oil and Gas price forecast is very similar to the 2006 division gas price forecast (just released) during the timeframe that startup of the Alaska Gas Pipeline is projected – a mean value just over $4/MMBTU in 2006 dollars. During the timeframe 2020 through 2040, the mean 2006 gas price forecast exceeds the mean 2004 forecast by about $1/MMBTU. And regardless of these price forecasts, no one can say with any certainty what prices will actually be over the term of the Contract.

While the fiscal contract provides for a stable fiscal regime, there are many other risks and uncertainties. In addition to the natural gas market, some of the other concerns include:

- Litigation - The fiscal contract or the law authorizing the contract may be challenged in the courts. The time period required to resolve this type of litigation is uncertain. There is also the potential for other litigation as the Project advances.

- Procurement – The Project may face cost increases (e.g., steel) and material/labor shortages. As a case in point, in the five years since the Producers completed their $125 million study, steel prices have increased dramatically.

- Open Season - In any open season, there is risk of insufficient market support. At a minimum, there could be delays due to third party challenges or the need tc make significant and costly design changes as a result of the open season.

- Regulatory - The Project faces permitting requirements in both the U.S. and Canada. These are complex processes involving multiple agencies, with potential overlapping terms and conditions.

- Construction – Due to the massive scope of the Project, there could be many unforeseen risks and uncertainties, including the need for and performance of new technology, pipeline lay rates, labor disruptions, weather during construction and timing of construction and sea lift windows.

- Resource - Roughly 30% of the needed reserves will have to come from unexplored fields.

The SGDA was not created to remove all risks. Its focus was to reduce risks related to changes in Alaska government take by providing fiscal certainty. Government take is the single largest cost to investors and only one of many types of risks that will affect this long-term project.

<u>Response 2:</u> The fiscal contract is ripe, and the time is right, for authorization and execution.

The fiscal contract addresses those matters that belong in the fiscal contract, allowing those matters that belong in operating documents or that are subject to state policy to be addressed appropriately. The proposed fiscal contract – on the table today – offers the State the best opportunity to get a gas pipeline built, under the best terms the State can expect to have available. Specific concerns you raise are addressed below:

LLC Agreement. The Mainline LLC agreement will be available prior to final consideration of the fiscal contract by the Legislature. Other LLC agreements, and Canadian partnership agreements, will be developed, patterned after the Mainline agreement, as those entities are formed during the project planning process.

Coordination Agreement. The need for a "coordination agreement", as well as the terms of such an agreement, remains a matter of discussion both within state government, as well as with the producer companies. However, while coordination is recognized as important to the execution of the Project, it is not pertinent to the fiscal terms of the agreement, and there is no need to address the mechanics at this time. Details of project execution will be addressed in the project planning phase – which will begin within 90 days after Contract execution.

Parent Guarantees. The Sponsor Group companies have consistently maintained that parent company guarantees are not needed. The Sponsor Group companies, who are the parties to the fiscal contract, state that they hold significant assets in Alaska and have the financial wherewithal to fulfill the obligations under the Fiscal Contract. Before executing the contract, the State will require satisfaction that the Sponsor Group companies that execute the contract have the very large resources needed to ensure performance of the contract.

Regulatory approval plans. It is unreasonable to hold up approval of the fiscal contract for development of additional Canadian and US regulatory approval plans. Such work will be part of the planning process that will start within 90 days after Contract execution. A proven process to permit a cross-border pipeline already exists in Canada.

Commitment to subscribe to shipping capacity. The technical answer is that this is a fiscal contract, not a shipping contract. The shipping commitment logically does not precede the fiscal contract, but follows it, in the open season required under FERC regulations, which cannot be held until considerable engineering and commercial work is completed and notice to all prospective shippers is made. The practical answer is that the producers have exhibited commitment to the Alaska Gas Pipeline by spending 125 million dollars in preplanning, by lobbying for the federal legislation (ANGPA of 2004), and by negotiating and agreeing to the fiscal contract, which includes a commitment to accept a substantial increase in production taxes subject to Legislative enactment, and associated work commitments to advance the project. The sponsors are resource owners, and the pipeline project is ancillary to and designed to enable the commercialization of those resources. In that light, it is not reasonable to

assume that, after all of this effort and after executing the fiscal contract, the producers will simply stop in-place; delaying the monetization of the North Slope gas resource, risking termination of the fiscal certainty they receive under the contract, and facing the consequences of subsequent State reaction.

State Marketing Arrangements. The administration is unwilling to allow the producers to have any control over the structure of the State's marketing entity or of the State's in-state gas pricing policy. The State has an experienced gas marketing professional on staff, has been developing a gas marketing plan, and is working toward developing a state gas marketing entity. The administration has also drafted an in-state gas pricing policy for consideration, and has been meeting with individuals and entities around the state further exploring a policy which works for all Alaskans. The administration will not accept producer involvement in either issue by including them in the fiscal contract.

AOGCC Offtake Allowables. The fiscal contract in no way limits the authority of the AOGCC. As a matter of fact, the AOGCC has begun reviewing PBU gas offtake rates, and will address PTU offtake rates in the near future. White papers on the AOGCC web-site make it clear that the Working Interest Owners for both PBU and PTU and the staff and consultants to the AOGCC are advancing the work to allow the Commission to issue conservation orders that provide allowable gas offtake rates prior to any open season. Article 23.1(c), reinforces this process by requiring the Sponsor Group companies to apply to the AOGCC for PTU pool rules within six months after the Effective Date.

Response 3: The fiscal contract provides the proper balance of risk management and commitment on the part the producers, as well as the State.

The Alaska Stranded Gas Fiscal Contract is a fiscal contract. The fiscal contract provides fiscal certainty in exchange for a commitment to move forward on making an Alaska Gas Pipeline a reality. The Administration's economic modeling demonstrates that, under the fiscal contract, the State has retained the value under the current fiscal regime (tax and royalty) while reducing project risk and improving overall project economics significantly The State determined that fiscal certainty on oil was appropriate, only after the producers agreed to accept a hefty increase in oil taxes (over $1 billion annually at current oil prices), subject to Legislative enactment. Therefore, while oil fiscal certainty is provided under the fiscal contract, the producers are paying a substantial price for it.

The work commitments and the diligence standard negotiated in the contract were carefully constructed to balance the State's need for commitment and enforcement with proper risk management of this enormous international project. The producers commit, unreservedly, to start project planning within 90 days of contract execution; and to conclude project planning activities with a decision whether to begin preparation of regulatory applications and planning for an Open Season. During the project planning phase, the Participants will:

- conduct additional technical studies to facilitate selection of a preliminary project design basis;

- develop Project cost estimates and schedules for all Project phases;
- update economic analyses;
- prepare the work scope, staffing plan and cost estimates for the next Project phase;
- select contractors for the next Project phase;
- develop plans for access and regulatory/permit applications for both the U.S. and Canada; and
- establish commercial structure and tariff principles to guide Project development.

The Participants also commit to "continue to pursue implementation" until Project Sanction. The final deliverable of Article 5 of the Contract is Project Sanction. The Participants' obligation to progress the project is firm. If the contract is challenged in the courts, as many expect will happen, the Contract requires that the Participants continue to progress the Project. In the event of a court challenge, when the very contract benefits for which the Participants have negotiated are being challenged and are at risk, the Participants must, consistent with Article 27.2, continue to perform their obligations until Project planning is completed, fifteen months has elapsed, or $120 million has been spent. This is in addition to the $125 million spent during 2001 and 2002 to study and evaluate the feasibility of this Project.

The fiscal contract stipulates a standard of performance; that the project be advanced as diligently as is prudent under the circumstances. Prudence is a key component which seems to have been neglected in discussions about the diligence standard. The administration was able to capture the relevant elements of the "prudent operator standard" within the contract standard, as is explained below.

Articles 4 and 5 of the fiscal contract reference the Qualified Project Plan which provides a success-based estimate of project scheduling and delivery dates. On May 10, 2006, the Sponsor Group filed a public project summary that contains the most current information on the success case for project development, including a timeline with associated activities. The plan, schedule and dates will change as project planning progresses, new information becomes available, implementation issues arise, issues are resolved, and the project moves through the stages of implementation. Each year a Project Summary will be created which will include an update to the project schedule. The Project Summary is a public document that can be used to understand the progress being made on the project.

One of the biggest concerns for the state is the risk of cost overruns. The adverse affects to the state of cost overruns are manifold: Overruns will not only increase the pipeline financing burden for the state, but will reduce the value of the state's royalty and tax gas, increase negative price risk, reduce the value of the state's leasehold acreage, reduce the level of investment in North Slope exploration, and increase reserves risk later in the contract term.

The Alaska Gas Pipeline project not only has a significant risk of incurring cost overruns, but also has a significant risk of those overruns being massive. The Alaska Gas Pipeline is considered a "mega-project" not only because of the pipeline size and

length, but because of its magnitude relative to international steel and labor markets, the interaction with upstream and infrastructure development timing, and because of the multitude of jurisdictional and international issues involved. Mega project cost overruns exceeding 50% of project sanction cost estimates are not uncommon.

Cost overrun risk is minimized by careful and complete alignment of project resources in a disciplined approach to project planning, permitting, design and approvals. Competing priorities, such as artificial deadlines or avoidance of 'penalty payments' result in conflicted decision making, leading to compromised results which begin the spiral into escalating cost overruns.

The State's direct equity participation in the project actually provides a "hedge" against this overrun risk, as the State will earn a return on the capital invested in the pipeline through the tariff revenues it will receive as a pipeline owner. This "hedge" is not available to the State under the "status quo".

Response 4: The draft fiscal interest finding

Your comments concerning the draft fiscal interest finding will be responded to fully in the commissioner's formal response to comments received during the public comment period. Your comments and your conclusions largely reflect a distorted view of the use of corroborating evidence to support fundamental revenue and cost data, and international mega project risk experience; and an inadequate appreciation of the reasonable range of possible economic outcomes.

The assertion that "ANS gas has not been brought to market principally because until now its higher and better use has been to be reinjected to optimize oil production" is incorrect. The gas has not been brought to market before now because the producers have not been able to economically justify the magnitude of, and the risks attendant to, the investment required; given the market prices historically available. Certainly, had they been able to place an economic project on the table, the State would have been faced with just the tradeoffs you imply. Such a decision was never presented to the State.

LNG imports certainly continue to face environmental hurdles; however, permits for construction are being approved, particularly in the Gulf of Mexico, where the bulk of import capacity into the central North American gas markets originates. As these facilities become more commonplace and the public better informed; and as need grows, we can expect that such hurdle may well fall.

As important as the Federal financing guarantees are to the Alaska Gas Pipeline project, they do not protect the producers. They are guarantees extended ultimately to the financing entities that loan money to the project entity. Producers remain responsible for guaranteeing completion of the project. In addition, liability will remain with those who seek the financing until the project is in-service.

Response to Contract Modification Recommendations:

You provided recommendations, under 15 subheadings, for fiscal contract modifications, primarily with the stated intent of receiving "commitments which will lead to development of stranded gas." While we offer the following responses to your recommendations, we are considering your recommendations along with the rest of the public comments as we prepare the final finding and proposed amendments:

Work Commitments, Diligence Standard, and Qualified Project Plan

- Specific activities and the timeline associated with each activity are in fact set out in the Qualified Project Plan, and are documented in the public Project Summary, which must be updated annually.
- On May 10, 2006, the Sponsor Group released an updated Project Summary that was filed as part of the Qualified Project Plan. The May 10 update lays out a timetable and schedule of activities for a success case.
- Consistent with good project management practices, milestones and completion dates will become more detailed and will be revised, as project planning proceeds. The detail you seek is produced during the project planning process.
- Assuming that the Fiscal Contract is approved, the State, as a member of the Mainline and related LLC's, will participate in and supervise project development along with the other members of the LLC's. This is a primary benefit of having a seat at the table. The producers and the State will be working together towards project implementation.
- As part of his overall responsibilities, the Governor and his representatives will monitor implementation of the Qualified Project Plan to ensure that the contract requirement that the project be advanced "as diligently as is prudent under the circumstances" is fulfilled. Because the next phases are spelled out in the May 10 Project Summary and because each activity requires the expenditure of substantial sums of money, it will be a straightforward process to observe and measure the progress of the project both from the perspective of the State's membership in the pipeline LLC's and from the outside.
- Prescription of termination or penalties for failure to meet a milestone on the Qualified Project Plan creates an artificial priority which is very likely to compete with sound project management priorities, thereby increasing the risk of poor decision making and incurring cost overruns trying to meet that artificial priority. Penalties do not protect the State – they add to the risk of this project for the State. Cost overruns will increase tariff rates. The State's greatest interest, like the Sponsors', lies in the value of the gas resource. This value would be eroded by high tariffs due to cost overruns. Thus, the State should not include terms in the Contract that increase the risk of cost overruns.

- Article 5.5(a) gives the State the right to terminate the Contract up until Project Sanction if the producers fail to continue to advance the project 'as diligently as prudent under the circumstances'

- Diligence is defined in the contract as advancing the project as diligently as is prudent under the circumstances. The concept of prudence is already integral to this definition. The "Prudent Operator Standard" to which you refer is applied most often to production operations, rather than planning and permitting a major international construction project. The Diligence standard incorporates this concept of prudence into the standard of performance imposed by the contract.

It is understandable that Alaskans, having waited so long, want to see a project as quickly as possible and hope for an unconditional promise to build a project by a certain date. The State shares that objective but must face the realities of how large international regulated projects are built. No construction can start without prior approval and authorization from the FERC in the U.S. and the NEB in Canada. Before an application to those agencies can be submitted, an open season must be held that will secure hopefully large shipping commitments for use of the pipeline. And before that detailed engineering and field work have to occur in order to satisfy the FERC's regulatory requirements for the public notice that kicks off the open season and for the application itself. Parallel activity must occur in Canada. The expected timeline for these activities, a realistic but not artificial timeline, is contained in the May 10 Project Summary.[1]

With these required steps and past experience in mind, it is wise to recall the briefing that you and other members of the Legislature have been briefed by ILA, specialists in large project planning. A critical lesion was that projects that are driven by a tight schedule commonly encounter cost overruns, poor execution, or ultimate delay. Setting up a system of penalties, as you urge, would contravene the lessons that ILA taught. The priority will likely become avoiding penalties, not soundly advancing the project. This is not sound project management and could lead to poor decisions and cost overruns with an increased likelihood of after the fact repairs and reconstruction of parts of the pipeline.

The State does have the sanction of termination of the project under Article 5.5(a). This is a serious step, so serious that it has been criticized as a nuclear option. If the contract is terminated, then the producers lose all of the fiscal certainty that they have negotiated so hard to achieve. In such event, the State would be free to change taxes and incentives in any way it thought good public policy deserved. These consequences should not be lightly disregarded.

You suggest that the sponsor should be held to a standard or prudence or that the prudent operator standard should be applied. Since diligence is defined as advancing the project as is prudent under the circumstances, the concept of prudent is a central

[1] In the first effort to build an Alaska gas pipeline, President Carter's Decision and parallel agreements with Canada established an expected in service date for the winter of 1982. That expectation was never realized. The sponsors of that project repeatedly pushed the project schedule back as they encountered regulatory, financing and gas market difficulties.

part of the standard. The prudent operator standard is a standard that is applied in conjunction with lease development, not midstream element development. Nonetheless, the mainstream interpretation of the prudent operator standard suggests that it is closely related to the diligence standard in the contract. Williams and Myers, the leading oil and gas treatise, quote an opinion of the Supreme Court of the United States in explaining the concept. The Court begins by emphasizing that both lessor and lessee are "bound by the standard of what is reasonable," that a breach can occur even where the lessee has applied some measure of diligence but "no breach can occur save where the absence of such diligence is both certain and substantial in view of the actual circumstances at the time, as distinguished from mere expectations on the part of the lessor and conjecture on the part of mining enthusiasts. . . whether or not in any particular instance such diligence is exercised depends upon a variety of circumstances. . . Whatever, in the circumstances, would be reasonably expected of operators of ordinary prudence, having regard to the interests of both lessor and lessee, is what is required." Section 806.3.

The work commitments clause uses the language "clear and convincing" for the standard as opposed to "certain and substantial" but the meaning of the words is quite similar. The prudent operator standard refers to actual circumstances and a variety of factors. The work commitments clause also suggests reference to a variety of circumstances and endeavors to provide some guidance on what might be relevant or not.

The State is reviewing the work commitments clause to see whether it can be improved or the explanation of its operation improved in view of the public comments. But it believes that a fair, real world reading of the clause, as explained, shows that it is a meaningful obligation with a tough penalty for its breach. It should be noted that Dr. Van Meurs, with vast experience in international projects, has confirmed that this is as good or better than any work commitment clause of a major project.

Expansions and Sole Risk Expansions

- The State expects that the pipeline will be reasonably sized to accommodate present and future production consistent with FERC precedent. At the urging of the State and others, the FERC has said that when the initial application for the pipeline is received, it will review it to be sure that it is properly sized to accommodate present and future needs.

- The State has an economic interest in justifiable pipeline expansions that meet export needs from the North Slope and other producing areas within Alaska. However, as an initial shipper, the State also may have an economic interest in not subsidizing transportation costs of expansion shippers. Based on potential on the Alaska North Slope, exploration success is likely to be on non-State acreage which would have no associated State royalty, and possibly no tax gas.

- A new shipper can be accommodated by 1) contracting with holders of existing capacity, 2) a 'reverse' open season, or 3) expansion of the pipeline.
- For the Alaska Gas Pipeline, expansion can be addressed in three ways: 1) voluntary expansion by the pipeline owners, 2) mandatory expansion authority granted to FERC, and 3) State-initiated expansion under the Fiscal Contract.
- Voluntary expansion is a business decision that will be made under the governance of the LLC agreement. By their very nature, provisions for a voluntary expansion belong in the LLC agreement, not in the Fiscal Contract.
- Future expansion needs and timing cannot be predicted or reasonably preplanned today. Need for expansion could arise at various points over many decades, and the circumstances of each could vary considerably.
- FERC authority over open seasons and expansions, as broadened specifically for the Alaska gas pipeline under the Alaska Natural Gas Pipeline Act, will protect the interests of expansion shippers and facilitate expansions:
    - FERC rules require that the initial pipeline design provide for expandability.
    - FERC rules provide that anchor shippers cannot prevent other creditworthy shippers from receiving capacity at an open season.
    - FERC has the authority to mandate expansion on this (and only this) pipeline.
    - FERC will be motivated to oversee this pipeline closely due to its significance to US markets.
    - FERC rules establish the presumption of rolled-in pricing.
- Open seasons, whether binding or not, are expensive events to hold. These costs are not incidental. They entail significant interaction with FERC, including pre-approval of the open season process. An arbitrary commitment to hold periodic open seasons is a significant burden upon the pipeline owners – including the State. The costs of unnecessary open seasons must either be borne by the pipeline LLC members, including the State; or be included in the tariff paid by the shippers, including the State.
- Commitment to satisfy all creditworthy demands for capacity expansion, with or without contributions in aid of construction, places the pipeline in a disadvantaged position determining the timing of open seasons and in negotiating with new shippers. Such a commitment will impair the ability of the pipeline to manage expansions effectively, under the watchful eyes of the FERC and the State.
- A blanket commitment to propose and defend the use of rolled-in pricing for all expansions places the existing owners and shippers – including the State – in the position of encouraging and ultimately underwriting uneconomic expansions. Proponents of such expansions would have a tremendous economic incentive to

pursue any expansion, even one that is uneconomic, since the costs would be spread among all shippers.

- A sole-risk expansion provision would burden the State with 100% of the risk associated with any expansion of this type it undertook. The State negotiated the State-initiated expansion provisions to provide the State with a more direct tool with which to ensure needed expansions occur, without assuming 100% of the risk associated with those expansions. A sole-risk expansion could also adversely increase the costs or reduce the feasibility or efficiency of later expansions. It would also cause considerable administrative and operational complexity within the LLC to deal with the "independent" pipeline addition.

Article 8, including RCA Jurisdiction

- Nothing in the fiscal contract prevents the Regulatory Commission of Alaska from exerting jurisdiction over facilities over which the FERC does not exert jurisdiction.
- Affirmation of RCA jurisdiction is the right and responsibility of the RCA itself.
- The State has agreed to reimburse the producers for certain losses incurred due to RCA regulation in the unlikely event that the FERC does not assert jurisdiction over all elements of the project in the U.S., and the RCA does. Even then, the relevant standard will be whether the RCA jurisdiction, if lawful, is inconsistent with FERC principles, and if so, causes actual loss other than lost profits, which are excluded from the recovery.
- Mention of the NEB in Article 8 simply acknowledges the role of the NEB in Canada as the sole Canadian regulator of inter-provincial pipelines, just as FERC is the sole US regulator of interstate pipelines. Alternative Canadian construction permitting avenues may exist in Canada; however, Canadian law provides that any inter-provincial pipeline will be regulated by NEB, as we have acknowledged in the Fiscal Contract.
- The rate treatment of previously used assets is but one of many facets of FERC regulation that should be left to federal law and FERC policy to which this project is subject.

Capacity Management

- The State insisted upon the Capacity Management provisions of the contract to reduce its risks associated with taking royalty and payment in lieu of production tax in the form of gas. As such, these are core provisions of the contract, and were carefully crafted.

- Precedent suggests that FERC will be responsive to the State's position as a shipper, and our very different upstream position with respect to the producers when they deliberate to ensure an 'even playing field' exists for capacity rights[23]

- If FERC fails to approve all of the Capacity Management provisions, it is expected that it will provide the State and producers guidance to satisfy both FERC requirements and State needs. The producers are committed in Article 10.8 to negotiate in good faith in an attempt to develop a mutually acceptable alternative provision that remedies the defect.

Term

- Fiscal stability on oil is granted under the contract after a hefty severance tax increase, due to the integrated nature of the producers' oil and gas portfolios and investments. The Legislature will have the final word on the length of fiscal stability.

- Likewise, on gas the Legislature will have the final word on fiscal stability.

- The term or duration of the fiscal contract commences when executed by the State, BP, ConocoPhillips and ExxonMobil (the "effective date") and remains in effect for 35 years from the commencement of commercial operations, with a few exceptions. Certain oil related and income tax provisions carry a shorter term. In particular, the term for the payment in lieu of production taxes, payment in lieu of pipeline ad valorem taxes and for the State corporate income tax is 30 years from the effective date.

- Due to the integrated nature of the producers' oil and gas assets and investments, the state determined that this fiscal stability on oil is appropriate. However, the state granted that stability only after a commitment by the Sponsors to a hefty severance tax increase, subject to Legislative enactment.

- Fiscal certainty on a $20 billion-plus gas pipeline project is critical to the advancement of the project and is at the core of the Alaska Stranded Gas Development Act.

- On two separate occasions the Alaska Legislature has spoken on the subject of the term of a fiscal contract. On both occasions the legislature clearly indicated that a fiscal contract could be developed for a term of 35 years from commencement of commercial operations. First, in 1998, the House passed the SGDA bill with 35 votes in favor and the Senate had 20 votes in favor. The legislature sent an even clearer message in 2003 when reauthorizing the SGDA. The House unanimously passed the reauthorization and the Senate had 19 votes in favor, with one party excused. Thus, the legislature correctly anticipated in 1998 and again in 2003 that a

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[2] *Columbia Gas Transmission Corporation*, 97 FERC P 61,221 at 62,004 (2001).
[3] *Sabine Pipe Line LLC*, 113 FERC P 61,312 at P 5 (2005).

project of this magnitude would require a 35 year term starting at commencement of commercial operations.

- If everything goes according to the success-based plan contained in the Project Summary provided to the DOR Commissioner on May 10, 2006, the gas pipeline project is anticipated to take 9-10 years from the start of project planning until the commencement of commercial operations. The term of the contract would then remain in effect for an additional 35 years for a maximum of 45 years. The hard line of 45-years accomplishes two things.
    - First, it ensures that if the construction phases of the project extend beyond ten years, the fiscal terms, including fiscal stability, are not extended. This is one more reason that the producers will advance the project as diligently as is prudent under the circumstances. Any delay results in a shorter fiscal stability period following commencement of commercial operations.
    - Second, since the fiscal contract cannot extend beyond 45 years, it makes clear that the fiscal stability is temporary, not permanent.
- Thirty-five years of fiscal certainty during production is not uncommon in large oil and gas related projects. The State's consultant, Dr. Pedro Van Meurs, analyzed a number of international agreements. Based upon his data, it is clear that many countries offer contracts for fiscal stability that include 30 years or more of production. In fact, a recently completed multi-billion dollar Caspian Basin pipeline project includes a fiscal stability term of 60 years. In many cases, at the end of the primary term of those agreements, there is an extension if the asset is still producing. International precedent not only includes extensions for continued production, but there is precedent for "life of field" terms for gas. Prudhoe Bay Unit alone will likely be producing gas for at least 35 years from first gas, depending on the offtake rate established by the PBU owners and the AOGCC.
- While there are numerous upstream production sharing contracts with terms of 35 years or more, it should be noted that the Alaska Gas pipeline project is a midstream mega-project rather than an upstream project, and relative to "model" international gas projects, the Alaska gas Project is two to three times larger in capital costs and is higher risk than most international projects. Specific risks associated with the Alaska gas Project include: (1) the inherent size and cost of the Project and its impact on labor and material markets, (2) the distance from market, (3) the rugged terrain and harsh construction conditions, (4) the limited infrastructure support, (5) the required coordination with multiple government jurisdictions, and (6) the volatility of gas prices. In fact, at an assumed investment of $20 billion, the Alaska pipeline Project would be the largest private investment in North America and is significantly larger than most "model" worldwide oil and gas projects. Many of these risks can be managed through disciplined project execution, particularly by companies such as the Producers who have experience in successfully delivering large projects around the world. Following international precedent, the producers argue, the significantly larger Alaska Gas Pipeline project with its inherent risks could reasonably expect to

have a fiscal stability term that is significantly longer than the 35 years from commencement of commercial operations contained in the Fiscal Contract.

- The term provided for in the Fiscal Contract will facilitate many years of continued investment and exploration. It could mean the development of a new gas exploration business and the corresponding upstream developments. The Project itself is based on having at least 50 TCF of gas produced on Alaska's North Slope. Production of this gas will take the full term of the Fiscal Contract. In fact the Project is dependent on those gas volumes to ensure that the economies of scale are achieved.

- Finally, there is a precedent for the State of Alaska entering into long term oil and gas related contracts -- the State has entered into lease agreements and royalty settlement agreements with individual taxpayers that remain in effect for the life of the field, which is the time required to extract all the hydrocarbon resource.

Price Differential Payment

- A "price differential payment" is not contained in the publicly released draft of the contract. This section of your comments constitutes a breach of the confidentiality agreement that you signed and the confidentiality commitments under which the fiscal contract was negotiated as required by the Stranded Gas Act.

- The administration does not understand why this issue was considered relevant to current deliberations

Suppression of the State's Regulatory Regime (Article 41.2)

- Article 41.2 was carefully drafted to provide for clarity where the fiscal contract provisions apply. All parties, including the State, must have confidence that the terms that have been negotiated are the terms that will apply to them.

- Leases, other agreements, regulations, orders and decisions are amended "only to the extent necessary to conform to the provisions of this Contract." All other provisions of these documents remain in full force and are not affected by the contract.

- This article does not result in "suppression of the State's regulatory regime".

Modify the Take Point

- The Contract establishes the delivery point for the State's gas at the same point gas is available for taking by the other producers. This enhances commercial alignment throughout the scope of the project.

- Moving the take point for State gas away from the unit boundary to delivery points in Alaska or Alberta would fundamentally alter the commercial arrangement negotiated with the Sponsor Group. State gas, State transportation commitments and State ownership in the pipeline are inextricably linked. If a producer transported State gas to the delivery point, that producer would have to hold the firm transportation.
- FERC does not allow shippers to ship third-party gas. Shippers must have title to any gas they ship.
- If the State takes delivery of State gas at AECO, the producers will hold the shipping commitments for the State's gas to that point. Removing that responsibility from the producers is the basis for improving producer economics, providing the State with the best opportunity available to get a pipeline built.

Exhibit D and Supply Commitments

- The leases listed in Exhibit D are part of the fiscal certainty negotiated in the Contract. That certainty will terminate if the contract is terminated. The addition of new leases to Exhibit D is subject to: 1) the enactment of the Uniform Upstream Fiscal Contract, and 2) delivery of gas to the project within 15 years (state leases) or 20 years (non-state leases).
- Limiting Exhibit D to those properties that will supply gas for the initial capacity prevents explorers and other third parties from obtaining a 'level playing field' for exploration and access to the pipeline for future deliveries, and does nothing to reduce the reserves risk of the project, to the State, later in project life.

Disputes, Arbitration and Choice of Venue

- As discussed above, leases, other agreements, regulations, orders and decisions are not amended unless necessary to conform to the Contract; hence, administrative and regulatory disputes over these non amended items would not be subject to arbitration.
- Disputes arising under the Contract are subject to arbitration designed to ensure a neutral, unbiased process. Disputes arising under the LLC Agreement will be resolved through court procedures.
- The LLC Agreement is under Delaware law for reasons previously explained.
- The fiscal contract is a complex agreement that could remain in effect for 45 years. The project is a $20 billion plus undertaking and the fiscal contract contains significant rights, privileges and obligations that flow back and forth between the State and Sponsor Group over this period. Disagreements are inevitable. The

parties must have an efficient and effective means of resolving disagreements when they arise.

