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ALASKA STATE LEGISLATURE

Senator Charlie Huggins, Chair
Senate Special Committee on Energy
State Capitol, Room 119
Juneau, AK 99801
Phone: 465-3878
Fax: 465-3265

Representative John Harris, Chair
House Rules Subcommittee on AGIA
State Capitol, Room 208
Juneau, AK 99801
Phone: 465-4859
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Third Special Session
Twenty-Fifth Legislature

Gymnasium
Terry Miller Building, Juneau Alaska

Sunday June 8, 2008
1:00-6:30 p.m.

Joint Meeting AGENDA

- Presentations: Review of AGIA Findings and Determination; Natural Gas Pipeline Project as proposed by TransCanada Alaska Company, LLC and Foothills Pipelines Ltd. (TC Alaska) to the State of Alaska.

Administration and TransCanada: continued

- Summary of Findings & Determination: **Tom Irwin**, Commissioner, DNR

- Jobs and Training – **Clark Bishop**, Commissioner, DOL; **Conrad Mulligan**, ARCADIS;

- How to Get the Gas –
  Black & Veach; Greg Hopper
  TransCanada;
  Spencer Hosie (by phone), Hosie, MacArthur LLP;
  Allan Van Fleet, Greenburg Traurig;

- Pipeline Regulatory and Commercial Issues –
  Black & Veach; Greg Hopper
  Greenburg Traurig;
  Bill Sparger, Energy Project Consultants;
  Pat Anderson, Pingo Internationak;
  Kevin Banks, Actng. Dir. Division of Oil & Gas

Testimony: By Invitation
Teleconference

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Gavel In & Call to order:

I CALL THE JOINT MEETING OF THE SENATE SPECIAL COMMITTEE ON ENERGY and THE HOUSE RULES SPECIAL SUB-COMMITTEE ON AGIA TO ORDER

Sunday, June 8, 2008

LET THE RECORD REFLECT THAT IT IS _____P.M.

Present at the table are:

Schedule for today: Take a mid afternoon break 3. Plan to adjourn by, latest, 6:30.

Welcome: Trans Canada and Administration members and consultants

Welcome to those listening at LIO's and on Gavel to Gavel around the state.

6:30 PM: Adjourn. Returning tomorrow @ 10 AM to hear about "LNG: Economics, Likelihoon of Success, and Path Forward."

AGIA Training Strategic Plan

Alaska Department of Labor and Workforce Development

Commissioner Click Bishop

June 6, 2008

"This gasline will fuel our homes, our economy and careers for Alaskans - for generations."

Governor Sarah Palin
2008 State of the State Address

Gasline Workforce Goal

Alaskans are trained and ready for a gas pipeline and other natural resource development jobs—and these jobs are made available to Alaskans.

Workforce Development Process

- Identify skills gaps
- Minimize gaps through career awareness, effective labor exchange, job center network, accessible training services

Result: Alaskans meet the needs of Alaska employers for legacy jobs and long term careers.

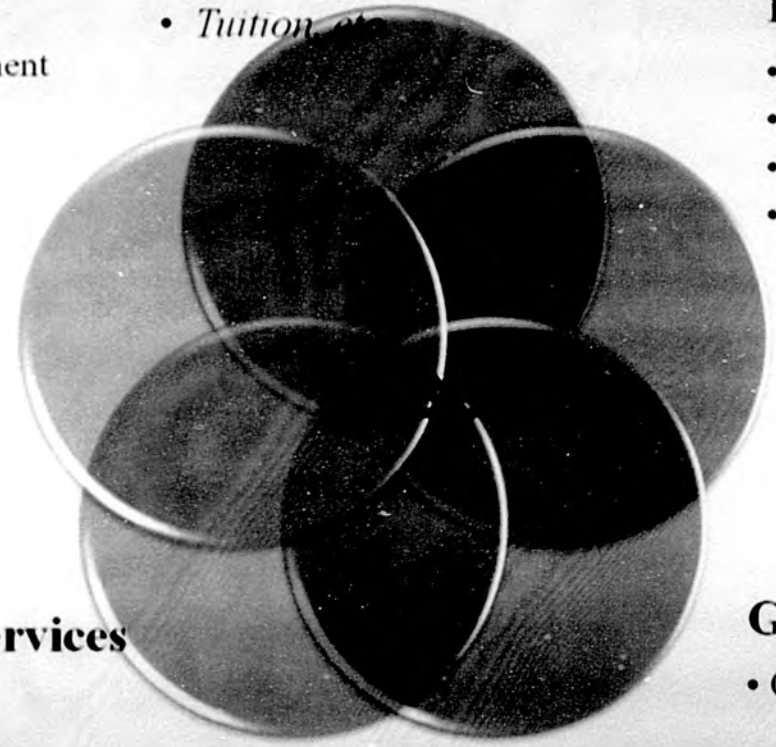
Training System at a Glance

Funding

- *Federal*
  - Workforce Investment Act
  - Denali Training
  - Pipeline Training
- *State*
  - STEP
  - TVEP
  - GF
- *Tuition*

