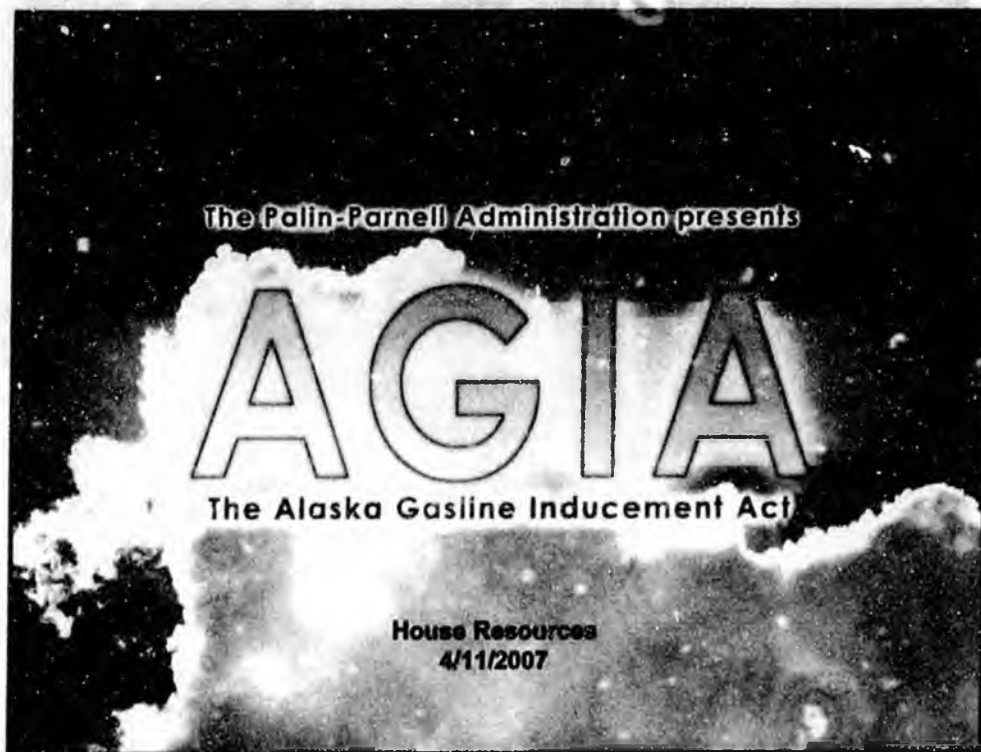


HB

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AGIA Overview

AGIA
The Alaska Gasline Inducement Act

AGIA:

- Is a commercial vehicle that creates a competitive market
- Provides a pipeline sooner and on Alaska's terms
- Is a transparent process with transparent inducements

Commercial Vehicle



- AGIA is not a negotiation
- Successful bidding process requires AGIA's inducements:
 - Midstream inducement of \$500 million to reduce licensee's project development risks
 - Upstream tax and royalty inducements to encourage open season participation and ensuring that state will support its licensed partner
 - Requirement to obtain pipeline certificate
 - Known, clearly quantified, and transparent

A Project on the State's Terms



- State's "must haves" focus on its future:
 - A competitive and vibrant oil and gas industry
 - Jobs and careers, not only from the pipeline itself, but from broader energy sector
 - Gas for Alaskans

Transparent Process



- AGIA creates a competitive process, not a negotiated process
- Bids will be submitted, commented upon by the public, and evaluated
- A winner chosen by the Commissioners
- Legislative review and approval
- Government involvement requires a public process

Expansion Provisions



- important to foster competitive and vibrant gas industry
- In 2005 order FERC recognized the Alaska exception
 - A single pipeline from Alaska requires different treatment of expansion costs
 - Subsidies created by federal law
 - Federal loan guaranties
 - Tax depreciation rate
- AGIA also offers \$500 MM capital contribution

Expansion Provisions



- Initial pipeline expansions likely to lower tariffs
- AGIA caps rolled-in rate cost recovery at 15% over initial tariff rates
- Same cap applies to both initial and early expansion shippers
- Rolled-in rates are standard in Canada