- The parties selected binding neutral arbitration as this mechanism. Under this approach, no party has given up the ability to enforce its rights. On the contrary, an arbitrator will enforce the fiscal contract in a neutral fashion. In fact, the Alaska Supreme Court has recognized a public policy in support of arbitration. Moreover, there is precedent for arbitration: the ANS royalty settlement agreements between each Sponsor and the Department of Natural Resources provide for neutral arbitration.

- Article 26.1 is being properly interpreted. All disputes under the Fiscal Contract, with a few exceptions within the PPT provision, are subject to arbitration. Fiscal Contract disputes are between the State and a Participant or, in a few specific instances, the State and a group of Participants.

- There will be no overlap between the Fiscal Contract and the LLC Agreement. The dispute resolution provisions in the LLC Agreement will govern the members of the LLC, which will include the Alaska Gas Pipeline Company.

LLC, Coordination Agreements

- The LLC Agreement for the mainline is close to finalization but still subject to further negotiation. It will be released to the public when it is finalized. That agreement will serve as a template for other LLC Entity Agreements. Delaying the project to have **all** entity agreements executed prior to the fiscal contract is unnecessary and not in the best interest of the State.

- Normally these agreements would not be completed and public until the submission of FERC applications (approximately 2 years after the start of Project Planning).

- Coordination between the Alaska LLC and Canadian Entity can be achieved in various ways including a "Coordination Agreement". Cross-border pipelines have been done before – coordination can be managed among the project entities in the US and Canada, and will be addressed as part of project planning.

Summary

The Stranded Gas Fiscal Contract is the product of intensive negotiations between the Producers and the Administration that have taken well over two years to complete. By the very nature of a negotiation, the parties made trade offs to reach this agreement.

Neither the State of Alaska nor the Producers were able to achieve everything they wanted in the contract. Both sides were required to compromise to reach agreement. The agreement that has been reached provides the best opportunity for a gas pipeline project to become a reality, and allows the State to generate billions of dollars of revenues that would otherwise be impossible. The Fiscal Contract should be evaluated in that context.

We are assessing the public comments and will be seeking changes to the fiscal contract as a result of that assessment. At the conclusion of this process, we would encourage you, the Legislature, and the public to evaluate the final contract as a whole rather than focusing solely on isolated components. The Fiscal Contract that the Administration will present to the Legislature will balance risks and rewards and allow the Alaska Gas Pipeline Project to move forward. When that occurs, you and the other members of the Legislature will hold the keys to Alaska's future. We encourage you to vote in favor of that future by supporting the fiscal contract.

Very truly yours,

William A. Corbus
Commissioner

Copy to: Senator Ralph Seekins

STATE OF ALASKA

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Date: August 31, 2006

Senator Gene Therriault
Representative Ralph Samuels
Legislative Budget and Audit Committee
State Capital, Room 119
Juneau, AK 99811

RE: Eason Comments

Dear Chairmen:

The administration message delivered on July 6, 2006 concerning gas-in-kind has been misconstrued in a memorandum, dated July 24, from LB&A consultant Mr. Jim Eason to the Chairman and Vice Chairman of the LB&A committee. The purpose of this memorandum is to restate the administration message, and to clarify the written record.

The intent of the administration in bringing up the MMS experience with in-kind sales was stated by Ken Griffin in the July 6 hearing:

> "What this MMS information leads me to suspect is that; (1), the costs of administering a marketing organization, however, we decide to do that, are probably - we were probably, quite conservative in estimating those costs, in what we've done. (2), one of the things that's missing from this analysis are the legal costs of evaluations, in the last 30 years. Those costs, looking at this probably will go away to a large degree moving forward. That's something that's not addressed really in our economics. And then the third thing: We did not put any value on keting. We're going to pay, we have in our economics a five and a half c t per mcf marketing burden. We didn't ascribe any value to that. So in three ways here, I think we've been conservative in appraising the value of taking gas in-kind. And frankly I'm very satisfied with that. That's the way it ought to be done."

First of all, this summary statement was couched by the administration in tentative terms. Second, the cost burden included by the administration in developing the Contract economics may well be high. Third, the benefits to the

state of potentially reduced litigation costs and the problems created by those conflicts were not included in any administration analysis. Fourth, no incremental value-added was considered as a result of marketing organization operations when including the marketing organization cost in the economics.

The Administration decision to take gas-in-kind was not based upon MMS experience. The MMS experience was not used as the justification for a State in-kind program. In fact, the recent MMS decision to take Firm Transportation commitments was made after the administration decision to take gas-in-kind. Nevertheless, the MMS experience over the last several years, their internal review of that experience, as well as their decision to take "the next step" by entering into FT commitments is a reasonable data point worth considering as corroborating evidence that the administration's decision was reasonable.

The administration has stated repeatedly the reasons for taking State GIK: 1) improve producer economics thereby improving our opportunity to get a gas line, 2) eliminate valuation disputes, and 3) provide for in-state needs.

The fact is, that the administration included a high marketing organization cost in the Contract economics – a fact consistently ignored by critics. That cost – 5.5 cents/mcf exceeds any consultant estimates of gas marketing costs, and totals 16 million dollars per year. With this, and all other burdens and costs considered, at the bottom-line the Contract retains the state's full value of our state resource, compared to the "status quo" – plus we have reached an agreement which provides us the best opportunity available to get a pipeline built.

Standing alone, Mr. Griffin's comment that "MMS is entering a world very similar to our own" is an obvious overstatement. The statement was spoken, and intended, in the context of the current shift of MMS policy from exclusively using interruptible transportation to taking out firm transportation commitments. The similarity is that these Firm Transportation commitments are significant, they are forward-looking multi-year commitments with a significant financial liability attached to them, and by their nature they force MMS to relinquish their RIV-RIK switching opportunities for these gas volumes for the term of the contract.

The dissimilarities between the proposed State FT commitment and the MMS FT commitment are indeed significant. The MMS is committing only a small portion of their gas to FT; the remainder is shipped using interruptible arrangements on existing infrastructure and enjoys the benefits of RIV/RIK switching. By committing to taking our gas in-kind, the state will be obtain a gas line through

which to finally bring our gas to market. The MMS benefits from a 'portfolio' affect by having multiple gas supply points, and multiple transportation and sales contracts. The State needs to foster the commitment necessary to get the infrastructure built to move our stranded gas to market. The MMS has the luxury of incrementally building their RIK program, while benefiting from established RIV relationships and revenues. The State receives nothing for our gas until the infrastructure is built – but we also have the experience, time, opportunity, and access-to-expertise necessary to research, design, benchmark, staff and/or partner, and test our in-kind gas sales program. The MMS delivers approximately 500 million cubic feet per day in relatively small individual contracts to a variety of markets. The state will deliver 600 to 800 million cubic feet per day to one of the largest, most-liquid gas market hubs in North America, with the potential of reaching markets from New England to Oregon – a potentially leveraging opportunity for the state to manage risk and maximize value.

The July 24 memo is structured to imply that the MMS commitment to take firm transportation on the Rockies Express Pipeline is, essentially, not a true FT commitment: "The only FT commitment the MMS has ever made . . . provide MMS unique termination rights on 30 days' written notice". Frankly, the ability to terminate FT on 30 days' notice is not FT. The facts gleaned from review of the Rockies Express document are:

- The termination rights have been <u>requested</u> in the Rockies Express application to FERC. They have not been approved.
- The MMS request to terminate their FT commitments is constrained to a narrow window of policy changes or legislative action which would have the affect of removing MMS' authority to hold such commitments. The MMS did not request a blanket right to terminate FT. The MMS request does not extend to the right to terminate FT for economic or financial reasons.
- The MMS relies upon a 2005 FERC decision on an <u>interruptible</u> transportation case, in which FERC agreed that as an agency of the Federal government, MMS need not be bound by the laws of a particular state (113 FERC P 61,312 at P 5).
- The ultimate basis for the MMS request is a 2001 Columbia Gas Transmission Corporation decision (97 FERC P 61,221 at 62,004.). That decision states in part, concerning deviations from the standard terms of service agreements, that a material deviation can be approved by FERC where it "is negotiated with an individual shipper to address its unique characteristics, without affecting the quality of service received by that shipper or others." (Emphasis added)
- It is not clear that the MMS request cited in the July 24 memo will be considered by FERC to not 'affect the quality of service received by others'.

- The administration concluded this termination request was not relevant to informing the committee or to the committee's decision making, and chose to neglect such distractions in our original testimony.

Taking GIK is a major issue which must be, and which can be managed by the State. The risk to the state, however, should not be over-stated, particularly with respect to the risk of not getting a pipeline at all. Marketing of our own gas involves uncertainties. We have already started researching how the state will manage, resolve, and narrow those uncertainties. It is not a question of "if", but "how" these issues are best managed in the best interests of all Alaskans. The policies guiding those decisions are under the authority of the legislature to determine.

The financial commitments and management responsibilities assumed by the state are indeed huge – but they are normal business arrangements entered into by North American gas shippers on virtually all new gas pipelines. The market mechanisms and the market liquidity exist to manage the State's gas transportation and marketing needs.

Taking of our gas-in-kind and of fixed capacity commitments have been characterized as "revolutionary and precedent setting". The fact is that this entire project is precedent setting. This project is one of, if not the, largest single financial commitment undertaken by industry. That's using 4-year-old cost estimates, and this is at a time when international competition makes obtaining the steel and the labor needed to build this line serious concerns, each with the potential to adversely affect both cost and schedule to a tremendous degree.

For Alaska, the precedent setting feature here – the exciting, precedent setting opportunity – is that, for the first time, an agreement has been brought forward providing promise that the pipeline project can be completed. Toward that end, yes, the state has committed to use existing tools to participate as a shipper in the existing market systen.

Sincerely,

Michael L. Menge
Commissioner

cc: Senator Seekins

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September 20, 2006

Senator Gary Wilken
Alaska Senate
State Capitol Room 518
Juneau, AK 99801-1182

Dear Senator Wilken:

This letter is in response to your letter of August 18, 2006 concerning the proposed contract under the stranded gas development act.

In that letter, you recite the history of the 1973 special session that crafted the special Oil and Gas Production and Pipeline Properties property tax, essentially unamended from that time to this as Alaska Statute 43.56. However, you caution that

> even though members of the Eighth legislature crafted an even-handed tax bill, several events have occurred over the intervening years to skew the wealth to one area of the state.

Even assuming that your analysis is correct, all subsequent legislatures over the past 30 plus years have chosen not to amend AS 43.56 to redress the putative skewing of state wealth. At another point in your letter you discuss a "unique formula specifically approved for the borough" for calculating mill rates - but please remember that the formula was written into statute by the legislature and then subsequently upheld by the Alaska Supreme Court. While some years ago the Senate did pass a bill which would have affected the balance, it did not become law or overturn the 1973 rules. The legislature and the courts have spoken clearly and it is their guidance we must follow.

Accordingly, the instructions to the negotiating team were to preserve for the legislature *all those powers pertinent to dividing revenues between the state and political subdivisions currently reserved to the legislature.* The contract did just that. Your careful analysis of Exhibit G will have shown you that not a dollar is dispersed to a municipality by formula except where that formula includes the municipalities' mill rate over 20. (In article 18, the legislature will disperse 125 million or more dollars in impact funds directly to municipalities or through other ways of mitigating impacts.). If the legislature chooses to limit certain municipalities to a mill rate of ten under certain conditions, it may choose to. If the sole municipality so limited were the North Slope

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Borough - as it was in prior the legislative attempt - then under the contract a significant amount of money will shift from that borough to the state.

I appreciate your offer to work together to craft a solution to what you characterize as a misallocation of our state's resources. But the contract leaves this as a matter for the legislature to decide - it need not play a role in our negotiations with the producers. In the contract we have preserved the flexibility so that if the state arrives at a solution different than current law, that solution will flow through to the contract.

The reason administration officials were directed to speak against your amendment 12 on August 8, 2006 was that we believed that its core idea - that "the method of distribution of payments received in lieu of taxes are not effective unless the methods are enacted by law"- was already true.

Very truly yours,

Bill Corbus

William A. Corbus
Commissioner

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September 25, 2006

The Honorable Senator Gene Therriault
Chair
Legislative Budget & Audit Committee
3340 Badger Road, Suite 290
North Pole, AK 99795

The Honorable Representative Ralph Samuels
Vice-Chair
Legislative Budget & Audit Committee
716 West 4th Avenue, Suite 630
Anchorage, AK 99501-2133

Gentlemen:

Enclosed is the Murkowski Administration's point-by-point response to the Greenberg Traurig (legislative counsel) July 3, 2006 memorandum entitled "Follow-up from 'Round-Table' discussions on SGDA Contract". The Administration and our counsel, Morrison & Foerster LLP, would be happy to meet with you to discuss the attached at your convenience.

Very truly yours,

Bill Corbus

William A. Corbus

Commissioner

Enclosure

Copy to: Don Shepler, Esq.

The LLC Agreement is unlike the fiscal contract, which has significant tax terms that arguably require legislative approval. Therefore, it is not appropriate for the Administration, as a matter of comity or otherwise, to seek legislative approval of the LLC Agreement in template or final form. The Administration has expressly stated that it would not seek legislative approval, although it has agreed to submit the Mainline Entity LLC Agreement to the Legislature for its review and comment. The Administration is working hard to complete the LLC Agreement and looks forward to comments from the Legislature about it. Nonetheless, any requirement that a template of an LLC Agreement be approved by the Legislature would be forced on the Administration by the Legislature, which would create an even greater risk of a usurpation of power by the Legislature in violation of the principles behind the separation of powers doctrine. Further, unlike the fiscal contract which implicates the Legislature's taxing power, an LLC Agreement will not likely overlap with any legislative power or quintessential lawmaking responsibility. For these reasons, we believe that approval by the legislature of an LLC Agreement template would likely violate the separation of powers doctrine.

The Alaska Supreme Court has repeatedly recognized the Alaska separation of powers doctrine. *Wade v. Nolan*, 414 P.2d 689, 698 (Alaska 1966); *Public Defender Agency v. Superior Court*, 534 P.2d 947, 950 (Alaska 1975) (citations omitted). The court has noted that "the underlying rationale of the doctrine of separation of powers is the avoidance of tyrannical aggrandizement of power by a single branch of government through the mechanism of diffusion of governmental powers." *Bradner v. Hammond*, 553 P.2d 1 (Alaska 1976). Additionally, the Alaska Supreme Court has repeatedly observed that the Alaska Constitution creates a strong executive branch. *See Bradner*, 553 P.2d 1; Const. Conv. Min. Dec. 19, 1955, 42nd Day; Const. Conv. Min. January 13, 1956, 55th Day.

The negotiation and ratification of contracts falls within the power granted to the executive branch of government. The Alaska Superior Court has found that AS 37.05.280, a statute requiring legislative approval of state office space leases, "work[ed] an unconstitutional intrusion by the legislature into the sphere of the executive, violating the principles of separation of powers." *Marine View Chapter Juneau Tenants Ass'n v. Alaska State Housing* Authority, 1JU-80-1037 Civ., Nov. 3, 1981. Legislative approval of contracts has been held to violate the separation of powers doctrine in other jurisdictions as well. *See, e.g., In Re Opinion of the Justices*, 532 A.2d 195 (NH 1987) (citations omitted) (conclusion that legislative approval of contracts after appropriations are made to purchase or rent software is a violation of the separation of powers doctrine is similar to conclusions reached by numerous other jurisdictions); *Opinion of the Justices*, 892 So.2d 332 (Ala. 2004) (legislative veto of contracts entered into by the executive branch would violate separation of powers doctrine).

Impracticality

As you know, the project includes many facets other than the main pipeline to the Lower 48, including but not limited to a GTP. The GTP and/or other portions of the project may require a different form of agreement than what might be included in an LLC template designed for governance of the Mainline Entity which will own, manage and construct the pipeline to the Canadian border. Additionally, the Canadian portion of the pipeline may be built through a joint venture type of ownership structure which may require an agreement that looks very different from an LLC agreement template for the Mainline Entity. For example, such an agreement would not be governed by Delaware law but instead by Canadian national and provincial law.

For all of these reasons, approval of a template is impractical and will raise more questions than it will answer regarding aspects of the project whose governance structure has not yet been determined. Such a template may also inadvertently hamper the State's ability to choose the right management and ownership structure for other aspects of the project.

In sum, the Administration opposes legislative approval of an LLC template as an exhibit to the fiscal contract. The Alaska Permanent Fund Corporation currently invests billions of dollars in various assets without legislative approval of the form of agreement that it employs to make those investments. The agreements that will govern the various governing and management structures necessary for the gas pipeline should be similarly treated.

B. Choice of Law: Alaska versus Delaware

We are pleased that legislative counsel understands the significant benefits of the choice of Delaware law for the LLCs that will own the U.S. portions of the project. With over 50,000 Delaware LLCs in existence, Delaware is by far the most commonly chosen jurisdiction for entity formation within the United States, especially for complex and sophisticated commercial ventures. There are a variety of reasons commercial parties choose to form LLCs and other business entities under Delaware law, including (i) flexibility and freedom of contract, (ii) a broad body of case law, and (iii) judicial experience and expertise with respect to LLC, corporate governance and commercial disputes. Each of these factors contributes to a relatively high degree of predictability of outcome available under the Delaware LLC Act and case law. Sophisticated commercial parties, and potential lenders to the State, value this predictability of outcome because it mitigates the risk of litigation and other expenses and ensures that the parties have certainty with respect to their agreements regarding the governance of their venture. These

factors further the parties' objectives for the project and support the decision to establish the LLC under Delaware Law.

C. Level of Duty to LLC Members and Entity

In negotiating the issue of member "duties," the State team balanced the full range of considerations in order to advance both the State's commercial and governmental interests. Legislative counsel ask whether the State believes it or a producer is more likely to vote in its self-interest in a way that could be contrary to the interests of the LLC. After considering this issue in detail, including the "flip-side" of the producers voting in the same manner, the State LLC team concluded that the State member has as much, if not potentially more, to gain than the producers from the freedom to vote solely in its own interest.

While the primary interests of commercial LLC member entities, like the producers, are to maximize economic gain and protect competitive positions, the State will also likely have myriad other policy, political and social concerns that may be contrary to the commercial interest of the project entities themselves as well as the other members. The State may favor environmental protection measures, economic development priorities, equal protection, local social concerns and other objectives which may not necessarily serve the economic interests of the project entity. The State may also have different interests with respect to disputes between the LLC and third parties, where there may be policy reasons for opposing settlement or encouraging litigation of disputes between a project entity and third parties or the operator, even if there were differing views on what would be in the best economic interest of the project entity.

It should not be assumed that the State will be facing a unified producer bloc that functions as a de facto controlling member. While the producer members may jointly outvote

the State on some matters, the producers are not likely to be aligned against the State on all, or even most, issues. The producer group is comprised of competing companies with divergent interests. They frequently take fundamentally different positions on key issues. In fact, the most likely cleavage on voting issues may be between the operator/managing member and the other members, not the producer group and the State. The other producer members will certainly join the State in seeking to counter-balance the operator/managing member when appropriate and when there is a natural alignment of interests among non-operators in dealing with the operator/managing member.

We also note for the Legislature's information that the draft LLC Agreement does not provide that there will be no "duties" whatsoever among the members. The State expects that the managing member will have a duty to the other members to act as a reasonable and prudent manager of the LLC with due diligence and dispatch. This standard of care, as well as the limitations on member duties with respect to voting, is well established in the industry.

Legislative counsel suggest that "risk of claims against the State for acting in accord with its SGDA interests can be greatly reduced, if not eliminated" by expressly including SGDA requirements and specific provisions acknowledging the right of the State to act in its sovereign interests in the LLC governance agreement. While theoretically true, it would in practice be extremely difficult if not impossible to contractually address all of the potential areas where the State's interests may diverge from the interests of the LLC. As noted above, the State's interests are not limited to the identifiable requirements of the SGDA, but include a number of other policy concerns, such as environmental protection or broader economic development goals. It is simply not possible to identify all the specific areas of potential non-alignment of interest required to eliminate the risk of claims against the State for not acting in the interests of the LLC.

Instead, if the State took this approach in the context of a "higher duty to the entity" LLC, the only realistic contractual solution would be a broad carve-out from that higher duty allowing the State to act in its sovereign interests. Because almost any decision could be justified as being in the sovereign interest of the State, this broad carve-out would essentially eliminate a State duty owed to the entity, while requiring the other members to meet the higher standard. This is extremely unlikely to be acceptable to the other members.

Rather than creating two levels of duties for the State and the other members, the draft LLC Agreement protects the State by ensuring it has a vote on LLC actions where producer self-interest could have an adverse effect on the LLC or the State and by excluding members from voting on matters with respect to which they have a conflict of interest. The State is able to participate in discussions and vote its percentage interest on an equal basis as the other members – it is not a silent participant in the project entities. While the State, like the other members, may be out-voted with respect to certain matters, the LLC Agreement voting structure requires State approval for certain key actions.

D. Dispute Resolution/Venue

As suggested by legislative counsel, it is possible to create an LLC under the Delaware LLC Act where disputes are heard by the Alaska courts applying Delaware law. While this may address some of the political concerns with State involvement in a non-Alaskan LLC and issues of convenience, there are several advantages to hearing disputes in Delaware courts as opposed to an Alaskan court. Delaware courts have broader experience with LLC and commercial disputes than Alaska courts generally, and certainly have more experience applying Delaware law. While Alaskan courts may have greater experience with respect to oil and gas matters, disputes under the project entity agreements are likely to be commercial in nature and related to

corporate governance, not necessarily oil and gas-specific. Additionally, there are many oil and gas entities established in Delaware, and the Delaware courts are sufficiently experienced in adjudicating issues of oil and gas law.

Perhaps most significantly, Delaware courts offer a neutral ground for the hearing of disputes. There will likely be a perception of bias in favor of the State in any dispute involving the State being heard before the Alaska courts. This perception of bias may complicate and delay negotiations with the producers over the draft LLC Agreement, with lenders over project financing to the project, and with third parties with respect to other contracts needed for the project.

2. STATE CONSENT TO CHANGES TO QUALIFIED PROJECT PLAN

Legislative counsel continue to take the position that a contract provision should be added that requires the State's consent before any "material", "critical" or "essential" changes can be made to the Qualified Project Plan ("QPP"). July 3 Memo at 8, 10. In other words, counsel want the State to acquire veto power over changes to the QPP. Perhaps recognizing the one-sided nature of such a proposal, counsel go on to say that "[i]n fairness ... it would be reasonable to consider providing each of the Producers the same right to approve changes to essential QPP terms." July 3 Memo at 10.

Counsels' recommendation poses the obvious difficulty of defining contractually what would constitute a material change. Counsel suggest creating a list that would "easily remed[y]" the problem, one that would include "timing and scheduling changes, route changes (i.e. 'over the top'), and any significant capacity changes *and the like*." July 3 Memo at 8 (emphasis added). However, this suggested list does not remedy the problem. Is a scheduling change of

one month a material change? One year? How does one know when a change is a "significant capacity change" or a material change? Further, the words "and the like" could encompass anything. Counsels' breezy suggestion that a list of material changes can solve the problem is belied by their own suggested partial list which provides no contractually clear or helpful language, and, thus, fails to advance the ball.

More fundamentally, the State does not believe that it (or any producer) should have veto power over changes to the QPP. This project will not be built more rapidly by giving anyone the ability to unilaterally block a QPP change. The State is partnering with the producers to get this line built; it is not the producers' antagonist. Legislative counsels' veto power recommendation reflects a fundamental distrust of the producers' commitment to build the project in a timely manner. The State does not share that distrust and thus does not agree that additional contractual language of the type suggested is necessary or even desirable. The present language that allows for i) the State to initiate termination of the contract if the project has not progressed in a diligent manner, ii) the producers to cure any deficiency in a timely manner, and iii) actual termination if there has been a lack of diligence and a failure to cure, is sufficient.

The work commitments contained in the contract were crafted to ensure that the next stage of the project is started promptly, and that a disciplined, thorough project management process is implemented and maintained to control development and construction of the pipeline, ensuring the most cost-effective and timely project completion possible, and minimizing the risk to both the State and the producers. As a 20% owner of the Mainline LLC and a member of the LLC's management committee, the State through Alaska Pipe Co. will participate in the project planning and oversight of the operator that builds the pipeline. State ownership will provide Alaska Pipe Co. a continuing opportunity to know what is going on inside the project company,

be heard on key issues and influence the course of the project development. If, at any time, the State does not believe that the project is being advanced diligently, it can terminate the contract. The potential for terminating the very deal that the parties have spent three years negotiating is significant leverage over the producers, as the producers will lose all of the benefits of fiscal certainty if this contract is terminated by the State.

Finally, counsel acknowledge that "termination of the Contract would presumably be strongly resisted by the Producers." July 3 Memo at 9, fn. 3. Assuming that is true, then it can also be assumed that the producers would take advantage of the contract provision (Article 5.5(c)(iv)) that allows them to cure any deficiency so as to avoid termination.

3. EXPANSION COMMITMENTS

A. Expansion Is A Relevant Topic Even Before The Line Is Built

Legislative counsel discuss generally the issue of expansion and stress the importance of deliverability, i.e., the ability to deliver a particular volume of gas in a given period of time. However, counsel do not specifically criticize any contract provision, or lack of provision, other than to say that "it is also critical that the contract structure address expansion concerns for the near and mid range years of the contract." July 3 Memo at 10.

The State does not disagree about the importance of deliverability. While this contract, which is largely a fiscal contract and not a technical engineering contract, does not specifically address the topic of deliverability, it is widely understood and known that the *initial* design capacity of "approximately four (4) BCFD of Gas" (Article 4.1) can be expanded by adding compressor stations to achieve deliverability of approximately six (6) BCFD, and then be further expanded by looping. It is also well understood that if the open season bidding shows that the

initial design capacity is not sufficient, then needed compressor stations can be added to the design that will be submitted to the FERC as part of the certificate application so that there is sufficient initial capacity to serve all needs. Further, the approximately 50 percent flexibility (4 BCFD to 6 BCFD) for cheap, compression-based expansion without regard to looping should accommodate most foreseeable expansion needs for those near and mid range years of the contract. In the unlikely but fortunate circumstance that the maximum number of compressor stations still cannot serve the demand, looping can then undertaken.

A still further point should be made. The FERC open season regulations for the Alaska gas pipeline (Order 2005, 2005-A) stress the need to accommodate the needs of all shippers. As stated by FERC: "Our expectation is that an Alaska gas transportation project will be designed and built, to the extent possible, to accommodate all qualified shippers who are ready to sign firm transportation agreements." Order 2005-A at ¶ 34. For example, the FERC will consider how the project design considers the capacity needs of initial and future shippers. 18 CFR §157.36. As a further example, the regulations require that the Mainline LLC must even consider any bids tendered after the expiration of the open season by qualified bidders, and may reject them only if they cannot be accommodated due to economic, engineering or operational constraints. 18 CFR § 157.34(d)(2). Thus, FERC has an unprecedented regulatory role that should further alleviate counsels' concern about early expansion needs.

B. Commitments On Expansion And Rate Structure Do Not Intrude Upon FERC Authority

Legislative counsel in this and the following subsection argue that the contract or the LLC agreements should address the topics of expansion generally, and rate design (rolled-in vs. incremental pricing) in particular. July 3 Memo at 12-13. As noted in the next subsection, the

draft LLC Agreement does discuss the terms and conditions of expansions. Under that agreement, there can be both member-initiated expansion requests and requests made by potential shippers.

With regard to the issue of rolled vs. incremental pricing, neither the contract nor the draft LLC Agreement resolves that issue. It is no secret that the State and the producers have been unable to agree on this issue and have debated it publicly. Hence, the contract leaves the issue open for future resolution. However, Article 8.4 fully protects the State's right to intervene in any expansion proceeding and to argue for rolled-in pricing, and, therefore, the State will be able to get a full and fair hearing before the FERC. As counsel acknowledge, FERC will have the final word on the type of pricing. Hence, if the State's argument for rolled-in pricing convinces FERC, that will be the result regardless of what is said or not said in the contract. If it doesn't, then FERC will hold in favor of incremental pricing regardless of what is said or not said in the contract. It should also be recalled, of course, that FERC has created a presumption in favor of rolled-in pricing for expansions.

C. Contract is Silent On Voluntary Expansion

Legislative counsel are correct that the contract does not set forth the terms and conditions under which a voluntary expansion can be undertaken by the Mainline LLC. See July 3 Memo at 13-14. The reason is that those terms and conditions are a part of the not-yet-released draft LLC Agreement. That agreement will provide for a series of Management Committee votes to approve the various steps of an expansion, including authorization of a feasibility study, filing of a FERC certificate, and actual construction of the expansion. While Legislative counsel suggest that because of the delay in that agreement it makes sense to include those terms and

conditions in the contract, the State does not see any reason to add duplicative language to the contract, particularly given that the passage of time will render that suggestion moot.

D. Producer-Owned Pipeline Expansion Incentives Vs. Independently Owned Pipeline Incentives

Legislative counsel argue that an independent pipeline has a greater incentive to expand than does a producer owned pipeline. July 3 Memo at 14. Hence, they say that the contract should contain commitments to i) allow Contributions in Aid of Construction (CIAC), and ii) expand in reasonable engineering increments upon request by creditworthy shippers.