Secondary Education

- Education & Early Development
- High Schools
- Adult Basic Education
- Youth First
- Construction Academies
- College Ready/Work Ready



Postsecondary Education

- University of Alaska
- AVTEC
- Regional Training Centers
- Private Training Providers

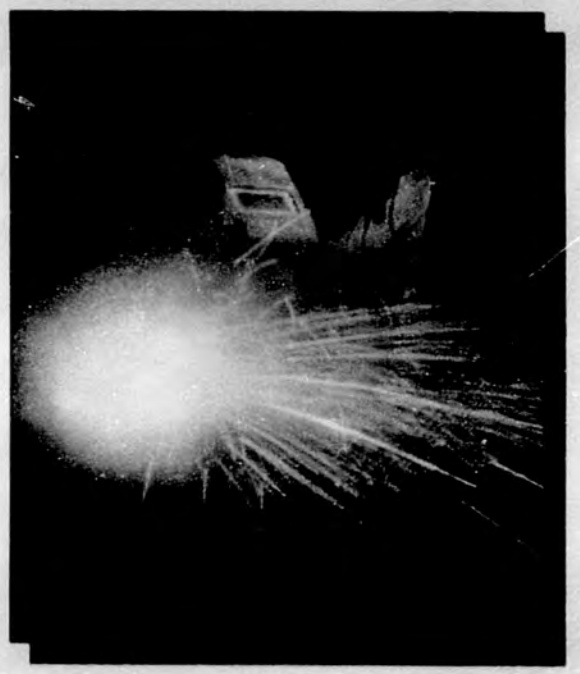
Employment Services

- Job Center Network
  - Counseling
  - Job/Training Referral

Grantees

- Competitive Selection

Challenges



- Economic Cycles
- Ebb and flow of workers
- Awareness—not just professional positions but high paying blue collar jobs
- Cost and accessibility of training
- Job barriers—drug free, driver's license, employability skills, transferrable certification

Four AGIA Strategies

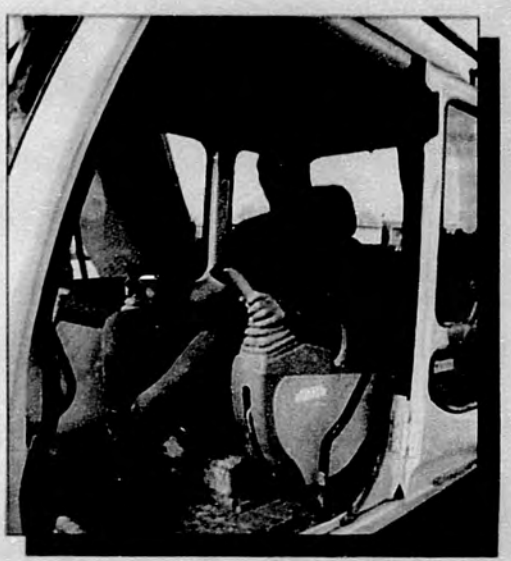
- Increase awareness of and access to careers in natural resource development
- Develop comprehensive career and technical education system
- Increase registered apprenticeships and on-the-job training opportunities
- Increase training for operations, technical and management workers

1. Increase Awareness of and Access to Careers in Natural Resource Development

- Job awareness program
- One stop information on jobs and training
  - Received funding in FY 09 budget to develop training web site and improve on-line job service

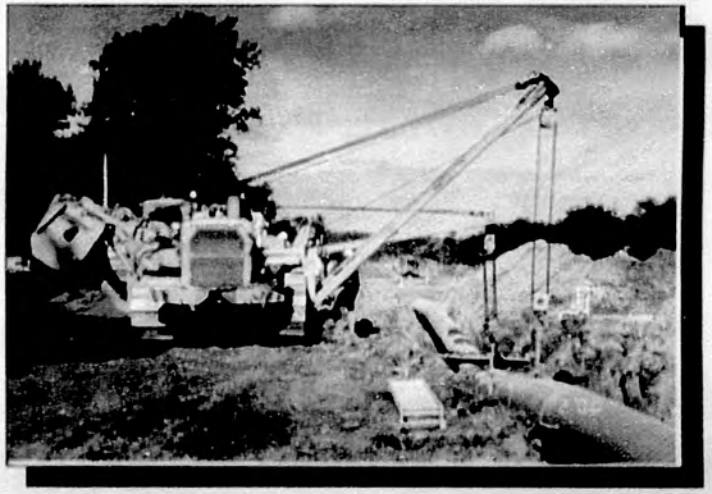
2. Develop Comprehensive Career and Technical Education System