Energy Business is Risky



Resource Risk

Resource Owner Risk



- **State's Risks as Resource Owner**
 - Development risk – through PPT credits
 - Transportation cost risk
 - Price risk
 - Risk of non-performance by lessee
 - Oil and gas business is risky- low success rate, geo-politics, price
 - State's risk cannot be mitigated by a broad (global) portfolio

AGIA Promotes Creativity



- Descriptive, not prescriptive
- "Must haves" provide framework
- Evaluative criteria encourage innovative alternatives that enhance value to state and other shippers

FERC Process Explained



- **Open Season**
 - Pre-approved by FERC
 - Binding solicitation of capacity interest
 - Precedent agreements define termination conditions
- **FERC Certification**
 - Pipeline meets public need
 - Detailed project description

Pipeline Transportation Rates



- **Recourse rate is the default rate**
- **Most initial shippers will negotiate**
 - Price terms
 - Cost over-run risk sharing
 - Additional contractual provisions
- **FERC approves negotiated rates**

Opportunities to Participate



- AGIA applications accepted from
 - Pipeline company
 - Producer
 - Other qualified applicant
- Open Season
 - Producer
 - Explorer
 - Gas Purchaser
- FERC certificate

Summary



- AGIA is a commercial vehicle
- Expansion provisions foster competition
- Project cost risk has commercial solutions
- AGIA allows commercial creativity
- FERC process guides fair terms
- AGIA allows options for participants

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB177CS(O&G)-DNR-O&G-04-10-07
 Bill Version: CS HB 177 (O&G)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title: Natural Gas Pipeline Project RDU: Resource Development
 Component: Alaska Gasline Inducements Act
 Sponsor: Rules Committee
 Requester: House Resources Component No. new

Expenditures/Revenues (Thousands of Dollars)

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

| OPERATING EXPENDITURES | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|------------------------|------------|------------|------------|------------|------------|------------|
| Personal Services | | | | | | |
| Travel | | | | | | |
| Contractual | | | | | | |
| Supplies | | | | | | |
| Equipment | | | | | | |
| Land & Structures | | | | | | |
| Grants & Claims | | | | | | |
| Miscellaneous | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | |
|-----------------------------|-------------------|--|--|--|--|--|
| CAPITAL EXPENDITURES | 500,000.0* | | | | | |
|-----------------------------|-------------------|--|--|--|--|--|

| | | | | | | |
|-------------------------------|--|--|--|--|--|--|
| CHANGE IN REVENUES () | | | | | | |
|-------------------------------|--|--|--|--|--|--|

FUND SOURCE (Thousands of Dollars)

| | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | | | | | | |
| 1005 GF/Program Receipts | | | | | | |
| 1037 GF/Mental Health | | | | | | |
| Other (Specify Type--Do not abbreviate) | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimate of any current year (FY2007) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

| | | | | | | |
|-----------|--|--|--|--|--|--|
| Full-time | | | | | | |
| Part-time | | | | | | |
| Temporary | | | | | | |

ANALYSIS: (Attach a separate page if necessary)

This bill authorizes the Alaska Gasline Inducement Act (AGIA) which would create a competitive public process for inviting applications for a license under this Act. The application process would include certain application requirements before an application can be considered as well as criteria by which the Commissioners of Natural Resources and Revenue will evaluate all qualifying applications.

The Act would also create inducements including: state matching contributions for pipeline construction in an amount not to exceed \$500 million and the benefit of a state gas pipeline coordinator.

Under the AGIA, the licensee or its designated affiliate would be entitled to state matching contributions for qualified expenditures (post license costs incurred by the licensee that are directly and reasonably related to obtaining a certificate of public necessity and convenience from the FERC or RCA for development of the project).

(Continued on next page).