As discussed in more detail in 3F on the subject of sole risk, the combination of the voluntary expansion provision in the draft LLC Agreement, state initiated expansion in the fiscal contract and the mandatory expansion provision in ANGPA provide the State and shippers with adequate expansion rights. All expansions will be done in reasonable engineering increments, so there is no need for the contract language to say so. With regard to CIAC, the State did look at this concept in the same way that it looked at the sole risk concept. It ultimately chose not to press for this concept because the mandatory expansion provision of ANGPA serves as a sufficient backstop.

E. No Express Commitment To Seek Rolled-In Pricing

Legislative counsels' pitch for rolled-in pricing for all expansions is a repeat of their argument in 3B above. The State's answer in that subsection applies equally here.

F. Sole Risk Expansion

Legislative counsel are correct that the State did consider including a sole risk expansion provision in the contract. See July 3 Memo at 16-17. In the end, however, the State determined

that the mandatory expansion language of the ANGPA provided a sufficient basis for the State, or an independent explorer, to force an expansion even if the Mainline LLC was opposed to it. During the negotiations over a sole risk provision, the expansion conditions set forth in Section 105 of the ANGPA became both a floor and a ceiling. It became unrealistic to expect the producers to agree to sole risk expansion conditions that were more favorable to expansion than the conditions contained in Section 105. The State views Section 105 as a significant, positive tool to promote needed expansions. Negotiations for a sole risk expansion provision (as well as a CIAC provision) were unable to secure a better tool and, hence, were ended.

G. The "State-Initiated Expansion" Provision Provides Little Assurance Of Timely Expansion

Legislative counsel contend that the State-initiated expansion provision (Article 8.7) offers little if any value because it is more restrictive than the mandatory expansion language contained in ANGPA. July 3 Memo at 17-18. Anadarko has publicly taken a similar position.

The intent of Article 8.7 was to add a third avenue for expansion—one that might offer a faster way to achieve expansion. The State continues to believe that Article 8.7 could enlarge the expansion options in a beneficial way but recognizes that others appear to be reaching a different conclusion. The State is in the process of gathering reactions from various independent producers -- the entities Article 8.7 is meant to help. If the feedback is similar to that expressed by Anadarko and legislative counsel, the State will consider seriously the option of dropping Article 8.7 from the contract.

4. RCA JURISDICTION

Legislative counsel raise several points regarding the RCA. First, they suggest that there may be gaps in the FERC's jurisdiction over project facilities. They further suggest that there is

a possibility that FERC will decline to regulate the GTP and some of the gas transmission pipelines upstream from the GTP. Assuming there is a gap in FERC regulation and the RCA steps in, counsel are concerned about the contract provision that requires "the State to reimburse any of the Producers' losses accruing through RCA orders." July 3 Memo at 19. Counsel state that it is a legislative policy call "as to whether the State should reimburse overcharges if determined by the RCA." July 3 Memo at 20. Finally, counsel claim that it is not entirely clear that the State would not have to reimburse the producers for lost profits arising from an RCA-ordered refund. July 3 Memo at 20.

Taking the last point first, the State believes the contract language is clear and sufficient. Article 37.2 says, in relevant part, that "in no event is any Party liable to any other Party for the following Loss, however caused, that arise out of or relate to this Contract or any breach of it: (a) any consequential or incidental damages, *including lost profits*...." (emphasis added). Article 8.3, in turn, provides that if, under certain circumstances, the RCA causes a Loss to a participant, "the State shall reimburse that Participant for the Loss...." Taken together, these two provisions mean that while the State may have to reimburse a participant for an RCA-caused Loss, the reimbursement will not include lost profits. Hence, if hypothetically, the RCA were to reduce the rate of return on equity on a RCA-regulated project facility in a way that was inconsistent with FERC's approach to the same issue, that would be a reduction in profit and therefore not subject to reimbursement by the State.

The State agrees with counsel that it is a legislative policy call as to whether the State should reimburse the participant's for an RCA-caused Loss under the conditions set forth in Article 8.3. That is why not only Article 8.3, but the whole contract, is before the Legislature for approval.

With regard to the scope of RCA jurisdiction, neither the State nor the producers envision RCA rate regulation of any project facilities. It is essentially certain for several reasons that FERC will regulate the $2 billion plus GTP. First, in its open season regulations for the Alaska gas pipeline, FERC made clear that the gas treatment service and the transportation service must be unbundled and offered separately in an open season. Order 2005-A at ¶¶ 87-88. Were FERC not contemplating regulating the GTP, it would not have made such a statement.

Second, FERC's general jurisdictional test is whether a treatment plant is used primarily to render raw gas fit for transmission or to extract liquids and liquefiables for their economic value. *Venice Gathering Co.*, 97 FERC ¶ 61,045 (2001); *Columbia Gas Transmission Corp.*, 79 FERC ¶ 61,041 (1997). Plants that are used to treat or condition gas to bring it up to pipeline quality so that it can be transported safely and efficiently are classified as jurisdictional transportation facilities, while plants that operate principally to extract liquids and liquefiables for their economic value (*i.e.*, gas processing plants) are classified as non-jurisdictional facilities. 79 FERC at 61,185. *Northern Natural Gas Co.*, 69 FERC ¶ 61,264, at 62,016-17 (1994); *Texas Eastern Transmission Corp.*, 43 FERC ¶ 61,044, at 61,129 (1988). The GTP will be a plant that will be used to treat or condition gas to bring it up to pipeline quality, and thus a jurisdictional facility subject to FERC's regulation.

Third, the Alaska Natural Gas Pipeline Act, Section 102(2), defines the term "Alaska natural gas transportation project" as "any natural gas pipeline system that carries Alaska natural gas to the border between Alaska and Canada (including related facilities subject to the jurisdiction of the Commission)...." And, while President Carter's 1997 Decision selecting the Alaska Highway route defined the Alaska Natural Gas Transportation System ("ANGTS") as beginning at the discharge side of the conditioning plant facilities, in 1981 then-President Reagan

signed six waivers of law, one of which included the conditioning plant within the ANGTS. The Administration synopsis accompanying the waivers said that "[a]s a practical matter, the economic effect of including the conditioning plant in the system is the same as treating the plant as a separately certificated facility and providing a conditioning cost allowance sufficient to provide for the recovery of the gas conditioning cost." Report of the Senate Committee on Energy and Natural Resources November 10, 1981, at 33 (No. 97-272, 97th Congress, 1st Session.

With regard to gas transmission lines that will feed into the GTP or the Mainline, counsel are correct that the definition of non-jurisdictional gathering lines versus jurisdictional transmission lines has turned on an examination of various physical and operational factors, which have changed over time. July 3 Memo at 19. Because several of these lines are neither designed nor built, one cannot say with certainty that they will be FERC-regulated. The parties contemplate that those parties qualify as jurisdictional transmission li . If they do not, nothing in the contract bars the RCA from regulating those lines if it has the power to do so under its jurisdictional statutes[1]. All the contract does is create a limited right of indemnification in certain circumstances, excluding lost profits, if those lines are regulated in a manner contrary to FERC regulation or commercial principles. The State believes that this possibility is remote and its exposure is quite limited.

CAPACITY MANAGEMENT IS CRITICAL AND COMPLEX

Legislative counsel expressly do not take issue with the terms of the capacity management provisions in the contract (Article 10) and, indeed, acknowledge that "the

[1] Legislative counsel do not provide any analysis of whether and when the RCA has jurisdiction over gathering lines; they simply assume that it does.

Administration and the Producers have addressed many, if not all, of the concerns." July 3 Memo at 20, 23. Rather, they stress the complex nature of capacity management and state that the "real question to the Legislature is whether these terms completely assure the State that its gas and its capacity will at all times (i.e., as frequently as every 8-hours) be perfectly balanced with no 'ullage' to drain value from the State's gas or capacity." July 3 Memo at 23.

The State submits that counsel have framed the question incorrectly. The producers have no assurance that their gas and their capacity will at all times be perfectly balanced, with no ullage to drain value from their gas or capacity. The fact is that the producers and the State are at risk that capacity and gas will not be balanced. That risk simply cannot be eliminated. While the capacity provisions in the contract can not eliminate that risk, they can and do assure that the State and the producers share that risk proportionate to their capacity ownership percentage. Hence, if that State has a 20% capacity ownership percentage and the pipeline has 100 units of excess capacity, the State's share of that excess will not exceed 20 units. Thus, the proper question to ask is: Are the risks proportionate among the State and the producers? The answer is yes.

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Senator Thomas H. Wagoner
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September 27, 2006

Dear Senator Wagoner:

This is in response to your July 21, July 25 and August 7 letters regarding the Alaska Stranded Gas Contract. We apologize that we did not respond your letters sooner, and thank you for your patience.

Fiscal certainty on oil and gas taxes

Fiscal recognized certainty on a $20 billion plus gas pipeline project is critical to the commercial viability of the project as the Alaska Stranded Gas Development Act recognized.

On two separate occasions the Alaska Legislature spoke to the subject of the term of a fiscal contract. On both occasions the legislature clearly indicated that a fiscal contract could be developed for a term of 35 years from commencement of commercial operations. In 1998, the House passed the SGDA bill with 35 votes in favor and the Senate had 20 votes in favor. The legislature sent an even clearer message in 2003 when reauthorizing the SGDA. The House unanimously passed the reauthorization and the Senate had 19 votes in favor, with one party excused. Thus, the legislature correctly anticipated in 1998 and again in 2003 that a project of this magnitude would require a 35 year term starting at commencement of commercial operations.

Thirty-five years of fiscal certainty during production is not uncommon in large oil and gas related projects. The State's consultant, Dr. Pedro Van Meurs, analyzed a number of international agreements. Based upon his data, it is clear that many countries offer contracts for fiscal stability that include 30 years or more of production. In fact, a recently completed multi-billion dollar Caspian Basin pipeline project provides a fiscal stability term of 60 years. In many cases, at the end of the primary term of those agreements, there is an extension if the asset is still producing. International precedent not only includes extensions for continued production, but there is precedent for "life of field" terms for gas. Prudhoe Bay Unit alone will likely be producing gas for at least 35 years from first gas, depending on the off-take rate established by the PBU owners and the AOGCC.

Nevertheless, the length of fiscal certainty proposed in the contract has been one of the most hotly debated contract issues and several legislative amendments to scale back the length of those terms in the contract have been offered. The Administration heard this concern during the

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public process from the general public and the legislature and is prepared to renegotiate this provision of the contract.

A State LLC to market and sell Alaska Gas

The Alaska Gas Pipeline Company, LLC (the LLC), which will own the mainline, is different from the Alaska Natural Gas Marketing Company (ANGMC), which will market and sell Alaska Gas, and from the Alaska Natural Gas Pipeline Corporation (ANGPC), which will own the state's 20% membership interest in the LLC. The state and the sponsor group will jointly own the LLC through other entities (i.e. ANGPC, etc.) to be formed. The LLC will operate under the Delaware laws. Delaware law was selected because of its flexibility and freedom of contract, a broad body of case law, judicial experience and expertise with respect to LLC, corporate governance and commercial disputes. Each of these factors contributes to a relatively high degree of predictability of outcome available under the Delaware LLC Act and case law. Sophisticated commercial parties, and potential lenders to the State, value this predictability of outcome because it mitigates the risk of litigation and other expenses and ensures that the parties have certainty with respect to their agreements regarding the governance of their venture. These factors further the parties' objectives for the project and support the decision to establish the LLC under Delaware Law.

Specifics of organizations of the ANGMC and the ANGPC are still uncertain, as a wide variety of marketing, business, tax and other issues must be worked out. These two organizations, however, will be entirely within the authority of the state and will be owned by the state. They will operate under the Alaska laws and will not be LLCs. A number of successful templates for organizations of the ANGMC and the ANGPC exist within the state include: the Permanent Fund Corporation, the Alaska Railroad Corporation, the Alaska Industry Development Export Authority and the Alaska Housing Finance Corporation.

Capacity expansion and access to the pipeline capacity

Most of the concerns expressed by explorers about pipeline expansion had to do with the terms of Article 8.7, which was intended to apply only to State-initiated expansions. These terms were not intended to affect voluntary expansions (the terms of which are contained in the LLC agreements) or mandatory expansions (under FERC authority). Both the sponsor group and the explorers seemed to prefer to rely upon FERC mandatory expansion authorities, rather than accept the provisions of Article 8.7. Based on explorer input, the administration proposes to delete Article 8.7, and rely upon the LLC voluntary expansion provisions and the FERC mandatory expansion authorities to ensure appropriate pipeline expansions occur.

Expandability of design must be balanced against the costs and risks of creating that flexibility. Clearly, the most difficult and risky increment of capacity to obtain is the initial increment -- construction of the initial pipeline system itself. Because no gas pipeline or gas pipeline contract

exists, no players are entering the Alaska market today. Completion of a gas pipeline contract and completion of the initial pipeline system can only increase the confidence of new players that they can find markets for their gas discoveries. This is particularly true, given FERC's authority to require that expandability be designed into the pipeline, and to mandate that expansions occur. It must be remembered that reserves have not yet been proven-up to fill the pipeline throughout its initial term. It must also be remembered that the greatest risk to the state is not getting a gas pipeline to get Alaskan gas to market before the opportunity passes.

Current Leases

Article 41.2 states that ". . . any right, privilege, or obligation of a Party in a lease, other agreement, regulation, rule, order or decision is amended for the Term only to the extent necessary to conform with the provisions of this Contract. . ." Other terms of those leases, unit agreements, or other documents are not affected by the contract. The language, 'only to the extent necessary to conform' was explicitly included to limit the scope of this provision. The sponsor group was concerned that other agreements, regulations or decisions could be used to undermine commitments made within this contract. If the contract terminates, due to lack of diligence or for any other reason, this provision also terminates.

State of Alaska concessions or subsidy of the gas pipeline

In your August 7 letter you suggested that the proposed contract contained $15 billion dollars in concessions to industry. Because the administration has often insisted that the contract produces the same benefits to the state as the status quo, you asked for the list of offsetting $15 billion in industry concessions.

Table 6 on page 73 of the Preliminary Fiscal Interest Finding (reproduced on the next page) compares State take under both existing rules and the proposed contract for oil and gas. State take are presented in nominal and real terms and for a range of gas prices from $3.5 per mmbtu to $8.50 per mmbtu.

When discounted, at 6% and 8% discount rates, for gas the status quo shows a slightly higher figure than the contract, though nowhere near the size your analysis suggests. Furthermore, the contract always produces more value at higher prices when oil is taken into account (and the analysis presented was with a 20% PPT and no progressivity). This is important because several of the effects you listed are really effects from the PPT or were modeled as PPT effects for the Preliminary Fiscal Interest Finding.

Essentially the contract reforms the state's take, so that it gets its cash flow in different ways than under the status quo. Thus at most prices the take is essentially identical. We expect prices over the next decades to demonstrate the same level of volatility as they have over the past decades.

Therefore, one of the adjustments we made was to take more oil revenue at high prices and less revenue at low prices (as can be seen from the table). So to address your question – our willingness to take less revenue at low prices versus the offset by increased take at high prices.

Table 6. Comparison of Total State Oil and Gas Revenues

	Revenues of Project Under 2005 Fiscal System			Revenues of Project Under Proposed Contract		
	2005 Oil	2005 Gas	Total	PPT Oil	SGDA Gas	Total
Price Level/Results	Revenues ($ Billions)			Revenues ($ Billions)		
$3.50 per mmBtu of Natural Gas at Chicago City Gate/$22 per barrel of WTI Crude Oil						
Nominal $						
Total (2007-2050)	33	57	90	29	57	86
Present value (at 8%)	11	8	19	9	7	16
Real $ (2005)						
Total (2007-2050)	20	28	48	17	28	45
Present value (at 6%)	10	7	17	8	6	14
$5.50 per mmBtu of Natural Gas at Chicago City Gate/$35 per barrel of WTI Crude Oil						
Nominal $						
Total (2007-2050)	66	101	167	71	101	172
Present value (at 8%)	22	14	36	24	13	37
Real $ (2005)						
Total (2007-2050)	42	52	94	46	52	98
Present value (at 6%)	21	13	34	23	12	35
$8.50 per mmBtu of Natural Gas at Chicago City Gate/$55 per barrel of WTI Crude Oil						
Nominal $						
Total (2007-2050)	111	167	278	158	167	325
Present value (at 8%)	37	24	61	52	23	75
Real $ (2005)						
Total (2007-2050)	73	90	163	96	90	186
Present value (at 6%)	35	22	57	46	21	67

Source: ADOR model.

Notes: Total revenues are expressed in billions of both nominal and real dollars over the period 2007 to 2050.

The estimates above are based on the following assumptions:

1. PPT provisions are per the House Finance Committee substitute for Senate Bill 305 as of midnight on May 7, 2006.
2. Revenues for the gas proposal are net of all state expenses, including investment and the 20 percent investment credit.
3. Revenue streams include total state revenues including royalties, severance tax, property tax, and corporate income tax.
4. The property tax numbers do not include TAPS.
5. Debt from state investment is retired by the end of 2035 (20-year debt).
6. Ability to tax facility and equipment exists before gas pipeline is built.
7. SGDA gas includes earnings from ownership of the gas.
8. Assumes an Alaska to Alberta project.

Let us address each the concessions you cite in your July 21 letter:

> $5.45 billion in new costs allowances: You correctly observe that with an inflation rate of 3.5%, the cost allowance figure will be large. But please note that high inflation will also yield much more in the PILTs that replace the property taxes. Rapidly inflating PILT figures will generate much more than depreciating cost base assessments.
>
> $4.0 billion upstream tax credits: Your $4.0 billion figure is dependent on a $10 billion investment. In the last several years the Producers have been investing about $1.5 billion per year (Note: this is for oil and gas). So we do not believe that there will be $10 billion in new gas-specific upstream investment. But, if there is, then under the PPT, that would generate deductions and credits of something greater than 42.5%, depending on progressivity. If in fact, the PPT and contract totally change the North Slope investment figure to get $10 billion in upstream incremental investment, then they will have done their job.
>
> $1.96 billion in midstream pipeline and GTP credit: This was recast as the commitment credit in the final contract, there is no exact analog to those payments in the status quo, but they will offset other commercial payments or higher take in the contract payments.
>
> $0.46 billion processing subsidy: We do not know how the CO2 will be handled, so it his hard to attach a price to it. But if your assumptions are right, those charges would come out to about $14 million dollars a year, not $460 million.
>
> $1.4 million marketing subsidy: (This should be $1.4 billion.) Again, this was part of our comparison, based on 5.5 cents per mcf. There is no exact analog to those payments in the status quo, but they will offset other commercial payments or higher take in the contract payments.

If one believes that despite the evidence of the last quarter century a gas pipeline is wildly economic, one will also believe that the state was not as assertive at extracting rents from the project as it ought to have been.

If however one believes, as I and the team of experts, both within and from without the state government do, that the project is one that carries large risks and may not appear as likely to be built when compared with industry investments around the word, then our negotiations were more than just dividing up the project's economic rents. We were attempting to create an environment in which such a project would be more likely to be undertaken. We succeeded. In the end concern about what the Producers get instead of getting a pipeline for the state will lead to the greatest risk to Alaska – not getting a gas line at all.

Under the status quo the breakdown of revenue for gas at $5.50 per mmbtu is as follows:

Royalties	$53
Severance Tax	$27
Property Tax	$ 7
State Corporate Income Tax	$14
Total	$101

Under the contract the breakdown of revenues is as follows:

Revenues		
Gas sales	$93	
Tariff income	$ 3	
Various PILT's	$ 7	
State Corporate Income Tax	$14	
Total		$117
Costs		
Principal and interest	$7	
Operating costs	$3	
Marketing costs	$1	
Upstream cost allowance	$4	
Taxes	$1	
Total		$16
Net Income		$101

The producer considerations mainly manifest themselves in the higher severance tax rate and pipeline income.

Note too that the new oil PPT can be considered a direct result of the negotiating process. In that regard, at $60 oil, the oil production tax will be $86 billion higher than under the old status quo through 2050, a six-fold increase.

Ownership of the GTP – 35% vs. 20%

The proposal for the State to own a portion of the pipeline stemmed from the proposal to take about 20% of our gas in-kind.

The purpose of taking the gas in-kind was to increase the producers' rate of return; under the in-value system the producers pay for 100% of the pipeline but only get 80% of the gas. If we took the gas in-kind but did not own any of the pipeline, the State would make a firm transportation

(FT) commitment to the pipeline owners (producers) guaranteeing we would pay to ship our gas no matter what. This commitment is an asset to the producers that financially offsets the cost of building the share of the pipeline that carries the State's capacity.

Going to ownership itself was only a small step, and gave the State additional benefits, like pipeline income and a seat at the table.

The State's ownership in the GTP could have been greater than, less than, or equal to its capacity. If it was less than its capacity, again, we would have had to make an FT commitment to cover the difference. If it was greater than its capacity, the producers would have had to make an FT commitment to us for the difference. Either way, the financial result will be an ownership share that approximates the capacity share.

The purpose of the GTP credits was to provide an additional incentive to build the gas line.

Trigger price for monetary concessions

Many of the changes in the fiscal contract represent structural changes over the life of the project (including construction) and represent risk/reward sharing at high and low prices. It would not be possible to adjust all the elements of the structure with the vagaries of price; moreover, the risk/reward balance would be materially altered.

Conclusion

You have expressed your concerns and views regarding the period of fiscal certainty, the LLC, capacity expansion, nullifying the existing terms of the gas leases, State concessions, GTP ownership and a tax liability floor for gas. For the period of fiscal certainty and capacity expansion we have indicated intent to renegotiate the contract to address your concerns. The Administration has explained its views regarding the LLC that the terms of the existing gas leases are generally protected and that the contract does in fact provide a floor for low priced gas. We have shown, by comparing with the Status Quo, that the concessions made in various provisions of the contract (including the GTP) are offset by increased revenues elsewhere. We have demonstrated that the incentives and producer payments create a balance that we think is more likely than not to create an environment in which the gas pipeline is likely to be built. In the end concern about what the Producers get instead of getting a pipeline for the state will lead to the greatest risk to Alaska – not getting a gas line at all.

Very truly yours,

Bill Corbus

William A. Corbus
Commissioner

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October 18, 2006

Mr. Tom Irwin
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Dear Mr. Irwin:

This is the State of Alaska's (State) Reply to the July 24, 2006, comments of Tom Irwin, former Commissioner of Natural Resources (DNR), Marty Rutherford, former Deputy Commissioner of Natural Resources and four other former Department of Natural Resources officials. We will respond to the comments generally in the sequence the comments were made.

Our letter will address the substantive points raised by the July 24, 2006, comments of the former DNR team. In answering those comments, we also address the substance of the separate July 20, 2006, comments of Mr. Richard LeFebvre, who also signed the July 24, 2006, comments. We note that Mr. LeFebvre's comments make the same points as the July 24, 2006 comments, in the same sequence and with almost identical language.

Enclosed as Appendix I is an analysis of how some of the comments made in the July 24, 2006, letter are in serious conflict with the positions that the former DNR team asserted in the negotiations which it led with TransCanada and with the positions the former DNR team supported as the State was preparing to begin negotiations with the North Slope Producers.

There is a misconception that runs throughout the comments. The point of the Stranded Gas Development Act SGDA is to secure a fiscal contract on the gas resource. That is a contract that establishes a framework of fiscal certainty on the tax on gas that is designed to underpin the firm transportation (FT) commitments necessary to facilitate the financing of a gas project.

The SGDA's purpose is to (1) "encourage new investment to development the State's stranded gas resources by authorizing establishment of fiscal terms relating to that new investment," (2) "allow the fiscal terms to be tailored to the particular economic conditions of the project and to establish those fiscal terms in advance with as much certainty as the Constitution of the State of Alaska allows," and (3) "maximize the benefit to the people of the state of the development of the State's stranded gas resources." AS 43.82.010. (Emphasis supplied.) The statutory purpose was not to secure negotiation of a contract just to build a gas pipeline. Securing a contract for that midstream element alone will follow in due course once the financing based on the FT commitments is in place. Rather, the point of the fiscal contract is to establish the fiscal terms that would bring about development of the entire gas project and that

necessarily included both midstream and upstream elements.[1] The proposed Fiscal Contract achieves the statutory purpose.

The opening paragraph of your comments argues that "the SGDA Fiscal Interest Finding and Determination, and the proposed SGDA contract is (sic) fundamentally flawed." The asserted flaws generally concern the analysis of alternatives, the impact of the fiscal contract on the State's budget and cash flow, and whether the gas is stranded. It is asserted that the Finding is premature and the public process flawed because the proposed SGDA fiscal contract is not final or complete. Finally, you assert that the fiscal contract was negotiated outside the parameters of the SGDA and thus the process was not lawful, transparent nor fair to other SGDA applicants. Not one of these conclusions is backed up by analysis or a factual foundation. Each is incorrect.

First, the preliminary Fiscal Interest Finding (the "PFIF") contains the specific information required to satisfy Section 43.82.400 of the SGDA. As required, the PFIF compares the projected public revenue from the project with estimated operating and capital costs of additional State services and the "reasonably foreseeable effects of the proposed contract on the public revenue." PFIF at 73-78, 80. As required, it describes the principal factors why the proposed fiscal contract is in the public interest, including the projected price and production rate or volume of gas, the projected costs of the project and much other relevant economic material. PFIF at 241-253, 73-78, 80, 178-179. As required, it also contains an analysis of why North Slope gas remains stranded. 242-243, Appendix C. These are the requirements of the SGDA, and they are different than your description of what must be addressed. The fact that you disagree with the conclusions or analysis or want other things analyzed does not demonstrate the appropriate analysis was not undertaken. In fact, it was.

Second, the PFIF does contain a description of alternatives. See PFIF at 179-188. Because of the requirements of Section 43.82.310 regarding confidentiality, the description could not disclose specifics of the negotiations but, as you know, those details, if made public, would not support the sweeping generalizations you make about alternatives. Suffice it to say, no other alternative presented to the State came from parties that today have access to the gas that is essential to advance the project. As is apparent from the Port Authority litigation with ExxonMobil and BP, litigation with the Producers will be necessary for third parties to acquire the gas.

Third, your assertion that the public process is "premature" because the fiscal contract is neither complete nor final is off base. Your comments fail to specify what fiscal term is missing from the contract. The May 24 contract, a 457-page document with exhibits, completely captures every financial or fiscal element required for SGDA review. The fact that changes to the fiscal contract may result from the public process, and occur after it, does not justify delaying the public process. In fact, the SGDA contemplates that changes may result from the public

[1] That is one reason, for example, that the MidAmerican proposal was at best half a solution.

process. See 43.82.430 (the Commissioner of Revenue "shall. . . prepare a list of proposed amendments, if any, to the proposed fiscal contract that the Commissioner of Revenue determines are necessary to respond to public comments.")

Fourth, your letter repeats an argument you raised in October 2005 suggesting that the negotiations were unlawful or unfair to other applicants because the negotiations proceeded beyond the parameters of the SGDA. That argument was answered completely by the Attorney General in his letter to former Commissioner of Natural Resources Tom Irwin dated October 27, 2005, and we refer you to it. The administration was in frequent contact with the leadership of the Legislature about the progress of negotiations and was urged to seek the commercial contract terms that best promised early development of a gas pipeline. The SGDA was intended to guide the Administration in the negotiation of a gas contract with the expectation that the Legislature would review and authorize the final fiscal contract. Thus, the SGDA's purpose has been fulfilled. The very fact that the SGDA contemplates that the Commissioner of Revenue may propose contract changes after the public process, but before legislative authorization, shows that the SGDA contemplates a dynamic negotiation process, not one frozen by the scope of the initial applications under the SGDA or even the contract first negotiated by the Executive Branch.

In fact, there was no prejudice to applicants. In addition to the Producers, both Mid-America and TransCanada submitted proposals that went beyond your restrictive interpretation of what is permissible under the SGDA. Neither Mid-America nor Enbridge completed the process necessary to begin SGDA negotiations: neither had access to the gas. See PFIF at 188. The Port Authority also did not complete the qualifying round. PFIF at 18. Finally, by letter of July 13, 2006, TransCanada lent its support to the proposed fiscal contract as advancing the prospects of an Alaska gas pipeline. All of this suggests that no one was, in fact, disadvantaged by the process that was followed. Simply put, the purpose of the SGDA was to negotiate a fiscal contract on the gas and none of the non-producers had access to the gas.

Your complaint about the absence of transparency of contract negotiations is ill-founded. The negotiations advanced in conformity with Section 43.82.310 of the SGDA, which authorizes confidential treatment of trade secrets and commercial and competitive information. TransCanada and the Producers both requested and received confidential treatment of information they supplied in the negotiations. Accordingly, the details of negotiations with TransCanada and the Sponsor Group were, and remain, confidential. As the SGDA recognizes, it is standard commercial practice to negotiate business deals confidentially. The State simply could not, in good faith, nor consistent with the terms of the SGDA, negotiate with any SGDA applicants using confidential information, and then reveal that information.

When negotiations were concluded, however, the State immediately published the fiscal contract and a multitude of relevant documents. The State also arranged for extensive public education on the contents of the fiscal contract, both on the internet and through numerous public hearings throughout the State. Thus, the negotiations were conducted in such a way as to protect the legitimate commercial concerns of all applicants. But the fiscal contract will not be

authorized until it is fully discussed and analyzed by the public and the Alaska Legislature. There is no valid complaint about transparency.

1. The Contract Does Not Guarantee a Pipeline and the Due Diligence Standard in the Work Commitments Clause is Weak. The work commitments under the fiscal contract are stronger than comparable large projects as the PFIF explains. PFIF 128-129. In contrast, you assert that the work commitments are weak but do not back up your assertion with any example of stronger work commitments or any work commitments at all from a real world project, let alone any mega-project. As is explained in the PFIF, there is not a single large multi-billion dollar international contract involving upstream and midstream elements that "guarantees a project," because a schedule-driven construction project will most certainly result in significant cost overruns. Such a schedule-driven construction project would increase economic risk to the owners and thus make actual construction of the gas pipeline less likely and more costly.

As former Commissioner Irwin would know from his own experience in mining, no major mining company would guarantee the completion before the permitting was undertaken and completed. The history of the Fort Knox mine, in which you participated, demonstrates this. No one can guarantee that economic, legal, and logistical conditions will not change during the execution of a long lead time mega-project to a degree that would make further investment in the project unattractive for any Sponsor or even the State. Finally, we noted former Commissioner Irwin's August 4, 2005, letter to Governor Murkowski regarding the State's position on negotiations made no mention of any issue with the work commitments clause or its diligence standard, even though the clause had been essentially negotiated at that time

The diligence standard to which you object contains core elements of the prudent operator standard applicable to leases, such as the concept of requiring prudent action by the Producers. The prudent operator standard must be read in the context of the Federal Energy Regulatory Commission (FERC) pre-filing and application process. This process is systematic and has resulted in industry practice which is sufficiently measurable for application of the prudent operator role. We believe the obligation it establishes is enforceable and fair.

2. The Project Description is Weak and Could Permit an Over the Top Route. First, it should be noted that federal law, Section 103(d) of the Alaska Natural Gas Pipeline Act, prohibits an over-the-top route. Second, Section 4.1 of the fiscal contract identifies the route of the project as the southern route. A change in the project description referenced in Section 4.1 would require an amendment of the fiscal contract which cannot happen without the State's consent. To dispel any lingering concern, however, the State is proposing contract amendments to make more explicit the fact that the fiscal contract is for a southern route project and to add a provision that any change to the contract's route or core economic provisions would be subject to an opportunity for legislative review and approval.

The PFIF provides evidence that the project description contained in the fiscal contract was more comprehensive and detailed than for any comparable project in the world. The fiscal contract requires that the elements of the *Project* as described in Article 4.1 of the May 24 contract must be consistent with the *Qualified Project Plan* which provides details about the expected size and characteristics of the gas pipeline. To dispel uncertainty, the State is proposing a contract amendment that would add language describing those characteristics as opposed to their treatment in the May 24 contract which incorporates them by reference.

3. The State Cannot Practicably Terminate the Contract Even If the Producers Do Nothing. This assertion is made but no analysis to substantiate it is provided. The complete diligence requirement is that "diligence" means advancing the *Project* as diligently as is prudent under the circumstances. Section 5.1. Under this standard, the fiscal contract could easily be terminated if the Producers "do nothing" prior to project sanction because such conduct by definition is not diligent. In fact, as the PFIF explains, the contractual "diligence" standard incorporates essential features of the "prudent operator" standard that is applied to lease commitments. By contrast, the DNR negotiating team did not obtain agreement from TransCanada to terminate any arrangements with TransCanada prior to project sanction even if TransCanada failed to proceed with the project in a diligent manner after the open season.

The comments also ignore the fact that the steps leading up to the filing and processing of the FERC application provide a yardstick against which the Producers' actions in advancing the project or not can be measured. The sponsors are committed to the pre-filing process at the FERC. Both because of federal regulations that lay out that process and because industry practice in complying with that process provides examples of what must be done, it will be relatively easy to determine whether the project is advancing as diligently as is prudent under the circumstances. That process overlaps with the specific open season regulations (including time requirements) for conducting an open season for the Alaska gas pipeline. That is followed by the FERC application process which is subject to statutory deadlines under the Alaska Natural Gas Pipeline Act of 2004. A failure to meet the diligence standard will be measurable by these standards.

4. The Contract Should Contain a Construction Date Deadline or Some Type of Penalties. This ignores the advice of the State's consultants at IPA, which specialize in large projects, that schedule-driven projects invariably encounter major cost overruns and other project obstacles. You also fail to acknowledge the fact that this is an international project, the overall progress of which is dependent on the actions of a foreign government as well as permitting requirements of a host of other governmental agencies. Moreover, design engineering during pre-application and permitting may result in steps which slow the project in order to avoid cost overruns, all of which may be in the interest of the project and the State. Because of widespread public comment on work commitments, the State is proposing to add a letter of credit forfeiture provision that the unpaid balance would accrue to the State's benefit if project sanction does not occur by the fifth year after the sanction date. In

addition, a failure to reach project sanction by that time would be a presumptive failure of diligence. The former DNR negotiating team did not obtain any construction deadlines or penalties from TransCanada.

5. The Contract Provides Too Many Financial Incentives At Values Far Beyond Reasonable and Legislative Consultants Have Shown the Project to be Deeply Profitable. In making these assertions, one needs to be careful not to become more concerned about what the Producers get from a gas pipeline contract than what the State gets. What the State gets is a seamless transition from an oil based revenue stream to a gas based revenue stream without an intervening revenue gap. In ten years oil flows will be half of what they are today. There is an eight to ten year lead time to construct a gas pipeline and obtain revenues. Each year of delay while we argue over what the Producers get, creates risk of a revenue gap and erodes Alaska's bargaining position. The greatest risk to Alaska is not getting a gas pipeline.

The most important incentive that is provided under the fiscal contract is State risk sharing that is achieved by the State taking its gas in kind and owning approximately 20% of the project. This is a position to which Mr. Irwin agreed when he was Commissioner of Natural Resources. As a result, the rate of return and net present value of the project are enhanced. An equally important point is that even with the package of "incentives," the fiscal contract delivers as much value to the State as the status quo. *See* Comm. Corbus letter to Sen. Wagoner, Sept. 27, 2006 at 3-5; FIF at 73.

The legislative consultants demonstrated that the project would be profitable under conditions where a hypothetical gas purchaser would purchase all or most of the gas at the point of production on the North Slope. Under this scenario, the Producers would not have to make any ship or pay commitments (FT commitments) with respect to pipeline transportation. It was widely agreed by all State consultants and the Producers that under these conditions the project would be profitable; however, the hypothetical sale on the Slope is contrary to fact in two respects: (a) the Producers have shown no inclination to let others market their gas, and (b) no such purchaser of all or most of the huge volume of gas expected to be shipped has been identified.

On the other hand, the legislative consultants never provided convincing evidence that the project was profitable to Producers in the situation in which the Producers had to make FT commitments for all of the gas. In fact, under conditions as they exist today (October 1, 2006) with a Henry Hub price of $ 4.26 and an expected cost overrun of more than 50% due to extreme cost escalations in Alberta, the project may be unprofitable notwithstanding the financial incentives provided under the May 24 contract.

6. The Contract Would Cost the State an Amount That Approaches 50% of the Entire Cost of the Project. You do not explain this assertion. We can only assume that you are lumping together indiscriminately the out of pocket cost of the State's investment with hypothetical amounts that are associated with an assumed resolution of contested

royalty tax, and lease issues under current law, and proposed changes in the production tax on both oil and natural gas. There is no rational way of responding to this punch bowl of assorted real and hypothetical issues.

7. Under Low Prices the State Gives Away a Significant Share of the Royalty and Tax Values. The concept of providing incentives with respect to royalty and tax values under low prices was originally proposed by the DNR. The DNR insisted upon and specifically endorsed in the October 29, 2004, proposal that included the Price Differential Payment (PDP) based on a so-called S-curve. Under this concept, the State would agree to make significant payments to the Producers when Chicago well head prices would be less than $3.50 per MMBtu.

8. At Any Gas Price the Contract Saddles the State Proportionately With More Costs and Risk Than the Producers. This statement is devoid of any economic or technical backup from you. There is no evidence that the costs to be contributed by the parties to participate in the midstream project will be anything other than proportional. A full analysis of what the State agreed to in the fiscal contract is contained in the Letter of Commissioner William Corbus to Senator Thomas H. Wagoner of September 27, 2006, at 3-5. The conclusion of the letter after that analysis is directly responsive to the ultimate thrust of your comment:

> "If one believes that despite the evidence of the last quarter century a gas pipeline is wildly economic, one will also believe that the state was not as assertive at extracting rents from the project as it ought to have been. If however one believes, as I and the team of experts, both within and from without the state government do, that the project is one that carries large risks and may not appear as likely to be built when compared with industry investments around the world, then our negotiations were more than just dividing up the project's economic rents. We were attempting to create an environment in which such a project would be more likely to be undertaken. We succeeded. In the end concern about what the Producers get instead of getting a pipeline for the state will lead to the greatest risk to Alaska—not getting a gas line at all."

Letter at p. 5.

The risk under the proposed fiscal contract is far less than the extreme risks and unfavorable disproportionality for the State provided to TransCanada under the terms proposed by your former DNR team. The State proposed contributing 50% of the high risk pre-open season development costs for the project but was not granted the ability to participate proportionately in the Alaska portion or Canadian portion of the line. Also the State would be required to commit to a huge FT commitment on the Canadian portion of the line without corresponding pipeline ownership.

Furthermore, the State would have to consider making an extremely high risk price offer to the Producers for the purchase of a large volume of gas. Under this proposal the State would be bound by its offered price under low prices and give the Producers the flexibility to opt in under favorable price developments, thereby relinquishing the price upside to the Producers.[2]

9. The State Should Not Pay for Any Production and Development Costs. As indicated under item 7, the former DNR team proposed a PDP on October 29, 2004, whereby the State would pay for a share of production and development costs under low prices. Under current law, Alaska would pay some costs for gas production and development. This is the result of the 1980 Prudhoe Bay field cost settlement agreement which you disfavor. The oft-expressed critical views of the former DNR team regarding the 1980 settlement illustrate precisely why the Producers have argued so aggressively for fiscal stability. In any event, even inclusive of the payment of some production and development costs, the fiscal contract is equal to the economic status quo. PFIF at Table 6 @ 73, 75.

10. & 25. The Contract Forces the State to Market its Own Gas, Competing Against the World's Open Market; Under the Current Leases it Gets the Advantage of the Producers' Marketers At No Cost. Complaints About the Mechanics of Gas Marketing With the Conclusion That the State Should Not Take Its Gas in-Kind. The PFIF, in Sections 6.3.1, 6.3.2, and 8.2.1.4, provides extended discussions of market risks and the options available to the State to market our gas. The State will indeed compete directly with the Producers. The Producers are not likely to be advantaged upstream due to the unique position of the State marketer, which, alone, will enjoy the perspective from upstream information received from each of the North Slope Producers and may also have tax advantages over the Producers' taxable marketing efforts. *See also* Backbone II Response at 23-24. It is false to say that the State benefits from the Producers' superior marketing at no cost. The Producers' costs of marketing are a deduction from the "net proceeds" that the State receives. In addition, the Producers can be expected to market their gas in the markets that best suit the business objectives of their overall portfolio of gas supplies including lower 48 supplies, not where they necessarily will achieve the best results for the State, such as selling gas for in-state needs.

You pessimistically assume that the State cannot manage the marketing of its natural resources. If the same assumption had been applied to the Permanent Fund, its only investments would be bank savings account or government bonds. In fact, the Permanent Fund has used professional advisers to invest in a diversified portfolio of assets with very successful long-term results. The State has the same opportunity to successfully manage its gas assets.

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[2] The TransCanada team never analyzed how that offer would or could be financed consistent with legal constraints that apply to contractual commitments by the State.

The draft study you reference regarding the cost of the capacity terms was based on a review of an earlier version of the capacity clause. The Lukens report was updated and revised to reflect the final capacity management article. It shows greatly reduced risk. You emphasize the costs and risk of taking gas in-kind and ignore the costs and risk of taking gas in-value — namely the need to repeat decades of costly litigation to ensure "full value" is received for the State's gas. The PFIF addresses the cost and risk of the State taking its gas in-kind and concludes that the State will likely do as well as if it took gas in-value and has the opportunity to do better.

As far as the allegation that the State should not take its royalty and tax in-kind, the DNR recommended to the Governor that the State should take its royalty and tax in-kind in its endorsement of the October 29, 2004, proposal. The Governor relied on this recommendation to approve the initial proposal to the Producers and in conducting the negotiations. If the State does not take its gas in-kind, there is less opportunity for in-state use of Alaska's gas.

Finally, you fail to recognize the greatest risk of all to the State—not getting a gas pipeline. If a gas pipeline is not in operation in ten years, where will the revenue come to replace oil production, which by 2016 will be 50% less than today's production levels?

11. The Comment Is Made Under the Contract That the State Largely Surrenders the Power of the Executive, Legislative and Judicial Branches, As Well As The Right to Vote Initiatives, For Up to 45 Years. The Legislature enacted the SGDA and authorized a term as long as 35 years from the commencement of commercial operations, which could work out to a term of 45 years. *See* letter to Sen. Gene Therriault of 8/31/06 at 12-13. The commencement of commercial operations is likely to occur eight to ten years after the effective date of the fiscal contract. The May 24 contract was negotiated within the term authorized by the Legislature; your comments may be read as a disagreement with the Legislature about the terms of the SGDA. If there is a question about the legality of such a term or the conditions surrounding it, it will be settled by the Alaska Supreme Court. The Attorney General has opined that the term of the May 24 contract and the related fiscal stability conditions for taxes are constitutional.

Nonetheless, because of widespread public concern about the term of the fiscal contract, including comment from the Legislature itself, the State is prepared to propose a shorter term of fiscal stability—of twenty five years from the commencement of commercial operations with a carve out of a different term and concept for fiscal stability for the provisions relating to the new Petroleum Production Tax (PPT), State Corporate Income Tax (SCIT), and pipeline *ad valorem* taxes. For the PPT clause, the term would be divided into three periods with no fiscal stability provided up to the time of project sanction; with stability for fourteen years from project sanction but with the applicable taxes being frozen as of the later of the last day of the 2011 legislative session or the FERC application date, and with a fiscal stability clause for the remaining balance of the time left from 25 years from the effective date. The tax provisions for SCIT and *ad valorem* taxes also would be trimmed back.

Your comments reference a surrender of voter initiatives. We assume you have in mind the reserves tax that is on the ballot this November. The incumbent Governor and all three candidates for Governor have rejected the notion that the reserves tax is an incentive to moving the project forward. Governor Murkowski has said for over a year that a reserves tax would be counterproductive to the advancement of the gas pipeline. The fiscal contract does not restrict the voters' right to pass initiatives, but consistent with the concept of fiscal stability, it provides the Producers with protection from any initiative directed at the project.

Your final comment references surrendering the power of the Alaska judicial system to arbitration. The DNR before, during, and after your leadership included arbitration clauses for disputes involving the royalty reopeners in all of its royalty settlement agreements and the State has had very successful results in an arbitration under those provisions. The first full fiscal contract that the State offered to the Producers included arbitration and senior Administration officials involved in the negotiations, including former Commissioner Irwin and former Deputy Commissioner Rutherford, approved that contract.

In praising the judicial system, your comments ignore the fact that disputes over royalty valuation have taken decades to resolve at great cost and without a finally litigated result in any major case. Your comment appears to advocate litigation at any cost and for any time as preferential to the State.

Finally, you make a general reference to weak arbitration standards. It is difficult to respond to such a general comment. The arbitration clause was carefully drafted to address the different kind of disputes that might arise in the future, which will be different from, and narrower than, the ones of the past. For example, because the State is taking royalty gas in-kind and tax payments in gas and doing its own marketing, there simply will not be the kind of massive royalty and tax valuation disputes that have occupied so much time and resources for so long. Also, many of the payments due under the fiscal contract result from simple mathematical calculations.

12. <u>The Contract Changes the State's Relationship With the Oil and Gas Industry By Making the State a Minority Business Partner Rather Than a Resource Owner and Regulator</u>. This is a serious misrepresentation. The State did not in the fiscal contract give up its role as resource owner and regulator. The fiscal contract seeks to promote the development of the Alaska resources by creating a new role for the State as business partner in addition to its role as resource owner and regulator.

The concept of having active sovereign participation as an equity co-investor in projects with the petroleum industry is a widely used concept around the world and is a proven method of enhancing total benefits. Alberta, Nova Scotia, the UK, Norway, the Netherlands and many other nations use this concept. In addition, important long distance gas exporters often have included an important direct role for the sovereign as business partner and gas marketer, such as Russia, Algeria, Qatar, Oman, Malaysia, Libya and others.

13. The Contract Does Not Assure Gas for Alaskans at Reasonable Rates and Times. How gas will be provided to in-state users is a policy choice for the State as it markets the large amount of gas it will have under the fiscal contract. It is not a proper subject for a fiscal contract that is intended to provide a fiscal foundation for the gas that will advance the project. How the State sells its gas is not a matter for negotiation with the Producers and is not a proper subject for the fiscal contract.

The State will own approximately 20 % of the gas, approximately 1 bcf per day, which is far more than any reasonable projection of likely in-state needs. Thus, the State will be in a position to provide gas for in-state needs and the Administration is announcing a policy to provide for those needs. A future administration will decide the price for sales of the State's own gas to in-state users consistent with the requirements of the Alaska Constitution about obtaining maximum value for the disposal of the State's resources. Given the large amount of gas that the State will control, the favorable FERC rulings on in-state rates, and the fiscal contract provisions for off-take points and interconnection, it would be superfluous for the State to negotiate a requirement for the Producers to supply gas at a predetermined price for in-state use. The Producers may choose to sell gas for in-state users if any of them wishes.

The proper starting point for addressing rate concerns is the FERC's final open season regulations. They require the pipeline to offer both in-state and out of state rates with the in-state rates being distance sensitive and reflective only of the costs of providing in-state service and not inclusive of costs beyond Alaska. These requirements assure that in-state rates will be constructed on the most favorable basis for Alaska.

The fiscal contract reaffirms this requirement by obligating the project to offer a mileage sensitive rate in the open season and to study in-state needs before the open season. The fiscal contract provides for the project to construct at its expense four offtake points for service inside Alaska and also provides that the pipeline must cooperate in interconnecting with in-state pipelines that want to connect to the gas pipeline.

14. The Contract Does Nothing to Assure Lowest Reasonable Transportation Costs. Gas pipeline rates are subject to extensive regulation by the FERC. Gas pipeline regulation is the everyday business of the FERC and the FERC has been vigilant in setting rates that protect shippers.[1] Moreover, the project entity governance agreements will set a target capital structure of 80%/20% debt/equity ratio, seek maximization of the use of federal loan guarantees to reduce the cost of debt, and commit to seek project-level financing if available on acceptable terms. These all will combine to produce reasonable rates. In the fiscal contract, the State has

[1] The FERC has not adjudicated TAPS rates to date. It only approved a settlement between the TAPS carriers and the State that is responsible for the level of TAPS rates. The complete story of TAPS rates is a story that would take a long time to address and is not relevant to gas pipeline issues.

reserved the right to protest TAPS rates at the FERC if it feels the resulting rates are in any way excessive.

An independent pipeline that has no Producer affiliates has a strong incentive to maximize rates because its business objective is to charge the highest rates it can achieve in order to maximize its revenues. A pipeline with affiliated shippers does not have the same incentive because, from an economic perspective, higher rates reduce the profits from the sale of gas by the affiliated shippers. There is only one limited case where an affiliated pipeline might want to keep its rates higher and that is where those rates are a deduction from in value royalty and tax payments. In that one case, high rates serve to lower royalties and tax payments. Since the State is taking royalty gas in-kind and receiving tax payments in gas, that incentive does not exist in this case.

15. The Contract Fails to Create a Level Playing Field for the Producers' Competitors by [Not] Demanding Regular Expansion of the Gas Pipeline to Accommodate New Explorer Company Gas Nor Reasonable Expansion Tariff Structures. The argument suggests that independent explorers will successfully find and develop new fields on a predictable and certain basis. Exploration is simply not that predictable and certain. If the pipeline had to spend large sums to expand at pre-ordained times and in pre-ordained dimensions regardless of the needs for such expansions, FERC policy would require the pipeline's owners, including the State, to absorb the significant costs of any unnecessary expansions. This would serve to increase the economic risk of the project and the cost to the State.[4]

If the pipeline does not accommodate explorers, explorers have an unprecedented right under this project to go to the FERC and ask it to use its unprecedented powers to order expansion. Because of advocacy by the State and other pro-exploration interests, the FERC adopted open season rules that favor expansion specifically by adopting a presumption of rolled-in pricing in Alaska. In doing so, the FERC reversed its lower-48 policy on the pricing of expansion capacity precisely to address explorers' concerns. Going beyond this to require a one-size-fits-all policy on expansion could produce a subsidy for explorers and could be costly to the State's financial interests.

16. The Contract Gives Exxon (As the Unit Operator for the Point Thomson Unit, PTU) a 45-year Extension on Its Lease Requirements to Develop the State's Oil and Gas Resources at Point Thomson. Exxon Has Already Held These Leases for More Than 30 Years Without Developing Them. It is Profitable to Develop the Oil on These Leases Now, Even Without a Gas Pipeline Project. The first statement in this series is false. No objective reading of the fiscal contract can lead to the conclusion stated. The second statement is inadequate and misrepresents PTU history. The last statement is unsupported, and requires access to information not available to you, and

[4] The alternative, a sole risk expansion clause, would place the cost and risk of expansions solely on the State. *See also* the discussion of expansion in the letter of James Clark, August 31, 2006, to Sen. Gene Therriault at 9-11.

it begs the issue that development of the PTU gas resource appears to be the major prize to be obtained from these leases.

During contract negotiations, it became clear the Producers felt very uncertain about the status of PTU, particularly given its critical importance to the gas pipeline economics. The amended DNR decision of October 27, 2005 found the Point Thomson Unit (PTU) Agreement to be in default. That decision did not call for the return of the PTU leases to the State, but it did call for "a plan to bring the PTU into commercial production within a reasonable time frame" and provided dates for initiation of development operations, commencement of drilling, and commencement of production. Because these dates are inconsistent with the work commitments contained in the fiscal contract, extensions of the time period within which the operator can appeal that default decision have been given, pending conclusion of deliberations on the fiscal contract by this Legislature. With the conclusion of legislative deliberations on the fiscal contract, the appeal deadline has now been reinstated by the Commissioner of Natural Resources.

The decision to include PTU in the fiscal contract was a reasonable and necessary step, given the critical importance of PTU reserves and deliverability to the fiscal contract. That step was taken, while imposing specific requirements upon the Producers:

- Each Producer must commit PTU gas reserves to the gas pipeline project;
- The Producers must apply to the Alaska Oil and Gas Conservation Commission (AOGCC) within six months for issuance of pool rules
- In addition, the fiscal contract requirement that the gas pipeline project be pursued "with diligence" exists, and applies to PTU development, as well as the rest of the gas pipeline project – if the fiscal contract is terminated for any reason; according to the contract terms, the Producers' rights to Point Thomson expansion leases terminate unless they initiate development within one year of the contract termination. In addition, the DNR can also pursue other steps, including termination of the unit, and initiating procedures to revoke the leases.

Finally, nine months after startup of the gas pipeline, commitments to DNR Plans of Development resume, which will allow the DNR to continue to manage development of PTU oil and gas reserves.

Historically, continuance of the PTU unit and leases has, until the latter half of 2005, been with the concurrence of Commissioners of Natural Resources of several administrations of varied political perspectives. The PTU leaseholders have invested significant amounts of money over several decades in exploring this acreage and in addressing major technical issues. In recognition of those facts, each of these administrations has been a party to extending these leasehold interests. The amended DNR decision of October 27, 2005, has placed these

companies on notice that development must now proceed. The fiscal contract provisions concerning PTU provided a specific context for that development. Since those deliberations have now ended, the PTU leaseholders are back to dealing directly with the DNR to develop an acceptable Plan of Development (POD) which will lead to field development.

On September 8, 2006, the Commissioner of Natural Resources issued a final extension of time to submit a cure to the October 27, 2005, decision placing the PTU in default. That cure, with all supporting documentation, must be submitted to the DNR no later than October 20, 2006. In addition, any party wishing to submit an appeal on the subject must submit all appeal documentation to the DNR by November 3, 2006. The Commissioner of Natural Resources will hold an appeal hearing on November 13, 2006. Any decision concerning the cure and any appeals will be made by the Commissioner of Natural Resources subsequent to the November 13 hearing.

17. Improper Indemnification. The comments do not identify the risks that are improperly indemnified. The fiscal contract in no way indemnifies Producers against "most risks." The State does not indemnify, for example, for either cost overrun risk or the risk of gas price fluctuation. The indemnities that are provided are quite specific and tailored to the purposes of the fiscal contract. In Article 10, for example, the State agreed to indemnify, except in cases of fraud, the Producers' capacity holding entity when it acts to acquire capacity for the State. This is a fair exchange in return for the capacity holder entity taking on the unprecedented obligation to keep the State on an equal footing with the Producer in the acquisition and retention of capacity shipping rights. *See* Backbone Response June 2, 2006, ¶ 18. The State is proposing contract amendments to insure that the fiscal contract will conform to the opinions of the Attorney General on State indemnities.

18. Shield for the Reserves Tax. No gubernatorial candidate nor any responsible analyst supports the reserves tax as providing an incentive to build the gas pipeline. Your comments provide no analysis or explanation to suggest that it will. The fiscal contract shields the project against any reserves tax. A reserves tax could cost the Producers $ 1 billion per year and remove an incentive to build the gas pipeline, because this tax would make the pipeline uneconomic. The additional $1 billion per year can only be partially recovered by the Producers if the line commences operations and therefore puts an additional burden on a project that already requires fiscal incentives to be attractive under current economic conditions. The reserves tax would be payable during planning, regulatory process and construction of the gas pipeline and therefore provides no incentive to build the pipeline, because the tax must be paid regardless of whether the pipeline is being constructed or not.

If Alaskans adopt such a reserves tax, the Producers will very likely fight this tax in court which in turn has the potential to set the possible date for an agreement between the State and the Producers back by at least two years until the reserves tax can be repealed. *See also* response to Mayor Cottle June 21, 2006, ¶ 6C (p 9). The State cannot afford a delay in the project without

incurring serious revenue shortfalls ten years from now as oil revenues decline and the gas revenues are not online.

While the reserves tax issues are fought out, the clock ticks and time is not in the State's favor. Alaska must make the transition from an economy based on oil revenues to one based on natural gas sales. Without a gas pipeline, it is projected that crude oil production will decline and end in 2030. A decade before that time oil production could be at half current levels. Given that the gas pipeline will take eight to ten years to come to fruition, time is precious and short. See PFIF at 4 to 10. A reserve tax would be a major step backwards towards securing a gas pipeline that is essential to Alaska's future.

19. Waiver of State Immunity from Lawsuits. The May 24 contract does not waive the State's immunity from lawsuits of all kind. To the contrary, the Producers must resolve their disputes through the contractual arbitration process and cannot resort to courts in Alaska or elsewhere to resolve disputes. In certain cases, the May 24 contract provides that an arbitration award can be enforced outside Alaska but only if an Alaska court has not entered a judgment to enforce the award after one year. The State is proposing a contract amendment that would eliminate any possibility of enforcement of arbitration awards against the State in an Alaska or other court. The remedy for such an award would be limited to an appropriation by the Legislature or collection of the amount through the waterfall of payments related to the fiscal contract.

20. Alaska Loses the Protection of Resort to Its Courts. As noted above, the DNR had been a proponent of, and user of, arbitration. International projects use arbitration to settle disputes. Your comment ignores the cost and delay attendant in using the court system and assumes that the Alaskan courts exist to apply the law in the State's favor when in fact they are charged by law with being impartial to all parties.

Without specificity, the comments assert that the arbitration rules are heavily slanted to favor the Producers. To the contrary, they are a reasonable and balanced set of rules tailored to the nature of disputes that might arise under the fiscal contract. *See* Response to Hon. Bert Cottle, June 21, 2006, ¶ 4, p 7-8. As we have discussed earlier, many of the old tax and royalty disputes will not arise in the future because the State is taking its gas in-kind. The State is proposing a set of improvements to the arbitration clause in light of public comment, however.

21. & 22. The Long Term of the Contract and the New PPT. The Contract Incorporates the New Production Tax with a Fiscal Certainty of 45 Years. Your comment is incorrect. The May 24 contract does not provide for fiscal certainty on the oil production tax for 45 years. The May 24 contract fiscal stability for oil was 30 years ending on December 31, 2036. The Legislature has enacted a new PPT. The State is proposing a contract change that will further shorten the term for fiscal stability on oil overall and delay the start of fiscal stability overall on oil until project sanction. *See* p.14 *supra*.

The constitutionality of the term of the May 24 contract has been addressed at length by the Attorney General in a memorandum dated May 10, 2006.