Prepared by: Kevin Banks, Acting Director Phone 269-8800
 Division: Oil and Gas Date/Time 4/10/2007
 Approved by: Tom Irwin, Commissioner Date 4/10/2007
 Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. CS HB 177 (O&G)

ANALYSIS CONTINUATION

Until the close of the first binding season, the state will match up to 50 percent of the licensee's qualified expenditures pursuant to the amount specified in the application. After the close of the first binding open season, the state may match the qualified expenditures at the amount specified but the amount may be no greater than 80 percent. Over a five year period, these contributions may not exceed \$500 million. The present value of the state's total \$500 million contribution would be roughly \$415 million, because state spending will be spread over several years.

AGIA will generate a number of project benefits that could more than offset its costs. The size of these benefits will depend on ultimate project scope and market prices, which AGIA leaves to the competitive process. Actual benefits will vary depending upon project terminus (Alberta, Chicago), size (1.2 Bcf/day, 4.5 Bcf/day), mode of transport (pipeline only, pipeline plus LNG facilities), among other things. Illustrative benefits shown here assume a 4.3 Bcf/day project to Alberta, Canada with a construction cost that is 50% greater than assumed in 2001. Results are presented in present value dollars, assuming a discount rate of 5%, to recognize that a dollar of state benefit received in the future will be worth less than a dollar spent today.

First, AGIA is likely to result in a project sooner than if no pipeline legislation is passed. By having the state agree to shoulder a large share of the up-front capital that is particularly risky, AGIA ensures that in exchange project proponents commit to move the project forward past clearly defined benchmarks. Because AGIA results in a project sooner, the current value of project revenues to the state is enhanced. Assuming a gas price of \$5.50, if AGIA accelerates project startup by one year, from 2017 to 2016, state benefits will exceed \$1.6 billion; a two-year acceleration in the project returns \$3.2 billion; a three-year acceleration generates \$4.9 billion.

Second, AGIA's requirement of a minimum 70 percent share of debt in the determination of tariffs ensures that the state will not pay unnecessarily high transportation costs. Without this protection, project tariffs could be calculated on the basis of 60 or even 50 percent debt and still pass regulatory scrutiny. The tariff benefits of a 70 percent debt structure, rather than 60 percent or 50 percent, are 26 cents and 55 cents per MMBtu, respectively. The savings to the state are \$1.25 billion and \$2.63 billion, respectively. Meanwhile, lower tariffs improve project economics for holders of both existing and yet to be discovered gas reserves, thereby increasing the likelihood that the project will commence sooner. The degree to which such savings are realized depends on how, absent AGIA's requirements, project tariffs would otherwise have been determined.

Third, AGIA's pipeline access provisions promise to increase competition for exploration and development of Alaska's gas resources, leading to earlier and more significant pipeline expansions. The value to the state of such expansions is scenario specific, and cannot be accurately predicted. That said, if AGIA's expansion provisions caused the pipeline to expand by 10% in year 3 of its operations, whereas without AGIA such an expansion would not occur, the increase in state royalty and taxes would be roughly \$3 billion in today's dollars. Even if the chances that such an expansion would otherwise not occur were only one in five the AGIA investment of \$500 million would more than pay for itself in this provision alone.

Finally, AGIA will directly ensure lower tariffs. The state's direct investment in up-front development costs would reduce the cost of moving gas to Alberta by roughly 4 cents. The present value royalty and tax benefits of this 4 cent tariff reduction come to \$183 million. Put differently, assuming \$5.50 gas prices, during pipeline operation the state will receive roughly 45% of the value of its contribution in increased royalty and production tax benefits. And at gas prices of \$7.50 or higher the state's up-front contribution actually generates more in royalty and tax benefits than it costs.

This fiscal note assumes that the FY07 Supplemental Appropriation for Gasline requested in HB138/SB82-Sec2(a&b) will be fully funded.

* \$300,000,000 was appropriated last year (SLA2006/Ch13/Sec14) from the general fund to Alaska Housing Finance Corporation for the purpose of funding capital projects including financing expenses and may be available to partially fund the matching grant.