23. The Proposed Production Tax is Based on "Profit" Which is Complex and Will Result in Conflict With the Producers. Petroleum taxes on net revenues have made Norway and Alberta among the two richest jurisdictions on earth because these taxes tend to yield considerably more government revenues while at the same time stimulating investment in exploration and new developments. For 2006, the production tax will increase State revenues by an estimated one or two billion dollars. This fact has not been disputed. As long as oil prices remain over $30 per barrel, revenues will exceed those received under the previous Economic Limit Factor (ELF) based formula. It was widely recognized by all legislators that the current system was broken and needed revision. The argument about gross v. net production taxes was exhaustively debated in the Legislature. A gross tax does not provide an incentive for investment. The Producers must increase their investment in oil production from $1.0 billion per year to $1.8 billion per year just to cut the annual rate of oil flow decline from 6% to 3%. After a regular and two special sessions, the Legislature voted to enact a tax based on net revenues because they recognized this point.

It should be noted that in order to achieve acceptance on the part of the Governor for the approval of the TransCanada term sheet and to encourage the Governor to do a deal with TransCanada rather than with the Producers, the former DNR team proposed at several times in early and mid-2005 to grant the Producers "fiscal certainty" on the pre-2005 "status quo" for a 35 year period as part of the overall deal. The fiscal results for the State would have been devastating had the Governor accepted this former DNR team recommendation. The former DNR team recommendation would have enshrined a "broken" system for 35 years, resulting within a few years in near zero production taxes on oil production.

24. Disproportionate Risk at Any Price and the Gas As Not Stranded. This statement is a repeat of items 5 and 8. The item 5 and 8 issues have already been answered above. So has the issue of the economics of the gas. Under current price and cost conditions the project is uneconomic. We also note that when Mr. Irwin served as Commissioner of Natural Resources, he and Commissioner Corbus co-signed a letter to the Producers dated January 23, 2004, approving its application as one that qualified under the requirements of Section 130 of the Stranded Gas Development Act including the requirement the their application "reflects a proposal for diligent development of the project on the part of the applicant." If Mr. Irwin then believed that North Slope gas was not stranded, he would not have co-signed the January 23, 2004 letter approving the application. For sake of historical reference, the Henry Hub price for January 2004, was $6.03/Mmbtu. Last Friday's price was $4.26/Mmbtu.

26. Comments Concerning Regulatory commission of Alaska (RCA) Jurisdiction and the Potential Absence of FERC Jurisdiction. The hypothetical scenario that the FERC

would decline jurisdiction over this major interstate natural gas pipeline system is remote and far fetched. It should be noted that the fiscal contract does not change or restrict the jurisdiction of the RCA so in the remote hypothetical postulated, the RCA would be free to assert whatever lawful jurisdiction it might have over some element of the project. The fiscal contract requires the parties to the contract to support FERC jurisdiction. This objective was shared by everyone who testified on this issue. With respect to the remote possibility that project facilities might be subject to commercial agreements, the administration is proposing language that any such commercial agreement must be consistent with FERC principles of regulation. This addresses any lingering concern about fair access.

27. Contract Provisions Regarding Deference to, or Presumptions in Favor of, State Interpretations and Conforming Other Agreements to the Contract. The basic concept of the fiscal contract is to create a comprehensive contractual framework governing the fiscal issues that affect the successful development of a gas project. It was essential that there be a clear understanding of the relationship of pre-existing agreements among the parties that addresses issues resolved in the fiscal contract and the contractual provisions themselves. That is what Article 41.3 solves. Otherwise, the private parties to the fiscal contract would be left in a state of confusion and uncertainty over which provisions governed. Your suggestion can only be read as suggesting either that (1) a state of uncertainty is preferable, or (2) the fiscal contract should not address issues that have an economic impact on the project but were addressed in prior agreements. Neither suggestion is consistent with the purposes of the SGDA.

Equally, your suggestion about preserving presumptions in favor of State interpretations or deference towards the State is not consistent with an established, balanced, contractual resolution of all fiscal issues that affect the development of the project. Some of those presumptions simply do not apply because of the different structure with respect to the State's role of having direct responsibility for the sale of royalty and tax gas. In other cases, where appropriate, presumptions were preserved. See Article 19.10.

28. Ignoring the Advice of Experts. Many Experts were Hired by DNR and by Legislative Budget & Audit Committee (LB&A) and by other Departments. Having their Advice Ignored is a Travesty of the Best Interest of the State. This is an incorrect statement by a wide margin. Much of the consulting work done by experts hired by the DNR or working under guidance of the DNR was effectively used to the best interest of the State. For example:

- The work done by the pipeline engineering firm (Paragon) was used to do due diligence on the initial cost estimates of the Producers:

- The work of Lukens Energy was used to arrive at an average price forecast of $5.50 used in much of the economic studies and was used to develop the tariff methodology for the various economic models;

- The work of Lukens Energy was also used to determine the benefit of the "higher of" as well as the differential between Chicago and Alberta in the economic models;

- The work of Lukens Energy was used in negotiating capacity management provisions that reduced the risks it identified in an earlier draft; and,

- The work done on the DNR economic model served to validate and confirm the results of models of the Department of Revenue (DOR) and Dr. Pedro van Meurs.

Many of the views expressed by the LBAC and LBAC consultants were taken into consideration in the development of the fiscal contract and in the development of the proposed changes to the contract. However, after analysis, we found many of the criticisms to be misplaced. Thus, we did not ignore the criticisms; we simply disagreed with them and did not adopt them.

A Law of General Application. The administration just proposed and achieved passage of a law of general application—the PPT. The PPT has now been adopted which includes specific and quantifiable incentives for any entity willing and able to commit to the construction of new gas and gas condensate fields on the North Slope, which could underpin the construction of the gas pipeline. This PPT law specifically moved the point of production in order to ensure that entities willing to invest in gas processing would benefit from these incentives. Furthermore, this PPT law specifically provided significant support for smaller companies to enter into the exploration and development of new gas resources. At the same time the PPT law will make the development of liquids at Point Thomson a much more attractive proposition. This will increase the probability that the development of an initial cycling project is economic. This could provide a strong stimulus to the subsequent construction of the gas pipeline.

It should be noted that the Port Authority did not request fiscal incentives to build the gas pipeline. The matter of fiscal incentives was not high on the agenda of TransCanada either. The reason is that these were midstream projects and pipeline companies can pass on taxes in the pipeline tariff. However, without upstream fiscal protection, there is no realistic chance that the Producers would commit their gas under lease to a midstream project.

However, more fundamentally, the proposal for a law of general application for incentives for building a gas pipeline that could apply to any developer, again indicates a complete failure to understand the basic economics of the Alaska gas pipeline project. The project is not about the construction of the pipeline itself. The fiscal contract should address a complete project—one that relates to encouraging Producers or buyers of the gas to make the respective FT commitments (and in case of buyers the gas purchase and sale agreements) that

underpin the construction of a gas pipeline. Anyone can construct a pipeline if investors are willing to make the FT commitments.

The problem so far has been that we have not found Producers that are willing to make the FT commitments on a full commercial risk basis without providing for a fiscal contract on the gas that provides for fiscal stability. Nor have we found buyers willing to buy gas for favorable prices that are willing to assume FT commitments (nor will we find such buyers at $4.26/mcf gas). As long as we do not have investors willing to consider making the FT commitments, there will be no gas pipeline, regardless of a law of general application on incentives for pipeline construction.

In closing, your comments cite extensively an "opinion piece" of Vic Fischer and Jack Coghill from the July 19, 2006, Anchorage Daily News concerning their recollections of the meaning of the constitutional provisions regarding the surrender of the power of taxation. On July 31, 2006, the Attorney General of Alaska addressed these opinions. He began by noting a very fundamental legal point. The Alaska Supreme Court has made clear on repeated occasions that the "subsequent statements of a lawmaker about what a law was intended to do has no weight in a judicial proceeding." This makes common sense: today's recollection of what may have been intended nearly fifty years ago is fraught with the difficulties of the passage of time and the diminution of memory. Nor can the memories of two delegates reflect what others thought or intended. The opinion of Messrs. Fischer and Coghill emphasize that the Constitution requires tax exemptions to be temporary. The Constitution itself does not use the word temporary or state any time limitations on tax exemptions. According to the Attorney General, the Commissioner of Revenue has concluded "that the periods of fiscal certainty in the fiscal contract are not permanent and are reasonable in length given the size, cost and unique nature of the gas pipeline project." For further discussion, please refer to the Attorney General's letter and his opinion regarding the constitutionality of the fiscal term.

Very truly yours,

William A. Corbus

William A. Corbus
Commissioner

Enclosures

cc: Ms. Marty Rutherford
Mr. Richard LeFebvre
Mr. Mark Meyers
Mr. Bill Jeffress
Ms. Nancy Welch

Appendix I

This appendix addresses the comments of the former Department of Natural Resources (DNR) team from two perspectives. First, it compares the comments to the historical record of the positions that the signers of the former DNR team letter agreed to in the development of the joint State positions in the Producer negotiations or, in fact, negotiated in the discussions with TransCanada, all while employees of the State of Alaska. Second, it addresses the merits of the arguments advanced by the former DNR team, relying in a number of cases on answers that were a matter of public record before the former DNR team comments were filed but which the former DNR team comments ignore.

- **A retro-active "fix" of the Stranded Gas Development Act (SGDA) will result in an unfair advantage for the Producers over other applications**. This did not prove to be the case in practice. Marty Rutherford led negotiations with TransCanada based on its application of June 1, 2004, until the summer of 2005. These negotiations involved matters that went well beyond the confines of the SGDA. The former DNR negotiating team considered commitments on the part of the State of Alaska to make offers to purchase gas from Producers as well as extensive equity participation by the State in the pipeline. All of these are outside the purview of the SGDA in the view of the former DNR team. Therefore, Marty Rutherford must have led this negotiation on the assumption that a retro-active fix would be made to the SGDA in order to pass the TransCanada contract in the Legislature and that her conduct was lawful.

- **The contract does not guarantee a pipeline and work commitments are weak**. The former DNR negotiating team recommended to the Governor in mid 2005 to adopt the TransCanada term sheet as an alternative to the Producer fiscal contract and recommended to start papering a final contract with TransCanada. The former DNR negotiating team did not require the guarantee of a pipeline, nor did it provide for any work commitments after the first open season.

- **The project description is weak and could permit an over the top route**. The former DNR negotiating team did not provide a project description that was stronger, nor was there a procedure for preventing TransCanada from making work plan changes. What's more, the former DNR team supported the acceptance of the Producers' application, which included the project description, after a detailed discussion about the Northern Route. The Irwin team was satisfied in January 2004 that the application was applicable to the Highway Route.

- **The State cannot terminate the contract even if the Producers do nothing**. The former DNR negotiating team did not provide for the ability for the State to terminate the contract at all if after the open season TransCanada would proceed with the project in a manner that was not diligent.

- **The contract provides Producer benefits today while doing little to encourage a pipeline sooner rather than later. Any contract should include a construction**

deadline and penalties. The former DNR negotiating team provided for reduced pipeline taxes, but did not have any provisions for a construction deadline or penalties.

- **The contract provides too many financial incentives.** The most important incentive that is provided under the fiscal contract is the State risk sharing and participation of approximately 20%, which enhances the rate of return and net present value of the project. This concept was included in the October 29, 2004, opening proposal made by the State to the Producers. This proposal was formally endorsed by all departments in a meeting with the Governor prior to being proposed. This included the endorsements of the former DNR team. The DNR furthermore repeated its acceptance of such incentives in their letter of August 4, 2005, to the Governor outlining the "bottom line" position of the DNR.

- **Legislative consultants have shown the project to be highly profitable.** Legislative consultants suggested that the project would be profitable under conditions where an independent gas purchaser would buy all or most of the gas at the point of production on the North Slope. During the entire negotiating process, the DNR was specifically in charge of gas marketing matters. The former DNR team never presented to the Governor a credible independent buyer with ample financial strength who would be prepared to purchase large volumes of gas for favorable prices to the State and producers at the point of production. In fact the former DNR team specifically opposed undertaking early negotiations between the State and possible large buyers, such as Shell or British Gas, for long term contracts for all or most of the State's share of the gas. As a result, it is not possible for the legislative consultants to demonstrate that the project is profitable under the conditions they assume.

- **Under low prices the State gives away a significant share of the royalty and tax values.** The concept of providing incentives with respect to royalty and tax values under low prices was originally proposed by the former DNR team. The former DNR team insisted upon and specifically endorsed in the October 29 proposal a Price Differential Payment (PDP) based on a so-called S-curve. Under this concept, the State agreed to make significant payments to the Producers when Chicago well head prices would be less than $ 3.50 per MMBtu. The former DNR team repeated their suggestion of the S-curve in their August 4, 2005, letter to the Governor.

- **At any gas price the contract saddles the State proportionately with more costs and risk than the Producers.** The risk under the proposed fiscal contract is far less than the high, disproportionate risks the State would incur under the terms proposed by the former DNR team for a deal with TransCanada. Under the TransCanada term sheet conditions the State was to contribute a high percentage of the pre-open season development costs for the project without the ability to participate proportionately in the Alaska portion or Canadian portion of the line. Also the State would commit to a huge firm transportation (FT) commitment on the Canadian portion of the line without corresponding pipeline ownership. Furthermore, the term sheet proposed that the State make an extreme high risk price offer to the Producers for the purchase of a large volume of gas.

- **The State should not pay for <u>any</u> production and development costs**. As indicated above, the former DNR team itself had proposed a PDP on October 29, 2004, by which the State would pay for a share of production and development costs under low gas prices.

- **The State is forced under the contract to market its own gas**. As stated above, this was the risk sharing incentive that the former DNR team had specifically endorsed in front of the Governor as part of the October 29, 2004, proposal. Under the TransCanada contract the State would also be forced to market a far greater volume of gas.

- **The contract does not assure gas for Alaskans at reasonable rates and times**. The DNR's preference, as stated in the letter, to rely solely on the "superior" gas marketing of the Producers would certainly not result in gas for Alaskans, since the Producers prefer largely to sell their gas in Canada and the Lower 48 States.

- **The contract does nothing to assure reasonable transportation charges**. The fiscal contract does more to assure reasonable transportation charges than the term sheet that was negotiated by the former DNR team with TransCanada, which provided for favorable transportation charges for TransCanada. The fiscal contract with the Producers specifies that a separate open season will be held for gas shipped to in-state users and that in-state tariffs must not underwrite lower 48 transportation costs.

- **The contract could last for 45 years. This is very long.** The 35 year term from the commencement of commercial operations was endorsed by the former DNR team in the October 29, 2004, proposal.

- **The Production Tax is based on "profit" which is complex and will result in conflict with the Producers. It will also make the income of the State more uncertain**. In its letter about the "bottom line" of August 4, 2005, to the Governor the former DNR team specifically endorsed the Petroleum Production Tax (PPT) as then proposed, which was based at that time on a 20% tax and a 50% uplift (equivalent to a 10% tax credit). The PPT that was actually passed and signed by the Governor is more favorable to the State than the PPT endorsed in August 4, 2005, by the former DNR team.

- **The gas is not stranded**. As addressed above, the former DNR team endorsed the approval of the application of the Producers for an SGDA fiscal contract. The former DNR team also endorsed the application by TransCanada for a contract under the SGDA. Such approvals could not have been provided unless the former DNR team was of the view that the gas was stranded. The former DNR team led negotiations with the TransCanada team with respect to a contract under the SGDA well into the second half of 2005. Such negotiations would only be rational if the former DNR team also considered the gas to be stranded.

- **The State should not take its royalty and tax in kind**. The former DNR team recommended to the Governor that the State should take its royalty and tax in-kind in its endorsement of the October 29, 2004, proposal. The Governor relied on this

recommendation to approve the initial proposal to the Producers and in conducting the negotiations. The former DNR team specifically proposed taking the gas in-kind in its August 4, 2005, letter to the Governor.

- **If there is a dispute, under the contract Alaska cannot protect itself using its well-established judicial system but must resort to arbitration.** In its royalty settlement agreements (RSAs), the DNR has included arbitration, not court litigation, as the dispute resolution mechanism for royalty re-openers. The DNR has utilized the arbitration process quite successfully to date. It is also used in most international contracts.

STATE OF ALASKA

DEPARTMENT OF REVENUE

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October 18, 2006

Mr. Dick LeFebvre
1921 Sunrise Drive
Anchorage, AK 99508

Dear Mr. LeFebvre:

I want to acknowledge your comments of July 20, 2006, which we have reviewed as part of our process of receiving and digesting public comments. We note that your comments make the same points as the July 24, 2006, comments of Tom Irwin, Marty Rutherford and four other former Department of Natural Resources (DNR) officials. In fact the July 20, 2006, comments use language almost identical to the July 26, 2006, comments of the former DNR team and raise the same issues in the same sequence as those comments. You signed the July 26, 2006, comments as well as the July 20, 2006, comments. For these reasons, we have not drafted an independent response to your July 20, 2006, comments and refer you to today's answer to the July 26, 2006, comments which addresses the substantive points made in your comments. A copy is enclosed.

Very truly yours,

William A. Corbus

William A. Corbus
Commissioner

Enclosure

STATE OF ALASKA

DEPARTMENT OF REVENUE

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Senator Johnny Ellis
Senate Minority Leader
Juneau, AK 99801-1182

October 20, 2006

Representative Ethan Berkowitz
House Minority Leader
Juneau, AK 99801-1182

Dear Senator Ellis and Representative Berkowitz:

This is in response to your July 24 letter regarding comments on the proposed Alaska Stranded Gas Fiscal Contract and Preliminary Findings and Determination. The attachment addresses your bulleted concerns raised in your cover letter as well as those of your Gas Line Comments attachment.

Very truly yours,

William A. Corbus
Commissioner

CC: Senator Bettye Davis
Senator Donny Olson
Senator Hollis French
Senator Kim Elton
Representative Beth Kerttula
Representative Berta Gardiner
Representative David Guttenberg
Representative Eric Croft
Representative Harry Crawford
Representative Les Gara
Representative Max Gruenberg

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SPECIFIC CONTRACT CONCERNS

ARTICLE 1: Definitions

1. Wrong Parties to the Contract

Recommendation: If the State enters into a contract with the subsidiary corporations, the corporate parent companies must also be signatories to the contract in order to protect the state's interest and ensure development of a gas pipeline.

Answer: Failure to perform under the fiscal contract would result in the loss of fiscal certainty for the sponsors' Alaska operation, a very significant penalty that promotes performance. As an additional backstop to implementation of the fiscal contract, the State has pursued a coordinating agreement to make sure that the obligations of the contract will be performed by the various LLC's and other ownership entities that will be established. Related to this is the issue of what is the appropriate corporate entity to sign the coordinating agreement. As a matter of corporate law, the proper question to ask is whether the parties to the contract have the capability to perform the commitments of the contract. The producers have argued consistently that their Alaskan affiliates have tens of billions of dollars of assets (including the value of their leases) in Alaska and those assets are more than sufficient to back up the obligations of the contract. The issue of a coordinating agreement will be resolved in the final LLC discussions.

2. Trust the Vote

Recommendation: Do not contract away the right of the people to enact law through initiatives or referendums. The people of Alaska must be free to make their own choice, and to exercise their democratic rights.

Answer: The specific complaint is that the effect of Article 11 will be to exempt the North Slope Producers from the proposed reserves tax if it is enacted. The incumbent Governor and all three candidates for Governor have rejected the notion that the reserves tax is an incentive to moving the project forward. Thus, the signers of the letter are at odds with the candidate of their party as well as the other candidates and the Governor. The fiscal contract does not restrict the voters' right to pass initiatives, but consistent with the concept of fiscal stability, provides the Producers with protection from any initiative directed at the project. The point is to protect the project and avoid litigation in a situation in which Alaska faces a huge revenue gap within a relatively short time if we have not shifted from a primarily oil based revenue stream to a primarily gas based revenue stream.

3. Too Broad a Definition of "Force Majeure"

Recommendation: Narrowly define "force majeure" to conform with generally accepted definitions.

Answer: The force majeure clause is carefully tailored to the circumstances of the Alaska gas pipeline project and is within standard commercial practice. The most important concern is whether the event was beyond the control of a party or not. The contract's definition requires that a *Force Majeure Event* be "beyond the reasonable control " of a party. Modern commercial practice with such clauses focuses on that issue, not foreseeability, and for that reason some large international project agreements of which we are aware omit any reference to foreseeability. The list of force majeure events is a reasonable standard list except that a specific diligence requirement has been added to the category of events that reference an inability to secure

permits.[1] That addition stiffens the standard. Another non-standard but stiffer element of the force majeure clause is that there is an initial period under the contract during which force majeure may not be invoked to suspend action under the contract. See Article 35.2(c).

ARTICLE 3: Effective Date and Term of Contract

Recommendation: Make the contract term as specific as possible. While different phase descriptions may be appropriate for different proposals, having phases spelled out better defines the term of the contract and how it will be implemented.

Answer: The discussion in your letter supporting this recommendation is directed not at the specificity of the term but to its duration. The Legislature enacted the SGDA and authorized a term as long as 35 years from the commencement of commercial operations, which could work out to a term of around 45 years. The commencement of commercial operations is likely to occur eight to ten years after the effective date of the fiscal contract. The May 24 2006, contract was negotiated within the term unanimously authorized by the Legislature in 2003. Your comments may be read as a disagreement with the Legislature about the terms of the SGDA. It is also consistent with the term of international agreements in which fiscal stability is provided. See PFIF at 115-117. Because of the huge cost and expected life of the project, the Producers have argued consistently that fiscal stability is needed to the full extent permitted by the SGDA and the term of the May 24 contract was consistent with the SGDA, comparable international agreements, and the producers' concerns.

[1] Your letter cites a statement of Daniel Johnston about the inclusion or not of bureaucratic delays in production sharing contracts. The fiscal contract is not a production sharing contract and the addition of the diligence standard to the force majeure definition further addresses the point implicitly made.

Nonetheless, because of widespread public concern about the term of the fiscal contract, including comment from the Legislature, the State is prepared to propose a shorter term of fiscal stability—of twenty five years from the commencement of commercial operations with a carve out of a different term and concept for fiscal stability for the provisions relating to the new PPT, SCIT and pipeline ad valorem taxes. For the PPT clause, the term would be divided into three periods with no fiscal stability provided up to the time of project sanction; with stability for fourteen years from project sanction but with the applicable taxes being frozen as of the later of the last day of the 2011 Legislative session or the FERC application date, and with a fiscal stability clause for the remaining balance of the time left from 25 years from the effective date. The contract provision for SCIT/PILT stability also would be trimmed back. The term of fiscal stability for payments in lieu of ad valorem taxes would expire on December 31, 2035 unless the State and the Participants agreed to extend it.

ARTICLE 4: Qualified Project Description

Recommendation: Provide a provision that, regardless of any changes to state or federal law, the pipeline route shall be as specified in the contract. Also, the state should have a meaningful role in accepting or rejecting proposed changes to the qualified project plan.

Answer: As you implicitly recognize, Section 103(d) of the Alaska Natural Gas Pipeline Act prohibits an over the top route. Section 4.1 of the fiscal contract identifies the route of the project as the southern route. A change in the project description referenced in Section 4.1 would require an amendment of the fiscal contract which cannot happen without the State's consent. To dispel any lingering concern, however, the State is proposed a contract amendment to make more explicit the fact that the fiscal contract is for a southern route project and to add a

provision that any change to the route presently described in the contract or core economic provisions would be subject to an opportunity for legislative review and disapproval.

The State will have a meaningful role in accepting or rejecting proposed changes to the qualified project plan for two reasons. First, the State's pipeline company will be a member of the LLC that will file the FERC application and build the LLC. As a member, it will have a twenty per cent vote on all aspects of the project as it develops, including changes in the plan. Second, at any time that the State itself believes changes in the project plan reflected in the annual update reflect a lack of diligence, it can seek relief under the special arbitration process in the work commitments clause.

ARTICLE 5: Work Commitments

Recommendation: Follow the lead of other nations' contracts and establish specific dates for completion of work commitments, with terms for extensions. Turn the burden of proof around so that if a deadline is not met, the pipeline sponsors must show why the deadline should be extended and the contract not terminated. Do not give up the right to take a dispute to the state courts. Impose meaningful penalty and damages provisions as deterrence to failing to proceed with construction of pipeline.

Answer: You do not give a specific example of a work commitment clause of another nation for a major energy project that contains better terms including specific dates. You also ignore the advice that both the State and the Legislature received from IPA, experts in large projects, that schedule-driven projects invariably encounter major cost overruns and other project obstacles. You also fail to acknowledge the fact that this is an international project, the overall progress of which is dependent on the interaction of two national governments and their

regulatory or permitting agencies and also of actions by State and provincial governments. The Preliminary Fiscal Interest Finding cites evidence that the work commitment clause of the fiscal contract is stronger than comparable large projects. See PFIF 128-29. As further explained there, there is not a single large multi-billion dollar international contract involving upstream and midstream elements that "guarantees a project" because a schedule-driven project will most certainly result in significant costs overruns. Such a schedule-driven construction project would increase economic risk to the owners and thus make actual construction of the gas pipeline less likely and more costly.

Moreover, the diligence standard of the work commitments clause will not be applied in a vacuum. Please refer to the new May 10, 2006, Project Summary, which is available on the Department of Revenue website, for a timeline and description of the sequence of project development activities.[2] In addition, there are additional points of reference *vis-à-vis* the FERC process for the open season (which includes timelines) and for the steps of the pre-filing process applicable to applications for certificates of public convenience and necessity[3]. Industry practice for large project is relevant as well. Thus, there are public and measurable points of reference for application of the diligence standard of the work commitments clause. The Administration was satisfied that the work commitments clause that was negotiated struck the right balance of enforceability and flexibility for this massive international project.

The suggestion is made that the right to take disputes to State courts should not be relinquished and there should be a scheme of penalty and damage provisions. The termination

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[2] The State is prepared to propose an amendment to the fiscal contract to incorporate the May 10 project summary in the work commitments clause.

[3] See the presentation of Daniel Ives, Lukens Energy Group, June 16, 2004, to the Legislative Audit and Budget Committee and Senate Resources Committee at 30-34. The sponsor group is committed to following the pre-filing process.

provisions of the work commitment clause provide a relatively speedy process compared to the court option. The history of royalty and tax litigation in the courts teaches that when the courts face issues of major consequence their process is deliberate, slow and costly. This is inconsistent with moving the project forward. Penalty and damage provisions are also inconsistent with the teaching of IPA and inevitably invite major litigation.

Because of widespread public comment on work commitments, the State is prepared to propose a letter of credit forfeiture provision whereby what is, in effect, its unspent balance would accrue to the State's benefit if project sanction does not occur by the fifth year after the effective date. In addition, the State is prepared to propose a failure to reach project sanction by that time would be a presumptive failure of diligence.

This approach is somewhat different than the May 24, 2006 fiscal contract and could lead to the difficulties that IPA has outlined. But the approach may be feasible and is worth exploring.

ARTICLE 6: Alaska Hire and Content

APPENDIX E: Alaska Hire and Content

Recommendation: More work should be done to determine how to achieve the greatest amount of Alaska hire possible. Including the requirement of a project labor agreement could help in this regard – not enough discussion has taken place on why this requirement is not in the contract. More work should be done to determine the optimal level of job training the state and corporations need to provide to ensure the highest number of trained Alaskans are ready for work when planning and construction begin. Very little evidence has been presented that the current provisions are adequate, or will lead to the optimal level of job training needed to ensure that as

many Alaskans as practicable are hired on this project and that prevailing wages will not be undercut.

Answer: The Alaska Department of Labor and Workforce Development and the Alaska Workforce Investment Board (AWIB) recognized the need for a comprehensive workforce development plan for the construction industry in preparation for the Alaska gas pipeline project. Last year, the AWIB adopted a comprehensive construction industry workforce development plan entitled "Building Alaska's Construction Workforce." The report can be found at the following web link: http://www.labor.state.ak.us/awib/forms/awib-construction.pdf. Significant strides have already been taken to meet the goals set out in that plan. Please see Section 3.5.1 of the Alaska Hire Provisions in the Summary of Public Comment report that was released on Friday, October 20, for a complete discussion of the funding and programs that will implement the Alaska hire clause and other related issues. The State is proposing a new article in the contract requiring the parties to commence negotiations of a project labor agreement, which, subject to legal restrictions, should include provisions promoting the hiring of Alaska residents and establishing hiring halls in rural and urban Alaskan communities. Additionally, the State is proposing an article in the contract requiring the parties to enter into negotiations with the Canadian government concerning a cross-border labor agreement. The objective of the PLA should be to ensure that every qualified, ready and available Alaska has an opportunity to work on the project. To this end the State will not commit to a union or non-union only agreement and expects that whatever terms are negotiated are the same for all workers.

ARTICLE 7: State Ownership

Recommendation: Before committing to state ownership in a gasline project, the proposal should be analyzed for its impact on the state's credit rating. An in-depth analysis should also be done to establish that the economic benefits of even a minority interest substantially outweigh the risks to the state and its citizens. The current state ownership proposal provides for risks that outweigh benefits.

Answer: Part of the reason the State considers Alaska's gas to be "stranded" is that even after we take our gas in-kind, and thus align the Producers gas ownership with the firm transportation commitments they must make, this project is in the lower quartile for internal rate of return in terms of each company's alternative development projects. Thus taking our gas in-kind is a core element of this contract. The risk to the State is taking the gas in-kind. Taking an ownership interest in the gas pipeline is a way to hedge that risk.

Over a considerable period of time, the Administration has analyzed the risks of State ownership of a share in the pipeline, including the impact on the State's credit rating. *See, e.g.*, PFIF at 206-207, 243-245, 189-202. The State has very experienced financial advisers who presented independent advice on this subject. PFIF at 206-207. Ownership of a share of the project diversifies the State's investments, offers a good return on its investment, and gives the State an opportunity to participate in and influence the development of the project and the policies and practices it chooses. In addition, the draft LLC agreement gives the State an opportunity at the time of project sanction to withdraw from the project and be paid back for the entirety of its investment if it does not want to continue as an investor in the project because, for example, it feels the risks to it are unwarranted.

ARTICLE 8: Regulation of and Access to Project Facilities and Disposal Services

Recommendation: Rather than ceding away RCA authority, seek ways to increase their involvement in order to protect the state's interest and ensure fair access to the pipeline. Heed the concerns raised by the legislative consultants on this subject, incorporated by reference. Review and consider recommendations in the 2001 Alaska Highway Natural Gas Policy council report.

Answer: This comment shows a misunderstanding of both the effect of the contractual provisions concerning the RCA and the exclusive jurisdiction of the federal government over the authorization and operation of interstate gas pipeline systems. The RCA is not bound by the contract; it is excluded from the definition of State in the definitional provisions of the contract. Whatever jurisdiction the RCA might hypothetically have over some element of the contract is not modified or "ceded away." All who testified supported FERC jurisdiction over the product: Article 8 commits the parties to the contract to seeking and supporting such jurisdiction.

Federal regulation of interstate gas and oil pipelines is far different in scope. FERC does not authorize or control the construction or operation of interstate oil pipelines; it only regulates the rates for interstate oil movements. For oil pipelines, therefore, there is dual jurisdiction—the FERC sets interstate rates and the RCA sets intrastate rates. In those circumstances, a "joint board" is appropriate. Over interstate gas pipelines, it has long been established that the FERC has exclusive jurisdiction and the RCA or other State commission does not have authority to set the rates for natural gas that travels on such gas pipelines even if the gas stays within Alaska. Both rates are set by the FERC. See PFIF at.137-138. *California v. LoVaca Gathering Co.*, 379 US 366 (1965).. FERC also controls the terms of access. As

required by the Alaska Natural Gas Pipeline Act of 2004, the FERC has adopted an extensive set of open season regulations that control and ensure fair and equal access to an Alaska gas pipeline. The State cannot establish its own terms of access without conflicting with federal law. Any effort to do so would fail under the Supremacy Clause of the United States Constitution.

The Administration, working with the RCA, succeeded in obtaining provisions in ANGPA that (1) require the FERC to consult with the State about rates or rate settlements, and (2) confirm RCA jurisdiction over the rates and terms of an in-state lateral from the mainline. A right of way based fair access clause to attend to control access to an interstate gas pipeline would conflict with and be preempted by federal law.

You assert that "an independent pipeline company has far more incentive to maximize access both prior to construction and over the life of the project than the corporations." (sic) It is unclear what you mean by this. Whatever the ownership of the pipeline, access to an Alaska gas pipeline is controlled by the same set of special FERC rules. The incentive for all pipelines is to fill their pipe to capacity and not to have excess capacity because the cost of excess capacity is charged to the pipeline owners per FERC policy. If you are using access as short hand for expansion, we believe that Congress and the FERC have adopted expansion friendly requirements that apply regardless of ownership,[4] including FERC's new power to order expansion of this pipeline if a shipper petitions. The incentive that you assert is based on the view that a producer owned pipeline will forego profitable revenue, allegedly to protect its producing affiliates. This does not withstand economic analysis. See the answer to Specific

[4] The Administration negotiated a State initiated expansion to add to the array of expansion options. Some potential independent shippers objected to its term, indicating they would prefer to rely on either a voluntary expansion or the FERC's new mandatory expansion powers.

Contract Concerns, Anti-Trust Issues and Alternatives to a Producer Owned Gas Line at the end of this attachment. It also could violate FERC policies and regulations.

ARTICLE 9: In-State Markets

Recommendation: In conformance with the stranded gas act and in keeping with other nations' production sharing contracts, any fiscal contract should include a provision that ensures gas will be available for in-state use at a price that is fair to all parties, and that recognizes the state's interest, as a sovereign, to provide for local power needs. All Alaskans deserve to have affordable energy – access to the gasline would help many Alaska communities that are currently struggling under the burden of high fuel prices.

Answer: How gas will be provided to in-state users is a policy choice for the State as it markets the large amount of gas it will have under the fiscal contract. It is not a proper subject for a fiscal contract with the producers that is intended to provide a fiscal foundation for the gas that will advance the project. How the State sells its gas is not a matter for negotiation with the Producers and is not a proper subject for the fiscal contract.

The State will own approximately 20% of the gas, approximately 1 bcf per day, which is far more than any reasonable projection of likely in-state needs. Thus, the State will be in a position to provide gas to satisfy in-state needs and the Administration is announcing a policy to provide for those needs. A future administration will decide the precise terms, including the price, for sales of the State's own gas to in-state users consistent with the requirements of the Alaska Constitution about obtaining maximum value for the disposition of the State's resources. Given the large amount of gas that the State will control, the favorable FERC rulings on in-state rates, and the fiscal control provisions for off-take points and

interconnection, it would be superfluous and potentially costly for the State to negotiate a requirement for the Producers to supply gas at a predetermined price for in-state use. In addition, it should be kept in mind that the Producers may choose to sell gas for in-state users if any of them wishes.

ARTICLE 11: Fiscal Stability

EXHIBIT G: Amounts Payable to Political Subdivisions and State

Recommendation: The provisions that prevent future legislatures and voters from modifying or fixing problems in our oil and gas tax laws when the need for changes becomes evident, should be deleted. Locking in a tax rate that vastly shortchanges Alaskans is poor policy, and might render a contract unenforceable.

Answer: The Attorney General of Alaska has issued a formal opinion addressing the constitutional issues regarding the tax exemptions and fiscal stability provisions of the contract. As you recognize, it is to be expected that the Alaska Supreme Court will settle these issues. You cite the negative opinion of two former delegates to the constitutional convention, but the law is well established that the views of a few constitutional convention delegates nearly five decades after the fact are entitled to no legal weight. *See* July 31, 2006, Opinion of Attorney General David Marquez.

Since taxes are a fundamental economic "cost" to the sponsors of a project, the ultimate logic of your position is to not grant fiscal stability against tax changes which amounts to not granting fiscal stability to the project. How does that serve to advance the project? Fiscal stability, *i.e.*, knowing what their taxes will be over the term of the Contract, is a core element of a contract.

As discussed above, the Administration is prepared to propose amendments which both delay and shorten the locked-in period for the provisions that incorporate the new PPT legislation. Nonetheless, if the Legislature truly intended to provide fiscal stability for a gas project, then it must necessarily deal with the economic cost to the project of major tax provisions.

ARTICLE 12: Royalty Payments

Recommendation: Any provision regarding royalty gas should be negotiated so that at a minimum it meets the limitations imposed by the stranded gas act as it was enacted in 1998. The state should not concede to pay field costs or take responsibility for disposal of impurities in contradiction of most lease terms.

There are other options as well. In addition to the 1998 commercialization team's suggestion that the state take its royalty gas in-value, the 2001 Natural Gas Policy council provides several recommendations, including adopting a mixed portfolio of in-value and in-kind sales and enforcing the "higher of" clauses on natural gas royalty.[5]

More recently, Jim Eason, a legislative consultant, has suggested that the point of in-kind taking could be shifted from as far upstream as possible (and thus putting additional costs on the state), to a point as far downstream as possible. He suggests the AECO Hub in Alberta. Eason states,

The Participants would still have the certainty of the State's royalty and tax gas being available for whatever term is appropriate. The State would still be

[5] Council Report, page 39.

responsible for paying for the transportation of its share of costs in moving its gas to Alberta. It would not, however, have the increased risk and exposure that flows from the capacity management responsibilities of the current proposal, nor would it need an expanded bureaucracy and a host of consultants through the term of the ASGFC to manage the capacity of its royalty and tax gas sales.[6]

Eason also suggests that the state could make a commitment to leave its gas in-value for the same term as is currently proposed.

Answer: The proposed Contract does not negotiate away the State's right to receive royalty. In fact, what the Contract does is retain the state's full royalty share - and administration economies have demonstrated that the proposed contract retains the full value of that royalty share, after payments and costs under the contract are accounted for. What the Contract also does is provide the State with the best opportunity available to us to get a pipeline built as soon as possible, and as the best total cost possible.

The fact is that gas pipeline transportation is regulated by federal contract carriage regulations – not common carrier regulations. Because of this, the effect of gas pipeline regulations is very different from the affect of oil pipeline regulations, and our TAPS experience.

No major gas pipeline project is going to be built without long-term fixed financial commitments. The makers of those financial commitments will demand fixed shipping commitments to underwrite the financing of the pipeline construction. Those fixed shipping commitments coupled with the federal gas contract carriage regulations (in both the US and

[6] Memorandum, Jim Eason to Senator Therriault, June 3, 2006. Eason notes that this alternative would not address the reasonableness of other royalty-related changes that have been proposed.

Canada) effectively eliminate the opportunity to switch between taking royalty in-value and royalty in-kind.

The fact is that, despite our lease language, the opinions of the 2001 policy council and the 1998 commercialization team, and the advice given by the legislature's pipeline experts, under both United States and Canadian federal gas pipeline regulations, the State has no practical way to enjoy the benefits of royalty switching. The Legislature's pipeline consultants should have known that and they should have provided you with this information. The Administration negotiating team's acceptance of giving up royalty switching was largely an acknowledgement that federal gas pipeline regulations trump any rights provided by State leases or contracts. What we get in return is the best opportunity available to us to get a pipeline built as soon as possible, and as the best total cost possible.

The Administration also chose to take royalty in-kind over royalty in-value for several reasons. First taking royalty in-kind eliminates valuation battles with the Producers. This one area is the largest area of litigation between the State and Producers on the oil side and, if royalty gas was received in value, would be expected to become at least as contentious and costly on the gas side. This litigation cost of valuation issues is a major cost category which is eliminated by taking our gas in-kind. Second, although marketing of our own gas places a new cost burden upon the State and places us in competition with the Producer-marketers, taking our gas in-kind and doing our own marketing allows us to manage market risks in a manner which is to the best benefit to the State. It also gives the State greater control over use of gas for in-state needs and for development of in-state industries. Contract terms were also obtained which ensure a 'level playing field' for the State with respect to Producer information which will be relevant to effectively marketing our gas. Finally, to be conservative, an extremely heavy cost burden for

developing and running a marketing organization was included in the analysis of the project's economics.

It is critical to remember that the Administration included all of these various costs related to contract terms in the economics, and did not include likely cost benefits such as reduced litigation and the ability to add value with a marketing organization. Nevertheless, economics show that, under the proposed contract, the State retains the royalty and tax value calculated in the assumed status quo world – plus we obtain our best opportunity to get a pipeline built as soon as possible and at reasonable cost.

ARTICLE 13: Tax Bearing Gas Payment

Recommendation: In the context of the proposed contract, the state should not contract away its right to impose a natural gas production tax, nor should it assume the costs of selling, marketing and transporting the gas.

Answer: As noted above, there is an inherent conflict between the idea that fiscal certainty on economic fundamentals is beneficial to advancing the project and the idea that the State should be free to change one of those economic fundamentals at any time it chooses to in the future. In the last legislative session and after two special sessions the State enacted a comprehensive revision of the production tax. Locking in that modern production tax law in order to provide fiscal stability to the sponsors of the project is a reasonable policy choice.

Nonetheless, because the new law provides that the legislature may take another look at the law by 2011, the State is prepared to propose legislative amendments that would defer the start of fiscal stability on the PPT related provisions until the completion of the legislative session in 2011 or the FERC application date, whichever is later, and is also prepared to shorten

the proposed period of fiscal stability. It is not prepared to dispense with the concept of fiscal stability with respect to the PPT as you appear to suggest.

You object also to the State assuming the costs of selling, marketing and transporting the gas. The PFIF, in Sections 6.3.1, 6.3.2 and 8.2.3.4, provides extended discussions of market risks and the options available to the State to market our gas. By taking its gas directly and assuming the responsibility for marketing it, the State reduces the risk and advances the prospect for the project. Once the State takes responsibility for the sale of its gas, it must necessarily make arrangements either directly or through an agent for the marketing and transportation of its gas. It should be note that an advantage of this is that the State will not receive its value derivatively from how the producers market their gas, thereby avoiding years of costly litigation over whether their marketing efforts produced the right "value" for State owned gas.

Finally, your comments pessimistically assume that the State cannot manage the marketing of its natural resources. Today the State takes about half of its royalty oil in kind and markets it to oil refineries located in-state. If the same assumption had been applied to the Permanent Fund, its only investments would be bank savings accounts or government bonds. In fact, the Permanent Fund has used professional advisers to invested in a diversified portfolio of assets with very successful long-term results. The State has the same opportunity to successfully manage its gas assets.

ARTICLE 14: Payment in Lieu of Production Taxes

EXHBITS P, O, R, X, and Y

Recommendation: The legislature should not agree to the proposed amendments to the stranded gas act or the administration's proposed tax changes; nor should the administration include changes to the oil tax structure as part of the gasline contract.

Answer: The Legislature has enacted into law a major restructuring of the petroleum production tax consistent with the proposals of the administration. Any objections to it passage are therefore moot. We agree that the legislature should carefully consider the fiscal contract and related documents that have been presented to it. We believe the Legislature should enact the package of amendments that is necessary to carry forward the fiscal contract and thereby advance the Alaska natural gas pipeline project. Because Alaska simply must transition to a gas based economy by 2016 as oil production continues its decline, and because a gas pipeline project will take eight to ten years to come to fruition, and because the markets for Alaska natural gas may erode in favor of other supplies, there is not much time to get a contract authorized and executed. The greatest risk to Alaska is not a producer owned project but not getting a gas line at all. See Letter of Commissioner William Corbus to Senator Thomas H. Wagoner, September 27, 2006, at 5.

Whether to give fiscal stability for oil as well as gas was fiercely and repeatedly argued during the fiscal contract negotiations. At first the State refused to consider fiscal stability for both oil and gas. As part of the process that led to the contract, however, the Administration concluded that this presented an opportunity to achieve a much needed revision and modernization of Alaska's production tax with a considerable increase on the taxes that the

producers would pay. In light of that, the Administration determine that it was reasonable to grant fiscal certainty to oil as well as gas so as to secure broadly fiscal stability for all the State factors that might influence the major economics of the project.

ARTICLE 22: Payment of Fiscal Obligations

Recommendation: All provisions regarding state fiscal obligations should be revisited to limit the state's liability as much as possible. The option for the corporations to recoup or offset an amount due from the state with royalty or tax gas taken in-kind should not be permitted.

Answer: As previously stated, taking the State gas in-kind is a core element of the Contract, *i.e.*, unless we do so there will be no gas pipeline. By taking royalty gas in kind and taking tax payments in gas, the State will assume responsibility for the successful commercial marketing of its gas. In that context, the State will have to act responsibly in the payment of the standard commercial obligations it incurs, including some payments related to production, processing and shipping costs. The provisions referenced have been developed as reasonable ways for the State to satisfy obligations related to the State's new commercial responsibilities.

ARTICLE 23: Point Thomson

Recommendation: Maintain state control over development of Point Thomson. It is worth investigating whether other developers are interested in the lease tracts and whether development would occur faster than relying on the current leaseholders.

Answer: First, let us provide you with an update on the status of the Point Thomson Unit:

Historically, continuance of the PTU and its leases has, until the latter half of 2005, been with the concurrence of commissioners of natural resources of several administrations of varied political perspectives. The companies have invested significant amounts of money over several decades in exploring this acreage and in addressing major technical issues. In recognition of those facts, each of these administrations has been a party to extending these leasehold interests.

Under the amended DNR decision of October 27, 2005 the PTU Agreement was declared in default. That decision did not call for the return of the PTU leases to the state, but it did call for "a plan to bring the PTU into commercial production within a reasonable time frame" and provided dates for initiation of development operations, commencement of drilling, and commencement of production. Since those deliberations have now ended, the companies are back to dealing directly with DNR to develop an acceptable POD which will lead to field development.

On September 8, 2006, the Commissioner of the Department of Natural Resources issued a final extension of time to submit a cure to the October 27, 2005 decision placing the unit in default. That cure, with all supporting documentation, was required to be submitted to DNR no later than October 20, 2006. In addition, any party wishing to submit an appeal on the subject must submit all appeal documentation to the DNR offices by November 3, 2006. The commissioner of natural resources will hold an appeal hearing on November 13, 2006. Any decision concerning the cure and any appeals will be made by the commissioner of natural resources subsequent to the November 13 hearing.

To respond to your concern:

The PTU reserves and gas deliveries will play an integral part in the proposed gas pipeline project. The contract provisions concerning PTU provide a specific context for its development. The contract provides for a PTU development schedule which is consistent with and which supports development of the mainline.

Without a gas pipeline much of the vast amount of value to the state represented by PTU will never be realized. The contract is based on setting the conditions necessary to get a gas pipeline built. Without a gas pipeline the only value to the state resides in the portion of the liquids produced from the reservoir which can be transported to market through TAPS, or which can otherwise be used on the North Slope. TAPS can transport only a limited portion of the lighter liquids due to vapor pressure concerns in the pipeline and downstream. This being the case any statements made to the effect of value lost or received must take into consideration what conditions are necessary to get a gas pipeline built, the limitations of the existing oil infrastructure as it affects PTU liquids development, the investments (in which the state will share under the PPT) required to overcome those limitations, and the highly challenging technical demands and uncertainties associated with developing the Thomson Sand Reservoir in a save and environmentally sound manner.

The contract imposes specific requirements upon the producers with respect to development of the PTU:

- Each producer must commit PTU gas reserves to the project; and
- The producers must apply to the AOGCC within 6 months for issuance of pool rules.
- The contract requirement that the gas pipeline project be pursued "with diligence" applies to PTU development, as well as the rest of the mainline.

If any of the above requirements is not met, or if the contract is terminated for any reason the producers' rights to Point Thomson expansion leases terminate unless they initiate alternative development of the PTU within one year of the contract termination. In addition, DNR can also pursue other steps, including termination of the unit, and initiating procedures to revoke the leases.

Finally, nine months after startup of the mainline, obligations to DNR Plans of Development resume which will allow DNR to maintain to management oversight of PTU oil and gas development.

You also suggest investigating whether other developers are interested in the least tracts and whether development would occur faster than relying on the current lease holders. This is certainly worth consideration in the current circumstance, and was undoubtedly a consideration as prior directors and commissioners approved plans of development for PTU. Certainly other developers would be interested in these tracts. Just as certainly, the bulk of definitive information about Point Thomson is confidential, held only by the current lease holders and the Division of Oil and Gas' Resource Evaluation group. Even once the data was made available to a new entity, a significant amount of time would be needed for that new entity to "get their arms around the problem." The technical and economic challenges to PTU development raised by the current leaseholders are certainly better understood by them, than by any other entity. In addition, that set of major leaseholders represent some of the most technically competent companies in the world – a group in many ways, best able to conquer the technical and economic challenges of PTU as quickly as any entity or group of entities in the world. In fact, these companies have already spent an enormous amount of money attempting to monetize Point Thomson, as well as Alaska's other ANS gas resources. On the other hand, these

same companies have held for many years leasehold commitments to the state, which the state has continued to protect via unitization. Those leasehold commitments exist via contract, and the state has the right to enforce our lease contract rights with these as well as any other leaseholders, in order to maximize the value of the state's assets for all Alaskans.

ARTICLE 26: Mandatory Dispute Resolution

Recommendation: Maintain the option of dispute resolution, but continue the ability of the state to settle disputes through the court system, under established legal rules.

Answer: Arbitration to resolve disputes is widely employed in both domestic and international contracts. It also has been included in all of the State's royalty settlement agreements as preferable to litigation and the State has achieved success in the case where it has been used. One reason favoring the choice of arbitration is that disputes over royalty valuation and taxes have taken decades to resolve at great cost and without a finally litigated result in any major case. Because the State is taking royalty gas in kind and tax payments in gas and marketing the gas itself, there simply should not be the type of costly, long duration, large scale valuation disputes that arose when the value of the State's royalty oil and tax payments was derivative of the amount for which the Producers said they sold it. Leaving dispute resolution as an option would add an element of uncertainty to the contract and could lead to gaming in the choice of what means would apply to any given dispute.

ARTICLE 28: Administrative Termination

Recommendation: The administrative termination provisions should comply with the requirements of the stranded gas act.

Answer: The contract reshapes the administrative termination provisions consistent with the separate termination remedies provided in the work commitments clause and the overall dispute resolution provisions. The revisions avoid overlapping termination remedies. It was neither illegal nor improper for the Administration to negotiate a contract that contemplated legislative changes to the Stranded Gas Act.[7]

ARTICLE 35: Force Majeure

Recommendation: As discussed under Article 1, narrowly define "force majeure." Also, make provision for continued payment of fiscal obligations to the state during force majeure events.

Answer: Your concerns regarding the scope of the "force majeure" clause have been fully answered in the discussion of the same point in Article 1 above. You suggest also that the payments of fiscal obligations should continue during periods of force majeure. If oil or gas flows are interrupted, the related fiscal obligations are suspended proportionately. That is entirely logical and what happens in fact. If less oil or gas flows, less oil or gas is sold and the amount of SCIT or PPT related income is reduced accordingly. Generally speaking, the State cannot tax income or receive payments in lieu of taxes on income that does not exist as your comments would suggest. Impact payment may also be suspended but cannot be suspended until one year after a force majeure notice. *See* Article 18.3.

[7] See the letter of Attorney General David Marquez to former Commissioner of Natural Resources Tom Irwin, October 27, 2005.

ARTICLE 40: Representations and Warranties

Recommendation: As discussed under the definition section, the parent corporations must also be signatories to a contract along with the subsidiary corporations in order to guarantee the contract provisions will be fulfilled.

Answer: This is a repetition of a point made and answered earlier.

ARTICLE 41: Relationship to Law and Other Agreements

Recommendation: The state should not cede its sovereign authority to regulate corporate activities on the gas pipeline project.

Answer: The intent of Article 41.2 is to clarify the relationship between provisions of the contract and other agreements, leases, regulations, rules and other legal documents. Article 41.2 directs the parties down a path towards reconciling the contract and prior legal arrangements but in the event reconciliation is not reached, says that the contract provisions govern between the parties. This is no more a surrender of sovereign power than in any other case where the State revises a regulation, order or rule after industry input or revises a lease or contract by agreement with the other party to the contract. Also, for the contract to become effective, the legislature will have authorized this provision as well.

OTHER ISSUES:

INDEMNIFICATION PROVISIONS

Recommendation: If indemnification is provided, a contract's indemnification provisions should comport with the policies set out in the Attorney General's Opinion #661-05-0132. Indemnification should not be used to undermine the voter's right to adopt an initiative.

Answer: The Attorney General has reviewed the contract's indemnification provisions and has concluded that they comply with the policies set out in prior opinions on this subject. Amendments will be proposed that confirm that payment of any indemnification award is dependent on legislative appropriation and cannot be separately enforced in court as these opinions require. The concerns about the Reserve Tax were addressed in answer to Article I above.

ANTI-TRUST ISSUES

Recommendation: An independent pipeline is the preferred option form a competitive perspective. If the state does decide to go forward with the producer-owned pipeline, there have been several suggestions put forward by the legislative consultants including a partial divesture to an independent pipeline, or establishment of an independent system operator, with the power to require expansions and creation of an independent market monitor. A producer-owned pipeline brings the need for contract terms that would safeguard against anti-competitive behavior by the producers.

Answer: The assertion that competitive concerns favor an independent pipeline is unproven. You suggest that a producer owned pipeline would have the ability to raise rates to supra

competitive levels. This statement ignores the fact that the same regulatory requirements apply to setting rates for a pipeline whatever its ownership. Research provided to the Legislative Budget and Audit Committee and Senate Resource Committee on June 14, 2004, Gas Pipeline Restructuring at the Federal Energy Regulatory Commission by Morrison & Foerster shows the difference between producer owned and independently owned pipelines. See the same at 27-29. Further, from a theoretical standpoint, an independent pipeline has only one objective--to seek to maximize its rates--because that produces the most profit. A pipeline with affiliated shippers has conflicting incentives because higher tariffs reduce the profit from the affiliated gas sales.[8] These differing incentives put pressure on the producer owned pipeline to keep rates down. Thus, your description of the consequences of producer ownership is exactly backwards.

Your preference for an independent pipeline flies in the face of reality. President Carter made a decision in 1979 that excluded North Slope producers from ownership and failed in his effort to realize a gas pipeline. Indeed, the federal government had to retreat from that decision because the equity participation of the producers was needed to finance the project. Today, the commitment of the producers to FT agreements that financially underpin any pipeline are needed for any project because, after all is said and done, they have the lease rights to more than ninety per cent of the known gas. The fastest way to secure a pipeline is to reach agreement with them. Your preference for an independent pipeline, or for a new solicitation for an independent pipeline, must face the hard reality that the producers have the gas and they prefer to ship their gas on a pipeline that they own. Any other project must devise a scheme for taking the gas away from the Producers and that is a recipe for litigation and delay, and ultimately for

[8] One exception to this might be cases like TAPS where higher rates serve to lower taxes and royalties. But the exception does not apply here because the State is taking its royalty in kind and also receiving tax payments in gas

failure. Indeed, in a letter to Governor Murkowski dated July 13, 2006, TransCanada Chief Executive officer, Hal Kvisle, said:

> ". . . TransCanada has consistently advised your Administration to be wary of independent pipeline proposals that would seek to develop a pipeline without the agreement and support of the ANS producers."

Both the analysis and the remedies suggested by the legislative consultants on antitrust issues are flawed. These issues are fully addressed in, and we refer you to, the legal memoranda of Morrison and Foerster on antitrust issues that were attached to the PFIF and the more recent October 19, 2006 Memorandum of Morrison and Foerster "Alaska Natural Gas Pipeline - Producer Owned Pipeline Project" as well in presentations on "basin control" and related issues during the legislative hearings. For example, the FERC has never required a natural gas pipeline to transfer control of its facilities to an independent operator, a point that Greenberg Traurig concedes. Nor does the Greenberg Traurig memo explain why such a radical remedy is either necessary or desirable, or and why conventional regulation, e.g., the open season and affiliate rules, is insufficient to keep the Producer-owners' conduct under control. Greenberg Traurig suggestion of a partial divestiture is also unjustified and unprecedented. Their memo fails to cite any case in the entire energy sector to support their contention that the FTC would act in such a manner. Nor is it likely that the FERC would conclude that the regulatory structure it has used to ensure access to gas pipelines in the lower 48, let alone the more detailed requirements applicable in Alaska, would fail to protect shippers on the gas pipeline.

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and directly marketing the combined royalty and tax gas. As a consequence, there are no royalty or tax "savings" for the producers by attempting to keep rates high.

There has been exhaustive testimony by FERC representatives and by the State's counsel and others about the array of tools that FERC has to control anticompetitive behavior, including its recent open season regulations, its anti-affiliate preference requirements, its non-discrimination policies and the new sanctions it was given by the Energy Policy Act of 2005, which include penalties of up to $1 million a day for violations of its regulations and orders. Overbroad statements about a producer owned pipeline's ability to take actions that are counter to these policies ignore the careful presentations that have addressed the legal remedies and constraints that are applicable.

ALTERNATIVES TO A PRODUCER-OWNED GASLINE

Recommendation: As part of the public and legislative review, the administration should prepare a comparative analysis of the proposed contract with other qualified proposals, and present negotiated proposals from independent pipeline operators to the legislature for a vote.

Answer: The Preliminary Fiscal Interest Finding presented a comparison of the proposed contract with the LNG option and the Y-line option. See PFIF at 179-183. As for qualified projects, the Port Authority proposal is not a qualified project under the SGDA. It failed to complete the process required to qualify. See PFIF at 184. Mid-American Energy Holdings and its affiliate withdrew its application under the SGDA and they therefore do not have a qualified project. See PFIF at 188. Trans-Canada did qualify under the SGDA process, see PFIF at 186, but by letter of July 13 supported a producer project within the context of the fiscal contract as the right approach to an Alaska gas pipeline. It should be noted that today only a producer sponsored project presents the complete package needed for an Alaska gas pipeline. This is a result of the reality that the producers have lease rights to the known gas reserves that underpin

the project. Other pipeline proposals may be advanced but none can be complete without access to, and the support of, the producers as owners of the gas.[9]

[9] The wisdom of completing negotiations for other proposals, by definition incomplete, is debatable. It also would call for deployment of costly resources by both the State and sponsors of other projects.

MEMORANDUM

TO: State of Alaska COPIES: Robert H. Loeffler

FROM: Bradley S. Lui
Roger W. Fones
Jeny M. Marcinko[1]

DATE: October 20, 2006 FILE: 08083/93

RE: Alaska Natural Gas Pipeline - Producer Owned Pipeline Project

This memo addresses arguments raised in an April 22, 2006 memorandum from Kenneth M. Minesinger and Cecil Chung of the Greenberg Traurig law firm to Senator Therriault, Representative Samuels and others ("Greenberg Traurig" or "Memo"). The Memo is entitled "Competitive Analysis of Producer-Owned Alaska Natural Gas Pipeline," and argues that potential competitive issues might arise if the three largest owners of the proven natural gas reserves on the North Slope, *i.e.* BP, ConocoPhillips, and ExxonMobil (individually, a "Producer" and collectively, the "Producers") were to build, own and operate a pipeline to transport natural gas from the North Slope to Canada and ultimately to the lower 48 states (the "Gas Pipeline"). The Memo contends that (1) in 1977, the U.S. Attorney General identified potential competitive concerns with Producer ownership of a Gas Pipeline; (2) the risks presented by these competitive issues continue to exist today, and (3) consideration of these issues will cause significant delays in any proceedings regarding whether to approve a Producer-owned Gas Pipeline.

Contrary to conclusions reached by Greenberg Traurig, Producer ownership of the Gas Pipeline does not raise significant competitive concerns. As the Memo acknowledges, joint ownership by the Producers does not by its nature violate the antitrust laws. Moreover, because the Producer-owners lack downstream market power, a Producer-owned pipeline has no incentive to discriminate against third party shippers. Even if the Producers did possess downstream market power, the requirements of the Alaska Natural Gas Pipeline Act as well as the FERC regulations implementing that Act provide sufficient safeguards to prevent the Producers from operating the pipeline in an anticompetitive manner. Under these conditions, Producer joint ownership does not create significant antitrust issues.

I. Producer Ownership of the Gas Pipeline Would Not Violate the Antitrust Laws

A. Producer Ownership Will Not Reduce Existing or Potential Competition Among the Owners

[1] Brad Lui and Roger Fones are partners, and Jeny Marcinko is an associate, in the antitrust practice group of Morrison and Foerster. Mr. Fones was Chief of the Transportation, Energy & Agriculture Section of the Antitrust Division from 1993-2005. Mr.Lui was a trial attorney in the Antitrust Division before joining Morrison and Foerster.

Under Section 7 of the Clayton Act, 15 U.S.C. § 18 and Section 1 of the Sherman Act, 15 U.S.C. § 1, the formation of a joint venture is unlawful only if the effect of the transaction is to lessen competition substantially in one or more relevant markets. This analysis is performed by evaluating the markets in which the parties compete, their market shares, and the likelihood that their collaboration would lessen competition in those markets.[2]

Under the legal standards of the Clayton and Sherman Acts, a Producer-owned pipeline is not likely to reduce competition substantially in any relevant market.[3] A Producer-owned pipeline would only increase competition in the market for transportation of natural gas because none of the North Slope's gas reserves are currently being transported to consumers in the lower 48 states. The increase in the overall supply of gas into the lower 48 will increase – not decrease – the level of competition for the downstream sale of gas above what existed *ex ante*. Likewise, there would be no reduction in competition in the exploration and production of North Slope gas. Indeed, incentives for competition in the exploration and production of North Slope gas should be enhanced since the product of that exploration and production will be able to reach consumers in the lower 48 States. For these reasons, the formation of the joint venture by the Producers to build and operate the Gas Pipeline would not violate the antitrust laws.[4]

B. Producer Ownership Will Not Lead to Lessened Competition, Higher Tariffs, or Reduced Throughput in the Transportation of North Slope Natural Gas, as Compared to an Independent Pipeline.

Any natural gas pipeline for North Slope gas must be authorized by the FERC pursuant to the Alaska Natural Gas Pipeline Act (the "Gas Pipeline Act"). As Greenberg Traurig acknowledges, there will be only one Gas Pipeline built.[5] Thus, regardless of ownership, the Gas Pipeline will have a monopoly over transportation from the North Slope. Accordingly, the Gas Pipeline's tariffs, capacity, and access will all be regulated by FERC, which will protect non-affiliated shippers against unreasonably high tariffs and limited access.

II. A Producer-Owned Pipeline Is Unlikely to Impose Anticompetitive Vertical Restraints

A. Vertical Integration Is Not Inherently Suspect Under the Antitrust Laws.

The Greenberg Traurig Memo correctly notes (at 8) that most vertical mergers do not raise competitive concerns. The Memo also implicitly acknowledges that the Producers' proposal is not a merger, but nevertheless proceeds with a discussion based on the following premise: "[T]he Alaska pipeline had already been built and then acquired" by the Producers.

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[2] A more detailed explanation of the three-step analysis involved in evaluating the lawfulness of the joint venture is contained in the previous memorandum from Morrison & Foerster to the State of Alaska, dated March 11, 2005.

[3] The bases for these conclusions are discussed in detail in the March 11, 2005 Morrison & Foerster memorandum on page 5.

[4] The Greenberg Traurig Memo concedes this point on page 6 ("the formation of the joint venture would generally be lawful").

[5] It is extremely unlikely that any of the individual Producers would be in the position to build its own pipeline (separate from the proposed pipeline). Therefore, the fact that the Producers are collaborating in building the pipeline does not reduce potential competition in the transportation of gas from the North Slope.

The Memo then embarks on a lengthy discussion of vertical merger precedents at FTC, DOJ and FERC. This merger discussion is largely irrelevant because it fails to analyze the situation at hand: A proposal to vertically integrate by internal expansion (new construction). We are aware of no challenges by any competition agency to a proposal to vertically integrate by internal expansion, and the Memo cites none.[6] It is clear that there could be no antitrust challenge to the construction of a Producer-owned pipeline because there is no existing competition to be reduced – there is, as yet, no pipeline. Even if it were proper legal analysis to hypothesize an existing pipeline and subsequent acquisition by the Producers, no significant competition concerns would be presented, as explained below.

B. A Producer-Owned Pipeline Would Not Have Significant Incentives to Act in an Anticompetitive Manner Towards Third Party Shippers.

Greenberg Traurig alleges that the Producers would have the incentive to use the pipeline in anticompetitive ways in order to discriminate against rival third party shippers. This argument is necessarily based on the premise that the Producers have market power over natural gas prices in the lower 48 states, and therefore, have an incentive to restrict third party throughput, but that an independent, non-integrated pipeline owner would not. The Memo argues that the Producers would want to restrict third party throughput in order to maintain supra-competitive natural gas prices in the lower 48 States. The premise is demonstrably false, however, because the Producers do not have market power in any downstream market for the sale of natural gas. According to the Lukens Energy Group, the Producers' projected shares of natural gas sales in the lower 48 states in 2015 (when the pipeline comes on line) are: 7.9% for ExxonMobil, 7.3% for BP, and 5.8% for ConocoPhillips.[7]

Because of their small shares of downstream natural gas sales, the Producers lack market power. Thus, any actions that the Producers might take to reduce their rivals' throughput on the Gas Pipeline would not affect the price of natural gas to customers in the lower 48 states. On the other hand, by restricting throughput from third party shipments, the Producers would forgo a return on those third party shipments as well as the ability to spread the fixed costs of the Gas Pipeline over greater volume.

Greenberg Traurig goes on to also argue, however, that the relevant market for antitrust purposes might not be the lower 48 states as a whole, but rather that relevant gas markets might be localized at certain locations – suggesting as possibilities both Chicago and other unidentified

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[6] In theory, the individual Producers could offer competing proposals to build the only pipeline, but no one has suggested that this loss of "engineering rivalry" is a concern.

[7] These are "equity shares," that is, shares of natural gas sales actually owned or under long term lease by the seller. Equity shares are the best measure for these purposes because brokers do not benefit from supra-competitive prices for gas owned by third parties.

Greenberg Traurig relies on higher shares calculated by attributing to the Producers sales they made as agents on behalf of other, third party owners (Memo at 3). It is not economically correct to inflate and then aggregate the shares of rivals in this way. Even when this incorrect approach is taken, the Memo barely elevates the market shares to the 35% threshold at which the DOJ and FTC Merger Guidelines recognize there may be an issue of market power for sellers of undifferentiated products, such as sellers of natural gas. *See* US Department of Justice and the Federal Trade Commission, Horizontal Merger Guidelines, § 2.22.

"Mid-Continent" areas. (Memo at 13). Even assuming that a local Chicago market for natural gas could be properly defined as a relevant market for antitrust analysis, the Producers would not have market power in that market.[8] For gas sold and transported on pipelines to the Chicago hub, the combined share of inbound pipeline capacity held by the North Slope Producers is less than 6% of the total, with BP being the largest with 3.13%.[9] Either individually or collectively, the market shares held by the Producers at pipeline hubs such as Chicago are simply too small to permit the exercise of market power.[10]

Even assuming – contrary to fact – that the Producers would have market power over the price of natural gas in the lower 48 states, or any smaller area, FERC regulations would constrain them from using their control of the pipeline to increase prices to natural gas customers. As will be discussed further in Part D below, FERC regulations prevent anticompetitive conduct by pipeline owners by requiring the Alaska gas pipeline to provide open and non-discriminatory access, tariffs, and services to all shippers, to increase capacity if demanded by shippers that genuinely need it, and to separate gas marketing from pipeline functions. Therefore, absent FERC's abdication of its regulatory power, which the Memo does not suggest would occur, the Producers could not use the pipeline in an anticompetitive manner, even if they wanted to do so.

C. The Producers Would Have the Same Incentive to Solicit Third Party Shippers to Ship on the Gas Pipeline as an Independent Owner.

Greenberg Traurig argues that a Producer-owned pipeline would not have the same incentives to increase throughput by third party shippers as an independent owner would. This is not correct. As owners of the Gas Pipeline, the Producers clearly would have an incentive to encourage third party shipments on the pipeline. By increasing throughput, the Producers will not only earn a return on the third party shipments, but also spread the fixed costs of pipeline operation over a greater amount of gas, thereby reducing shipping costs for the Producers' production affiliates. Increasing throughput increases efficiency, reduces average shipping costs, and, subject to any regulatory constraints, results in more profit to the owners. Because allowing

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[8] The proposed pipeline's gas could be routed to Chicago via Alberta.

[9] Because data on equity sales of gas at the Chicago hub is not available, we are using pipeline capacity shares calculated by the Lukens Energy Group as a proxy for equity sales shares. The market share of each of the Producers represents the ratio of firm capacity held by the Producer to the total contracted firm capacity for all of the pipelines transporting gas into the Chicago hub. Since the capacity may be used to transport remarketed gas, the capacity shares likely overstate the equity sales shares of the companies.

Pipeline capacity shares can also be meaningful in and of themselves. If the Producers attempted to restrict Alaska natural gas deliveries into the hub, there would be numerous competing owners of pipeline capacity serving that hub that could (and would) use their capacity to increase the supply of competing gas through the hub. Therefore, unless the Producers had such a significant share of the pipeline capacity at the hubs to "crowd out" virtually all competing sellers of gas, they would not have the ability to affect the price of gas at the hub.

[10] Greenberg Traurig identifies no other "Mid-Continent" hubs about which to be concerned. Because the volume of North Slope gas delivered at any downstream hub in the United States beyond Chicago would only diminish, there is no reason to believe the Producers would have a share "in other Mid-Continent areas" large enough to confer market power.

Even if we examine Producer shares further upstream from Chicago at Alberta, the shares are not significantly higher. According to the Lukens Energy Group, the combined Producer share of outbound pipeline capacity at Alberta is less than ten percent, with BP having 6.4%.

increased amounts of third party shipments is profitable to any pipeline owner – Producer or independent – the incentive to allow third party shipments is strong for both types of owners.

The Memo nevertheless constructs speculative theories of exclusionary conduct by the Producers. A necessary (but not sufficient) predicate for any theory of exclusionary conduct is that the pipeline owner(s) have significant market power in a relevant downstream market for natural gas. As noted in Part II.A above, the Producers have much too small a share of the owned (equity) natural gas in the lower 48 to affect price. But even if the Producers somehow acquired some ability to affect price in the lower 48 by reducing third party throughput, the increased profits from the higher gas prices hypothesized from such a strategy would have to (1) exceed the foregone profits from the throughput tariff revenues third parties would have paid, and (2) escape FERC detection and remedies under its open access regulations. Given the strong incentive to encourage third party shipments on the pipeline, there is no reason to believe the first condition would be met. As explained below, it is also unlikely that the second condition would be met.

D. The Gas Pipeline Act and the Open Season Regulations Ensure That a Producer-Owned Pipeline Would Not Have the Ability to Discriminate Against Rivals.

Greenberg Traurig relies heavily on the Attorney General's 1977 report to President Carter identifying potential competitive concerns relating to a producer-owned pipeline.[11] The report concluded that producer-ownership of the pipeline would create incentives to deny or impede future capacity expansion. Both the structure of the natural gas industry and the applicable regulatory regime have changed significantly since the 1977 report. FERC now requires that a company's transportation affiliate operate independently of the company's marketing affiliate. 18 C.F.R. § 358.4 (2005). Additionally, the FERC regulations require that the Alaska Gas Pipeline hold open seasons in order to provide all shippers an equal opportunity to bid for pipeline capacity. *See* Regulations Governing the Conduct of Open Seasons for Alaska Natural Gas Transportation Projects, 70 Fed. Reg. 8269 (Feb. 18, 2005), Order No. 2005, Docket No. RM05-1-000, (to be codified at 18 C.F.R. pt. 157) (the "Open Season Regulations").

The Gas Pipeline Act, the Open Season Regulations, and the FERC Standards of Conduct all contain provisions designed to prevent the owners of the Gas Pipeline from using the pipeline for anticompetitive purposes. The Open Season Regulations ensure that FERC can and will take action to preserve competition. In Order 2005, the Commission explained that it was "imposing strict requirements on all proposals . . . to ensure that there is a level playing field. As we discuss below, we will require applicants for an Alaska pipeline project to provide detailed information as to project design, how capacity is to be allocated, and proposed rates, terms and conditions. This will allow us to be in a position to monitor whether competition for capacity is fair." 110 FERC ¶ 61,095 at Paragraph 12 (2005).

Even assuming that the Producers had market power downstream, the application process at FERC for a certificate of public convenience and necessity would alleviate concerns that the

[11] The end result of that report was a condition in President Carter's Decision prohibiting the producers from equity ownership. This proved unworkable and the condition was removed in 1981.

Producers would build a purposefully undersized Gas Pipeline in order to prevent third party shippers from competing with them in the downstream market for the sale of gas. In considering any certificate application, "the Commission will consider the extent to which a proposed project has been designed to accommodate the needs of shippers who have made conforming bids during open season, as well as the extent to which the project can accommodate low-cost expansion, and may require changes in project design necessary to promote competition and offer a reasonable opportunity for access to the project." 18 C.F.R. § 157.37 (2005). Moreover, the Open Season Regulations and Order 2005 demonstrate that the Commission will enforce its requirements that a Gas Pipeline be designed in order to accommodate all shippers who make genuine bids for capacity. Furthermore, a third party shipper can bring a complaint at the Commission about the Producers' proposal if the shipper believes that the Producers are proposing to build a Gas Pipeline that has insufficient capacity, and it may seek Commission action to address its concern.

Even after the construction of Gas Pipeline, there should not be any substantial concern that the Producer-owners of the Gas Pipeline have the ability to "crowd out" third party shippers or refuse to expand the capacity of the Gas Pipeline for anticompetitive reasons. Section 105(a) of the Gas Pipeline Act gives FERC the authority to "order the expansion of the Alaska natural gas project if the Commission determines that such expansion is required by the present and future public convenience and necessity." Consequently, if a third party shipper believes that the Gas Pipeline has impermissibly refused to increase its capacity, it can seek relief from the Commission.

Moreover, the Natural Gas Act's antidiscrimination provisions and the Standards of Conduct regulations would preclude efforts by the Producers to favor their shipping affiliates to the detriment of third party shippers. Under the Natural Gas Act, a gas pipeline may not grant any "undue preference or advantage" to any shipper, subject any shipper to "undue prejudice or disadvantage," or "maintain any unreasonable differences in rates, charges, service, facilities or in any other respect." 15 U.S.C. § 717c (b). Similarly, under FERC's Standards of Conduct, a gas pipeline "must treat all transmission customers, affiliated and non-affiliated, on a nondiscriminatory basis, and must not operate its transmission system to preferentially benefit an Energy Affiliate." 18 C.F.R. § 358.2(b). Consequently, the Producer-owners can not discriminate in favor of their own production (shipping) affiliates in order to give them a competitive advantage over a third party shipper.

III. The Potential Remedies Proposed by Greenberg Traurig Are Neither Likely Nor Feasible.

Despite the lack of a tangible antitrust concern, and the presence of extensive open access regulation by FERC, regulations, the Memo maintains that there is a chance that FERC would choose to go beyond its comprehensive regulations and impose additional remedies on a Producer-owned Gas Pipeline. Based on this possibility, the Memo asserts that a Producer-owned pipeline would face burdensome and time-consuming regulatory hurdles that an

independent pipeline could avoid.[12] The Memo asserts that potential remedies include divestiture, establishment of an independent system operator, or imposition of a market monitor. However, given the existence of pervasive agency regulation, the probability that remedies such as these would be instituted by either the FERC or the FTC is extremely low. With respect to potential FTC action, Greenberg Traurig cites no support for the proposition that vertical integration through internal expansion would raise antitrust concerns at the FTC. The Memo instead offers three FTC cases (at 8) in support of its conclusions. None of these FTC cases, however, involved situations where the parties had vertically integrated through internal expansion, and are therefore not instructive here.

Greenberg Traurig suggests that the Producers may be required to sever their relationships with both their upstream and downstream affiliates through some sort of divestiture, resulting in an entity that only holds the ownership of the pipeline (even though the initial funding and personnel for the entity would come from the Producers). In support of this position, the Memo argues that the FTC has used this divestiture method in the past. However, the Memo fails to cite any case in the entire energy sector to support its contention that the FTC would act in such a manner. In addition, the Memo does not sufficiently explain why divestiture is a preferable remedy compared to the FERC regulation that would otherwise control the pipeline. Moreover, it is unlikely that the FERC would conclude that the regulatory structure it has used to ensure access to gas pipelines in the lower 48 is insufficient to protect shippers for the Gas Pipeline.

The other remedies suggested by the Memo are even more implausible. While establishing an independent system operator or a market monitor may well address third party shippers' fears of potential anticompetitive Producer-owner conduct, FERC has never required a natural gas pipeline to transfer control of its facilities to an independent operator – a point conceded by Greenberg Traurig. Moreover, the Memo fails to explain why such a radical remedy is necessary or desirable, or and why conventional regulation is insufficient to keep the Producer-owners' conduct under control.

In conclusion, based on the facts we know today, it is highly unlikely that the Federal Energy Regulatory Commission would deny a certificate of public convenience and necessity to a Producer-owned Gas Pipeline based on the competitive issues raised by Greenberg Traurig. Existing antitrust law and FERC regulation are sufficient to prevent and address any competitive issues that may arise.

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[12] The Memo argues that there is a significant risk of a delay of the certificate application process at FERC due to potential third party complaints against a producer-owned pipeline, and that such a risk of delay would not exist if the application were submitted by an independent pipeline owner. However, the Memo neglects to consider that Sections 103 and 104 of the Alaska Natural Gas Pipeline Act of 2004 place a twenty month total time limit on the issuance of a certificate at FERC; the Commission must issue (or decline to issue) a certificate no later than 60 days after the issuance of a final environmental impact statement. *See* ANGPA § 103(c) and § 104(d). Therefore, Mmesinger and Chung's argument that protests over competitive issues would necessarily delay the issuance of a certificate misses a key fact.

Attachment 3:

Access to Alaska Gas Pipeline and "Basin Control"

A presentation dated July 13, 2006 by Robert H. Loeffler

and

A memo dated October 18, 2006 by Bradley Lui, et al.

Morrison and Foerster LLP

Access to Alaska Gas Pipeline and "Basin Control"

Robert H. Loeffler
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Morrison and Foerster LLP

July 13, 2006

ACCESS AND BASIN CONTROL OVERVIEW

- Alaska Gas Pipeline ("AGP") will be a tightly regulated "open access" pipeline
- Pipeline operations must be legally separate from marketing affiliates – the law requires gas and pipeline transportation to be sold separately
- Affiliate restrictions enforced by new, heavy penalties
- FERC reviews competitive issues including size and expandability as part of its approval process
- FERC has unique powers to mandate expansion of this pipeline to protect unaffiliated explorers and shippers
- AGP will be the most scrutinized pipeline in the U.S. over its life

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ACCESS AND BASIN CONTROL
PRODUCER PIPELINE OWNERSHIP

- Past efforts to prohibit producer ownership of AGP were counter-productive
- Congress did not prohibit producer ownership of AGP when it enacted Alaska Natural Gas Pipeline Act ("ANGPA")

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ACCESS AND BASIN CONTROL
RELATIONSHIP OF GAS, PIPELINE, AND CAPACITY OWNERS

Order 636 and following orders changed dramatically how pipelines and producers conduct their business:

- After Order 636, pipeline companies do not own or sell gas; they just sell transportation services
- Separate companies -- affiliated or not -- sell gas
- Owning the pipeline no longer gives the owner transportation (capacity) rights
  - pipeline owner must put out for bid all capacity
  - pipeline affiliates may bid on the capacity but have no assurance of winning
- Likewise, owning the gas in the basin connected to the pipeline does not entitle a producer to capacity absent a winning bid

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ACCESS AND BASIN CONTROL

THE PERVASIVE NATURE OF FERC REGULATION OF INTERSTATE GAS PIPELINES

- FERC reviews and approves all aspects of an interstate pipeline
  - Permitting
  - Design of facilities
  - Size of facilities
  - Access to facilities
  - Open seasons
  - Tariff rates
  - Operations
  - Expansions
  - Abandonment
- This will be especially so for AGP. For example,
  - FERC will consider how the project design considers the capacity needs of initial and future shippers (18 CFR § 157.36)
  - AGP must even consider any bids tendered after the expiration of the open season and can only reject them if economic, engineering or operational constraints do not allow the pipeline to accommodate the bids (18 CFR § 157.34 (d)(2))
  - As stated by FERC: "Our expectation is that an Alaska gas transportation project will be designed and built, to the extent possible, to accommodate all qualified shippers who are ready to sign firm transportation agreements" (Order 2005-A at ¶ 34)

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ACCESS AND BASIN CONTROL

THE LEGAL FRAMEWORK

- Natural Gas Act of 1938 ("NGA")
- Natural Gas Policy Act of 1978 ("NGPA")
- Alaska Natural Gas Policy Act of 2004 ("ANGPA")
- Energy Policy Act of 2005 ("EPAct")
- FERC Orders
  - Order 436 (1985)
  - Order 636 (1992)
  - Order 637 (2000)
  - Order 2004, 2004-A-D (2003)
  - Order 2005, 2005-A (2005)
  - Order 670 (2006)

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ACCESS AND BASIN CONTROL

PHASES OF FERC REGULATION

1. Open Season
2. FERC Application process that results in a certificate
3. Pipeline construction
4. Pipeline

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PART II

EVOLUTION OF FERC'S AFFILIATE/SEPARATION OF FUNCTIONS REGULATIONS

NATURAL GAS RESTRUCTURING – OPEN ACCESS/ORDER 436

- FERC's issuance of Order 436 in 1985:
  - Required interstate pipelines that offer transportation services to do so on an open-access, nondiscriminatory basis
  - Pipeline customers could now contract directly with producers for gas supply and transport it on the pipelines
  - Pipelines were encouraged to provide transportation to those customers who requested it

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NATURAL GAS RESTRUCTURING – ORDER 636/UNBUNDLING

- FERC's issuance of Order 636 in 1992:
  - Required interstate pipelines to unbundle their commodity gas sales from transportation and storage services
  - Services were defined in new tariffs
  - Pipelines were given blanket sales certificates to allow for the unbundled sale of gas at market-based rates
  - However, such gas sales generally performed by marketing affiliates
  - Market Centers quickly evolved for gas trading

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NATURAL GAS RESTRUCTURING – ORDER 636/CAPACITY

- Provided terms and structure for a capacity release program whereby capacity holders could release their un-utilized pipeline capacity to replacement shippers
- FERC requires a capacity release mechanism with open-access bidding, rather than assignment provisions, so as to foster open, competitive markets

NATURAL GAS RESTRUCTURING – ORDER 637

FERC's issuance of Order 637 enhanced Order 636:

- Increased informational reporting requirements for interstate pipelines
  - More stringent standards of conduct information
  - Enhanced information for firm, interruptible, storage, and capacity release transactions and for the Index of Customers
  - Enhanced scheduling provisions
  - Enhanced capacity segmentation rights
  - Mandatory provision of imbalance services
  - Encouragement of new rate forms for services
    - Peak and off-peak rates
    - Term-differentiated rates

PART III

FERC'S ENFORCEMENT POWERS DURING PIPELINE OPERATIONS

MONITORING OF NATURAL GAS DEREGULATION – ORDER 2004/STANDARDS OF CONDUCT

Order 2004 and Orders 2004-A-D, released in 2003-04:

- Set Standards of Conduct designed to ensure open access and competition by non-affiliated customers
- Barred undue preferential treatment by providers to their marketing affiliates:
  - Required provider's transmission function employees to operate independently from marketing employees or other energy affiliates (18 CFR 358.4(a))
  - Provider's sales and marketing units, energy affiliates, and potential merger partners must be posted on its website (18 CFR 358.4(b))
  - Ensure that non-affiliated customers have equal access to information about transmission, operations, price (18 CFR 358.5(a))
- Recognized post-unbundling market expansion that included growth of physical and financial transactions by marketing and non-marketing gas pipeline affiliates

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FERC'S ORIGINAL ENFORCEMENT TOOLS UNDER NGA (1938) AND NGPA (1978)

- Can order disgorgement of unjust profits
- Can condition, suspend or revoke
  - Market-based rate authority
  - Certificate authority
  - Blanket certificate authority
- Minor penalty provisions
  - Both the NGA and NGPA had minor penalty provisions in the $500 to $5000 range

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FERC'S NEW ENFORCEMENT TOOLS UNDER EPAct

- EPAct granted FERC greatly enhanced authority to assess civil and criminal penalties
  - Congress extended FERC's civil penalty authority to cover violations of the NGA or any rule or regulation imposed under NGA authority (EPAct section 314(b))
  - Congress increased the maximum civil penalty under the NGA and NGPA to $1 million per violation for each day the violation continues (EPAct section 314(b))
  - Congress increased the maximum criminal fine under the NGA and NGPA to $1 million and the maximum imprisonment time to 5 years (EPAct section 314(a))

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FERC'S ENFORCEMENT TOOLS UNDER EPAct...cont.

- FERC's October 2005 Policy Statement on enforcement listed several factors it would consider in determining the appropriate penalties. Among those:
  - What harm was caused
  - Was the harm widespread across markets or customers
  - What efforts did the company make to remedy the violation in a timely manner
  - Was the conduct fraudulent; was it the result of manipulation, deceit or artifice
  - Did the wrongdoer act in concert with others
  - Was this a repeat offense
  - How long did the wrongdoing last
  - Was the wrongdoing related to actions by senior management and was there any cover-up
  - Did management impede any inquiry into the wrongdoing
  - What effect would the penalties have on the financial viability of the company

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CONCLUSION

In FERC's own words: "Entities subject to the Commission's jurisdiction should expect firm but fair enforcement in the future, including the use, as appropriate, of the substantial new civil penalty authority provided by EPAct 2005."

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ORDER 670: PROHIBITION OF ENERGY MARKET MANIPULATION

- In January 2006 FERC issued regulations pursuant to its new EPAct 2005 authority
- Order bars energy market manipulation by "any entity" (not just jurisdictional entities)
- If the entity's conduct is "in connection with" a jurisdictional transaction, it is subject to FERC's anti-manipulation authority
- Order makes it unlawful for any entity in connection with gas and transportation purchases and sales to
  - Defraud using any device, scheme or artifice,
  - Make any untrue statement of material fact or omit a material fact, or
  - Engage in any act, practice, or course of business that operates as a fraud or deceit

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ORDER 670: PROHIBITION OF ENERGY MARKET MANIPULATION...cont.

- Fraud is defined to include "any action, transaction, or conspiracy for the purpose of impairing, obstructing or defeating the honest functioning of the market."
- There also must be a showing of intent to deceive or defraud, that is, "scienter" as established under securities law.

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PART IV

THE ALASKA OPEN SEASON REGULATIONS

OPEN SEASON REGULATIONS FOR THE ALASKA PIPELINE
OVERVIEW

- ANGPA directed FERC to issue regulations governing the conduct of open seasons, the first such regulations ever issued by it
- Comprehensive regulations were issued in 2005 (Orders 2005 and 2005-A) that cover procedures for the allocation of capacity and criteria for and timing of any open season
- FERC's stated goals are an open season process that
  - provides economic certainty to support the building of the pipeline
  - promotes competition in the exploration, development and production of Alaska natural gas
  - prevents unduly discriminatory behavior and limits the ability of a project applicant to unduly favor its affiliate -- hence, Order 2004 Standards of Conduct apply
- Regulations apply to any initial capacity or voluntary expansion capacity
- In sum, regulations provide FERC with an additional tool over and above its other enforcement tools to actively and closely police all capacity related conduct for the Alaska pipeline.

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OPEN SEASON REGULATIONS FOR THE ALASKA PIPELINE

OVERVIEW...cont.

- FERC will review the open season notice in advance of its publication
- At least 30 days notice must be given of start of open season
- The open season must remain open for at least 90 days once precedent agreements are signed, they must be disclosed and filed with FERC
- Open season notice will contain extensive information about the project, including a proposed tariff and technical data
  - See 18 CFR 157.34 (reproduced in appendix)

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INFORMATION AVAILABILITY

18 CFR 157.34

- "(18) All information pertaining to the proposed service to be offered, projected pipeline capacity and design, proposed tariff provisions, and cost projections, made available to or in the hands of any potential shipper, including any affiliates of the project sponsor and any shippers with pre-subscribed capacity, prior to the issuance of the public notice of open season;"

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CERTIFICATION BY SALES AND MARKETING UNITS
18 CFR 157.34

- "(21) A statement that any officers and directors of the prospective applicant's affiliated sales and marketing units and Energy Affiliates involved in the production of natural gas in the State of Alaska named in paragraph (c)(19) of this section will be prohibited from obtaining information about the conduct of the open season or allocation of capacity that is not posted on the "open season" Internet website or that is not otherwise also available to the general public or other participants in the open season."

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UNDUE DISCRIMINATION OR PREFERENCE PROHIBITIONS
18 C.F.R. 157.35

- "(a) All binding open seasons shall be conducted without undue discrimination or preference in the rates, terms or conditions of service and all capacity allocated as a result of any open season shall be awarded without undue discriminations or preference of any kind.
- (b) Any complaint filed pursuant to §385.206 of this chapter alleging non-compliance with any of the requirements of this subpart shall be processed under the Commission's Fast Track Processing procedures contained in §385.206 (h).

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UNDUE DISCRIMINATION OR PREFERENCE PROHIBITIONS

18 C.F.R. 157.35...cont.

- (c) Each project applicant conducting an open season under this subpart must create or designate a unit or division to conduct the open season that must function independent of the other divisions of the project applicant as well as the project applicant's Marketing and Energy affiliates as those terms are defined in §385(d) and (k) of this chapter."
- (d) The relevant Order 2004 Standard of Conduct provisions apply
  - Separation of transmission function employees from marketing and energy affiliate employees
  - Information access for marketing and energy affiliate employees that is only what the transmission employees provide to their transmission customers
  - Information disclosure that does not favor marketing and energy affiliate employees
  - No preferences to affiliates for transmission service
  - Discounts that must be completely transparent

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UNDUE DISCRIMINATION OR PREFERENCE PROHIBITIONS

18 C.F.R. 157.35...cont.

- (e) The Mainline LLC will have to post on its internet website written procedures describing how it will comply with Order 2004
- (f) The Mainline LLC will also have to designate a Chief Compliance Officer and train its employees on the open season requirements
- (g) As FERC concluded: "The application of some of the non-discrimination requirements of Order No. 2004 will broadly prohibit discrimination by a project applicant conducting an open season and limiting its ability to unduly favor a Marketing/Energy Affiliate."

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BID TERMS – FERC ORDER 2005

- "[T]he Commission will be reviewing the results of any open season processes to determine the appropriateness of any unusually long contract terms (e.g., a term exceeding the projected life of the pipe) to determine whether shippers incorporated them in their bids to obtain capacity allocation. For example, it would be in a prospective shipper's economic interest to seek a contract term that would be sufficient to allow the recovery of its revenues. However, it would not be in a shipper's economic to bid for capacity beyond its projected reserve's life because it would expose the shipper to reservation charges it may not be able to recover."

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PART V

JOHNSTON TESTIMONY

BASIN CONTROL AND BASIN MASTERY

- What allegedly is "basin control?"
  - Producer owned pipeline would favor production affiliates to the exclusion of independents in decisions on operation and expansion of pipeline so as to control development on the North Slope

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FERC TOOLS TO ADDRESS BASIN CONTROL, SUMMARY

- FERC has a strong set of tools to address basin control
- FERC has both structural and behavioral remedies
- FERC has adopted special requirements for AGP to foreclose anti-competitive behavior
- FERC will review anti-competitive behavior in the open season, in the certification process, and during operations
- FERC has unique power to order expansion to protect independents

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Daniel Johnston Testimony on SB 305 and HB 488
April 9, 2006

- "The cornerstone of this type of control [as basin master] is their dominant position in early infrastructure corridors (often over-built, with a view towards future discoveries), which allows the basin masters to extract rents from other players through access charges to this infrastructure."

- Alaska is not a third world country.
- Access to the pipeline and the pipeline itself are highly regulated to ensure fairness
- Federal and state leases are awarded by competitive bid
- Access charges (pipeline rates) are regulated

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APPENDIX

APPENDIX
OPEN SEASON NOTICE REQUIREMENTS
18 C.F.R. 157.34

The regulations provide the following:

- "(c) *Contents of notice.* Notice of the open seasen required in paragraph (a) of this section, shall contain at least the following information; however, to the extent that any item of such information is not known or determined at the time the notice is issued, the prospective applicant shall make a good faith estimate based on the best information available of all such unknown or undetermined items of required information and further, must identify the source of information relied on, explain why such information is not presently known, and update the information when and if it is later determined during the open season period:
- (1) The general route of the proposed project, including receipt and delivery points, and any alternative routes under consideration; delivery points must include those within the State of Alaska as determined by the In-State Study in paragraph (b) of this section;
- (2) Size and design capacity (including proposed certificate capacity at the delivery points named in paragraph (c)(1) of this section to the extent that it differs from design capacity), a description of possible designs for expanded capacity beyond initial capacity, together with any estimated date when such expansions designs may be considered;
- (3) Maximum allowable operating pressure and expected actual operating pressure;
- (4) Delivery pressure at all delivery points named in paragraph *(c)(1)* of this section,
- (5) Projected in-service date;

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APPENDIX...cont.
OPEN SEASON NOTICE REQUIREMENTS
18 C.F.R. 157.34

- (6) An estimated unbundled transportation rate for each delivery point named in paragraph (c)(1) of this section, stated on a volumetric or thermal basis, for each service offered, including reservation rates for pipeline capacity, interruptible transportation rates, usage rates, fuel retention percentages, and other applicable charges, or surcharges, such as the Annual Charge Adjustment (ACA); (if rates are estimated on a volumetric basis then the notice must inform bidders that final pro forma service agreements and the sponsor's proposed FERC tariff will have to be submitted with rates based on a thermal basis.)
- (7) The estimated cost of service *(i.e.,* estimated cost of facilities, depreciation, rate of return and capitalization, taxes and operational and maintenance expenses), and estimated cost allocations, rate design volumes and rate design;
- (8) Based on the In-State Study and the delivery points within the State of Alaska identified in paragraph (c)(1) of this section, there must be an estimated transportation rate for such deliveries, based on the amount of in-state needs shown in the study. Such estimated transportation rate must be based on the costs to make such in-state deliveries and shall not include costs to make deliveries outside the State of Alaska;
- (9) Negotiated rate and other rate options under consideration, including any rate amounts and terms of any precedent agreements with prospective anchor shippers that have been negotiated or agreed to outside of the open season process proscribed herein;

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APPENDIX ...cont.
OPEN SEASON NOTICE REQUIREMENTS
18 C.F.R. 157.34

- (10) Quality specifications and any other requirements applicable to gas to be delivered to the project, provided that a prospective applicant shall not require that potential shippers process or treat their gas at any designated plant or facility;
- (11) Terms and conditions for each service offered;
- (12) Creditworthiness standards to be applied to, and any collateral requirements for, prospective shippers;
- (13) The date, if any, by which potential shippers and the prospective applicant must execute precedent agreements;
- (14) A detailed methodology for determining the value of bids for deliveries within the State of Alaska and for deliveries outside the State of Alaska;
- (15) The methodology by which capacity will be awarded, in the case of over-subscription, clearly stating all terms that will be considered, including price and contract term. If capacity is oversubscribed and the prospective applicant does not redesign the project to accommodate all capacity requests, only capacity that has been acquired through pre-subscription or was bid in the open season on the same rates, terms, and conditions as any of the pre-subscription agreements shall be subject to allocation on a pro rata basis; no capacity acquired through the open season shall be allocated;
- (16) Required bid information, whether bids are binding or non-binding, receipt and delivery point requirements, the form of a precedent agreement and time of execution of the precedent agreement, definition and treatment of non-conforming bids;
- (17) The projected date for filing an application with the Commission;

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APPENDIX...cont.
OPEN SEASON NOTICE REQUIREMENTS
18 C.F.R. 157.34...cont.

- (18) All information pertaining to the proposed service to be offered, projected pipeline capacity and design, proposed tariff provisions, and cost projections, made available to or in the hands of any potential shipper, including any affiliates of the project sponsor and any shippers with pre-subscribed capacity, prior to the issuance of the public notice of open season;
- (19) A list of the names and addresses of the prospective applicant's affiliated sales and marketing units and Energy Affiliates involved in the production of natural gas in the State of Alaska. Affiliated unit means "Affiliate" as applicably defined in §358.3(b) of this chapter. Energy Affiliate means "Energy Affiliate" as applicably defined in §358.3(d) of this chapter;
- (20) A comprehensive organizational chart showing: (i) The organizational structure of the prospective applicant's parent corporation(s) with the relative position in the corporate structure of marketing and sales units and any Energy Affiliates involved in the production of natural gas in the State of Alaska; (ii) The job titles and descriptions, and chain of command for all officers and directors of the prospective applicant's marketing and sales units and any Energy Affiliates involved in the production of natural gas in the State of Alaska; and
- (21) A statement that any officers and directors of the prospective applicant's affiliated sales and marketing units and Energy Affiliates involved in the production of natural gas in the State of Alaska named in paragraph (e)(19) of this section will be prohibited from obtaining information about the conduct of the open season or allocation of capacity that is not posted on the "open season" Internet website or that is not otherwise also available to the general public or other participants in the open season."

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MEMORANDUM

TO: State of Alaska COPIES: Robert H. Loeffler

FROM: Bradley S. Lui
Roger W. Fones
Jeny M. Marcinko[1]

DATE: October 18, 2006 FILE: 08083/93

RE: Alaska Natural Gas Pipeline - Producer Owned Pipeline Project

This memo addresses arguments raised in an April 22, 2006 memorandum from Kenneth M. Minesinger and Cecil Chung of the Greenberg Traurig law firm to Senator Therriault, Representative Samuels and others ("Greenberg Traurig" or "Memo"). The Memo is entitled "Competitive Analysis of Producer-Owned Alaska Natural Gas Pipeline," and argues that potential competitive issues might arise if the three largest owners of the proven natural gas reserves on the North Slope, *i.e.* BP, ConocoPhillips, and ExxonMobil (individually, a "Producer" and collectively, the "Producers") were to build, own and operate a pipeline to transport natural gas from the North Slope to Canada and ultimately to the lower 48 states (the "Gas Pipeline"). The Memo contends that (1) in 1977, the U.S. Attorney General identified potential competitive concerns with Producer ownership of a Gas Pipeline; (2) the risks presented by these competitive issues continue to exist today, and (3) consideration of these issues will cause significant delays in any proceedings regarding whether to approve a Producer-owned Gas Pipeline.

Contrary to conclusions reached by Greenberg Traurig, Producer ownership of the Gas Pipeline does not raise significant competitive concerns. As the Memo acknowledges, joint ownership by the Producers does not by its nature violate the antitrust laws. Moreover, because the Producer-owners lack downstream market power, a Producer-owned pipeline has no incentive to discriminate against third party shippers. Even if the Producers did possess downstream market power, the requirements of the Alaska Natural Gas Pipeline Act as well as the FERC regulations implementing that Act provide sufficient safeguards to prevent the Producers from operating the pipeline in an anticompetitive manner. Under these conditions, Producer joint ownership does not create significant antitrust issues.

I. Producer Ownership of the Gas Pipeline Would Not Violate the Antitrust Laws

A. Producer Ownership Will Not Reduce Existing or Potential Competition Among the Owners

[1] Brad Lui and Roger Fones are partners, and Jeny Marcinko is an associate, in the antitrust practice group of Morrison and Foerster. Mr. Fones was Chief of the Transportation, Energy & Agriculture Section of the Antitrust Division from 1993-2005. Mr.Lui was a trial attorney in the Antitrust Division before joining Morrison and Foerster.

Under Section 7 of the Clayton Act, 15 U.S.C. § 18 and Section 1 of the Sherman Act, 15 U.S.C. § 1, the formation of a joint venture is unlawful only if the effect of the transaction is to lessen competition substantially in one or more relevant markets. This analysis is performed by evaluating the markets in which the parties compete, their market shares, and the likelihood that their collaboration would lessen competition in those markets.[2]

Under the legal standards of the Clayton and Sherman Acts, a Producer-owned pipeline is not likely to reduce competition substantially in any relevant market.[3] A Producer-owned pipeline would only increase competition in the market for transportation of natural gas because none of the North Slope's gas reserves are currently being transported to consumers in the lower 48 states. The increase in the overall supply of gas into the lower 48 will increase – not decrease – the level of competition for the downstream sale of gas above what existed *ex ante*. Likewise, there would be no reduction in competition in the exploration and production of North Slope gas. Indeed, incentives for competition in the exploration and production of North Slope gas should be enhanced since the product of that exploration and production will be able to reach consumers in the lower 48 States. For these reasons, the formation of the joint venture by the Producers to build and operate the Gas Pipeline would not violate the antitrust laws.[4]

B. Producer Ownership Will Not Lead to Lessened Competition, Higher Tariffs, or Reduced Throughput in the Transportation of North Slope Natural Gas, as Compared to an Independent Pipeline.

Any natural gas pipeline for North Slope gas must be authorized by the FERC pursuant to the Alaska Natural Gas Pipeline Act (the "Gas Pipeline Act"). As Greenberg Traurig acknowledges, there will be only one Gas Pipeline built.[5] Thus, regardless of ownership, the Gas Pipeline will have a monopoly over transportation from the North Slope. Accordingly, the Gas Pipeline's tariffs, capacity, and access will all be regulated by FERC, which will protect non-affiliated shippers against unreasonably high tariffs and limited access.

II. A Producer-Owned Pipeline Is Unlikely to Impose Anticompetitive Vertical Restraints

A. Vertical Integration Is Not Inherently Suspect Under the Antitrust Laws.

The Greenberg Traurig Memo correctly notes (at 8) that most vertical mergers do not raise competitive concerns. The Memo also implicitly acknowledges that the Producers' proposal is not a merger, but nevertheless proceeds with a discussion based on the following premise: "[T]he Alaska pipeline had already been built and then acquired" by the Producers.

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[2] A more detailed explanation of the three-step analysis involved in evaluating the lawfulness of the joint venture is contained in the previous memorandum from Morrison & Foerster to the State of Alaska, dated March 11, 2005.

[3] The bases for these conclusions are discussed in detail in the March 11, 2005 Morrison & Foerster memorandum on page 5.

[4] The Greenberg Traurig Memo concedes this point on page 6 ("the formation of the joint venture would generally be lawful").

[5] It is extremely unlikely that any of the individual Producers would be in the position to build its own pipeline (separate from the proposed pipeline). Therefore, the fact that the Producers are collaborating in building the pipeline does not reduce potential competition in the transportation of gas from the North Slope.

The Memo then embarks on a lengthy discussion of vertical merger precedents at FTC, DOJ and FERC. This merger discussion is largely irrelevant because it fails to analyze the situation at hand: A proposal to vertically integrate by internal expansion (new construction). We are aware of no challenges by any competition agency to a proposal to vertically integrate by internal expansion, and the Memo cites none.[6] It is clear that there could be no antitrust challenge to the construction of a Producer-owned pipeline because there is no existing competition to be reduced – there is, as yet, no pipeline. Even if it were proper legal analysis to hypothesize an existing pipeline and subsequent acquisition by the Producers, no significant competition concerns would be presented, as explained below.

B. A Producer-Owned Pipeline Would Not Have Significant Incentives to Act in an Anticompetitive Manner Towards Third Party Shippers.

Greenberg Traurig alleges that the Producers would have the incentive to use the pipeline in anticompetitive ways in order to discriminate against rival third party shippers. This argument is necessarily based on the premise that the Producers have market power over natural gas prices in the lower 48 states, and therefore, have an incentive to restrict third party throughput, but that an independent, non-integrated pipeline owner would not. The Memo argues that the Producers would want to restrict third party throughput in order to maintain supra-competitive natural gas prices in the lower 48 States. The premise is demonstrably false, however, because the Producers do not have market power in any downstream market for the sale of natural gas. According to the Lukens Energy Group, the Producers' projected shares of natural gas sales in the lower 48 states in 2015 (when the pipeline comes on line) are: 7.9% for ExxonMobil, 7.3% for BP, and 5.8% for ConocoPhillips.

Because of their small shares of downstream natural gas sales, the Producers lack market power. Thus, any actions that the Producers might take to reduce their rivals' throughput on the Gas Pipeline would not affect the price of natural gas to customers in the lower 48 states. On the other hand, by restricting throughput from third party shipments, the Producers would forgo a return on those third party shipments as well as the ability to spread the fixed costs of the Gas Pipeline over greater volume.

Greenberg Traurig goes on to also argue, however, that the relevant market for antitrust purposes might not be the lower 48 states as a whole, but rather that relevant gas markets might be localized at certain locations – suggesting as possibilities both Chicago and other unidentified

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[6] In theory, the individual Producers could offer competing proposals to build the only pipeline, but no one has suggested that this loss of "engineering rivalry" is a concern.

[7] These are "equity shares," that is, shares of natural gas sales actually owned or under long term lease by the seller. Equity shares are the best measure for these purposes because brokers do not benefit from supra-competitive prices for gas owned by third parties.

Greenberg Traurig relies on higher shares calculated by attributing to the Producers sales they made as agents on behalf of other, third party owners (Memo at 3). It is not economically correct to inflate and then aggregate the shares of rivals in this way. Even when this incorrect approach is taken, the Memo barely elevates the market shares to the 35% threshold at which the DOJ and FTC Merger Guidelines recognize there may be an issue of market power for sellers of undifferentiated products, such as sellers of natural gas. *See* US Department of Justice and the Federal Trade Commission, Horizontal Merger Guidelines, § 2.22.

"Mid-Continent" areas. (Memo at 13). Even assuming that a local Chicago market for natural gas could be properly defined as a relevant market for antitrust analysis, the Producers would not have market power in that market.[8] For gas sold and transported on pipelines to the Chicago hub, the combined share of inbound pipeline capacity held by the North Slope Producers is less than 6% of the total, with BP being the largest with 3.13%.[9] Either individually or collectively, the market shares held by the Producers at pipeline hubs such as Chicago are simply too small to permit the exercise of market power.[10]

Even assuming – contrary to fact – that the Producers would have market power over the price of natural gas in the lower 48 states, or any smaller area, FERC regulations would constrain them from using their control of the pipeline to increase prices to natural gas customers. As will be discussed further in Part D below, FERC regulations prevent anticompetitive conduct by pipeline owners by requiring the Alaska gas pipeline to provide open and non-discriminatory access, tariffs, and services to all shippers, to increase capacity if demanded by shippers that genuinely need it, and to separate gas marketing from pipeline functions. Therefore, absent FERC's abdication of its regulatory power, which the Memo does not suggest would occur, the Producers could not use the pipeline in an anticompetitive manner, even if they wanted to do so.

C. The Producers Would Have the Same Incentive to Solicit Third Party Shippers to Ship on the Gas Pipeline as an Independent Owner.

Greenberg Traurig argues that a Producer-owned pipeline would not have the same incentives to increase throughput by third party shippers as an independent owner would. This is not correct. As owners of the Gas Pipeline, the Producers clearly would have an incentive to encourage third party shipments on the pipeline. By increasing throughput, the Producers will not only earn a return on the third party shipments, but also spread the fixed costs of pipeline operation over a greater amount of gas, thereby reducing shipping costs for the Producers' production affiliates. Increasing throughput increases efficiency, reduces average shipping costs, and, subject to any regulatory constraints, results in more profit to the owners. Because allowing

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[8] The proposed pipeline's gas could be routed to Chicago via Alberta.

[9] Because data on equity sales of gas at the Chicago hub is not available, we are using pipeline capacity shares calculated by the Lukens Energy Group as a proxy for equity sales shares. The market share of each of the Producers represents the ratio of firm capacity held by the Producer to the total contracted firm capacity for all of the pipelines transporting gas into the Chicago hub. Since the capacity may be used to transport remarketed gas, the capacity shares likely overstate the equity sales shares of the companies.

Pipeline capacity shares can also be meaningful in and of themselves. If the Producers attempted to restrict Alaska natural gas deliveries into the hub, there would be numerous competing owners of pipeline capacity serving that hub that could (and would) use their capacity to increase the supply of competing gas through the hub. Therefore, unless the Producers had such a significant share of the pipeline capacity at the hubs to "crowd out" virtually all competing sellers of gas, they would not have the ability to affect the price of gas at the hub.

[10] Greenberg Traurig identifies no other "Mid-Continent" hubs about which to be concerned. Because the volume of North Slope gas delivered at any downstream hub in the United States beyond Chicago would only diminish, there is no reason to believe the Producers would have a share "in other Mid-Continent areas" large enough to confer market power.

Even if we examine Producer shares further upstream from Chicago at Alberta, the shares are not significantly higher: According to the Lukens Energy Group, the combined Producer share of outbound pipeline capacity at Alberta is less than ten percent, with BP having 6.4%.

increased amounts of third party shipments is profitable to any pipeline owner – Producer or independent – the incentive to allow third party shipments is strong for both types of owners.

The Memo nevertheless constructs speculative theories of exclusionary conduct by the Producers. A necessary (but not sufficient) predicate for any theory of exclusionary conduct is that the pipeline owner(s) have significant market power in a relevant downstream market for natural gas. As noted in Part II.A above, the Producers have much too small a share of the owned (equity) natural gas in the lower 48 to affect price. But even if the Producers somehow acquired some ability to affect price in the lower 48 by reducing third party throughput, the increased profits from the higher gas prices hypothesized from such a strategy would have to (1) exceed the foregone profits from the throughput tariff revenues third parties would have paid, and (2) escape FERC detection and remedies under its open access regulations. Given the strong incentive to encourage third party shipments on the pipeline, there is no reason to believe the first condition would be met. As explained below, it is also unlikely that the second condition would be met.

D. The Gas Pipeline Act and the Open Season Regulations Ensure That a Producer-Owned Pipeline Would Not Have the Ability to Discriminate Against Rivals.

Greenberg Traurig relies heavily on the Attorney General's 1977 report to President Carter identifying potential competitive concerns relating to a producer-owned pipeline.[11] The report concluded that producer-ownership of the pipeline would create incentives to deny or impede future capacity expansion. Both the structure of the natural gas industry and the applicable regulatory regime have changed significantly since the 1977 report. FERC now requires that a company's transportation affiliate operate independently of the company's marketing affiliate. 18 C.F.R. § 358.4 (2005). Additionally, the FERC regulations require that the Alaska Gas Pipeline hold open seasons in order to provide all shippers an equal opportunity to bid for pipeline capacity. *See* Regulations Governing the Conduct of Open Seasons for Alaska Natural Gas Transportation Projects, 70 Fed. Reg. 8269 (Feb. 18, 2005), Order No. 2005, Docket No. RM05-1-000, (to be codified at 18 C.F.R. pt. 157) (the "Open Season Regulations").

The Gas Pipeline Act, the Open Season Regulations, and the FERC Standards of Conduct all contain provisions designed to prevent the owners of the Gas Pipeline from using the pipeline for anticompetitive purposes. The Open Season Regulations ensure that FERC can and will take action to preserve competition. In Order 2005, the Commission explained that it was "imposing strict requirements on all proposals . . . to ensure that there is a level playing field. As we discuss below, we will require applicants for an Alaska pipeline project to provide detailed information as to project design, how capacity is to be allocated, and proposed rates, terms and conditions. This will allow us to be in a position to monitor whether competition for capacity is fair." 110 FERC ¶ 61,095 at Paragraph 12 (2005).

Even assuming that the Producers had market power downstream, the application process at FERC for a certificate of public convenience and necessity would alleviate concerns that the

[11] The end result of that report was a condition in President Carter's Decision prohibiting the producers from equity ownership. This proved unworkable and the condition was removed in 1981.

Producers would build a purposefully undersized Gas Pipeline in order to prevent third party shippers from competing with them in the downstream market for the sale of gas. In considering any certificate application, "the Commission will consider the extent to which a proposed project has been designed to accommodate the needs of shippers who have made conforming bids during open season, as well as the extent to which the project can accommodate low-cost expansion, and may require changes in project design necessary to promote competition and offer a reasonable opportunity for access to the project." 18 C.F.R. § 157.37 (2005). Moreover, the Open Season Regulations and Order 2005 demonstrate that the Commission will enforce its requirements that a Gas Pipeline be designed in order to accommodate all shippers who make genuine bids for capacity. Furthermore, a third party shipper can bring a complaint at the Commission about the Producers' proposal if the shipper believes that the Producers are proposing to build a Gas Pipeline that has insufficient capacity, and it may seek Commission action to address its concern.

Even after the construction of Gas Pipeline, there should not be any substantial concern that the Producer-owners of the Gas Pipeline have the ability to "crowd out" third party shippers or refuse to expand the capacity of the Gas Pipeline for anticompetitive reasons. Section 105(a) of the Gas Pipeline Act gives FERC the authority to "order the expansion of the Alaska natural gas project if the Commission determines that such expansion is required by the present and future public convenience and necessity." Consequently, if a third party shipper believes that the Gas Pipeline has impermissibly refused to increase its capacity, it can seek relief from the Commission.

Moreover, the Natural Gas Act's nondiscrimination provisions and the Standards of Conduct regulations would preclude efforts by the Producers to favor their shipping affiliates to the detriment of third party shippers. Under the Natural Gas Act, a gas pipeline may not grant any "undue preference or advantage" to any shipper, subject any shipper to "undue prejudice or disadvantage," or "maintain any unreasonable differences in rates, charges, service, facilities or in any other respect." 15 U.S.C. § 717c (b). Similarly, under FERC's Standards of Conduct, a gas pipeline "must treat all transmission customers, affiliated and non-affiliated, on a nondiscriminatory basis, and must not operate its transmission system to preferentially benefit an Energy Affiliate." 18 C.F.R. § 358.2(b). Consequently, the Producer-owners can not discriminate in favor of their own production (shipping) affiliates in order to give them a competitive advantage over a third party shipper.

III. The Potential Remedies Proposed by Greenberg Traurig Are Neither Likely Nor Feasible.

Despite the lack of a tangible antitrust concern, and the presence of extensive open access regulation by FERC, regulations, the Memo maintains that there is a chance that FERC would choose to go beyond its comprehensive regulations and impose additional remedies on a Producer-owned Gas Pipeline. Based on this possibility, the Memo asserts that a Producer-owned pipeline would face burdensome and time-consuming regulatory hurdles that an

independent pipeline could avoid.[12] The Memo asserts that potential remedies include divestiture, establishment of an independent system operator, or imposition of a market monitor. However, given the existence of pervasive agency regulation, the probability that remedies such as these would be instituted by either the FERC or the FTC is extremely low. With respect to potential FTC action, Greenberg Traurig cites no support for the proposition that vertical integration through internal expansion would raise antitrust concerns at the FTC. The Memo instead offers three FTC cases (at 8) in support of its conclusions. None of these FTC cases, however, involved situations where the parties had vertically integrated through internal expansion, and are therefore not instructive here.

Greenberg Traurig suggests that the Producers may be required to sever their relationships with both their upstream and downstream affiliates through some sort of divestiture, resulting in an entity that only holds the ownership of the pipeline (even though the initial funding and personnel for the entity would come from the Producers). In support of this position, the Memo argues that the FTC has used this divestiture method in the past. However, the Memo fails to cite any case in the entire energy sector to support its contention that the FTC would act in such a manner. In addition, the Memo does not sufficiently explain why divestiture is a preferable remedy compared to the FERC regulation that would otherwise control the pipeline. Moreover, it is unlikely that the FERC would conclude that the regulatory structure it has used to ensure access to gas pipelines in the lower 48 is insufficient to protect shippers for the Gas Pipeline.

The other remedies suggested by the Memo are even more implausible. While establishing an independent system operator or a market monitor may well address third party shippers' fears of potential anticompetitive Producer-owner conduct, FERC has never required a natural gas pipeline to transfer control of its facilities to an independent operator – a point conceded by Greenberg Traurig. Moreover, the Memo fails to explain why such a radical remedy is necessary or desirable, or and why conventional regulation is insufficient to keep the Producer-owners' conduct under control.

In conclusion, based on the facts we know today, it is highly unlikely that the Federal Energy Regulatory Commission would deny a certificate of public convenience and necessity to a Producer-owned Gas Pipeline based on the competitive issues raised by Greenberg Traurig. Existing antitrust law and FERC regulation are sufficient to prevent and address any competitive issues that may arise.

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[12] The Memo argues that there is a significant risk of a delay of the certificate application process at FERC due to potential third party complaints against a producer-owned pipeline, and that such a risk of delay would not exist if the application were submitted by an independent pipeline owner. However, the Memo neglects to consider that Sections 103 and 104 of the Alaska Natural Gas Pipeline Act of 2004 place a twenty month total time limit on the issuance of a certificate at FERC; the Commission must issue (or decline to issue) a certificate no later than 60 days after the issuance of a final environmental impact statement. *See* ANGPA § 103(c) and § 104(d). Therefore, Minesinger and Chung's argument that protests over competitive issues would necessarily delay the issuance of a certificate misses a key fact.