- Career pathways and skill standards
  - FY 09 Budget includes coordinator
- Work Keys DEED/DOLWD partnership
  - FY 09 funding in DEED
- K-12 career planning and counseling
  - Alaska Youth First funded
- Integrated system for youth and adults
  - Construction academies funded
- Coordinate existing training programs



3. Increase Registered Apprenticeships and On-the-Job Training Opportunities

- Increase job training for entry level jobs
- Increase apprenticeships in construction
- Employer incentives for apprenticeships and OJT
  - Funding received to support apprenticeships and OJT—targeted federal grant and general fund



4. Increase Training for Operations, Technical and Management Workers

- Expand programs for critical jobs
  - FY 09 for UAA engineering program expansion
- Recruit more Alaska high school grads
- Better articulation between job training and management programs
- Help workers keep pace with technology and skill upgrades

Our Focus

- Current skills gap
- Legacy and long-term jobs

Identifying the AGIA Skills Gap

Working with industry partners, DOLWD:

- Identified 113 AGIA occupations
- Used existing occupational supply and demand data to help identify potential gaps

Alaska's AGIA Skills Gap

- Current gap: In 2006 nonresidents accounted for more than16% of the workers in the AGIA identified occupations
- Future gap: More than 37% of individuals working in AGIA occupation were 45 years old or older in 2006

AGIA Occupational Data

	Percent Nonresident Workers (2006)	Percent Workers Age 45+ (2006)	Average Hourly Wage (May 2007)
Carpenters	17.0%	34.6%	$26.33
Civil Engineers	12.4%	43.9%	$36.64
Electricians	24.2%	32.7%	$31.47
Operating Engineers and Other Construction Equipment Operators	18.3%	49.9%	$28.10
Surveyors	18.1%	45.2%	n/a
Truck Drivers, Heavy and Tractor-Trailer	13.6%	48.8%	$21.66
Welders, Cutters, Solderers, and Brazers	34.8%	40.4%	$25.05

For More Information

- Web: labor.state.ak.us
- Click on: AGIA Training Strategic Plan

June 8, 2008
Sunday

DOR Commissioner Galvin
DNR " (Irwin)

Spoke w/o slides

AGIA

Commissioners' Findings and Determination Summary

Special Session
June 6, 2008

Commissioners' AGIA Findings and Determination

AGIA
The Alaska Gasline Inducement Act

Overview from Commissioner Irwin

Commissioners' AGIA Findings and Determination

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- The pipeline project proposed by TC Alaska's application
  - will sufficiently maximize the benefits to the people of Alaska, and
  - merits issuance of an AGIA license.
- Issuing an AGIA License to TC Alaska maximizes benefits to Alaskans more than pursuing an LNG project or the Producers Project.

Maximizing Benefits to Alaskans

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- Get a Pipeline
- Jobs and long-term careers
- Opportunity of affordable energy for Alaskans
- Maximize state revenue and create opportunity for future growth of state economy

Maximizing Benefits to Alaskans

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The Alaska Gasline Inducement Act

- Get a Pipeline
  - A feasible project plan, sponsored by a capable pipeline company
  - An economic project likely to attract firm transportation commitments and secure financing
- Jobs and long-term careers
- Opportunity of affordable energy for Alaskans
- Maximize state revenue and create opportunity for future growth of state economy

Maximizing Benefits to Alaskans

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The Alaska Gasline Inducement Act

- Get a Pipeline
- Jobs and long-term careers
  - True "open access" for explorers
- Opportunity of affordable energy for Alaskans
- Maximize state revenue and create opportunity for future growth of state economy

True "Open Access"

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- Explorers have Confidence that
  - Pipeline capacity will be expanded if new gas is found
  - New gas will pay a fair transportation rate
- "Expansion Provisions"
- "Rolled-in Rates"

Maximizing Benefits to Alaskans

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- Get a Pipeline
- Jobs and long-term careers
- Opportunity of affordable energy for Alaskans
  - Off-Take Points, and Distance-Sensitive Rates
  - Expansion Provisions
  - Does not interfere with "Bullet Line" project
- Maximize state revenue and create opportunity for future growth of state economy

Maximizing Benefits to Alaskans

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- Get a Pipeline
- Jobs and long-term careers
- Opportunity of affordable energy for Alaskans
- Maximize state revenue and create opportunity for future growth of state economy
  - Lowest Reasonable Transportation Rates (tariff)
  - Expansion Provisions

TC Alaska Project Evaluation

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- Net Present Value (NPV)
- Likelihood of Success

Project Economic Analysis

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- Net Present Value (NPV) Analysis
  - Measures the profits (or losses) that a project will produce over time in today's money.
  - Because NPV is expressed in the common term of today's money, it can be used to compare the relative benefits of several competing projects.
  - Discount rate greatly affects present value of a future cash flow

Project Economic Analysis

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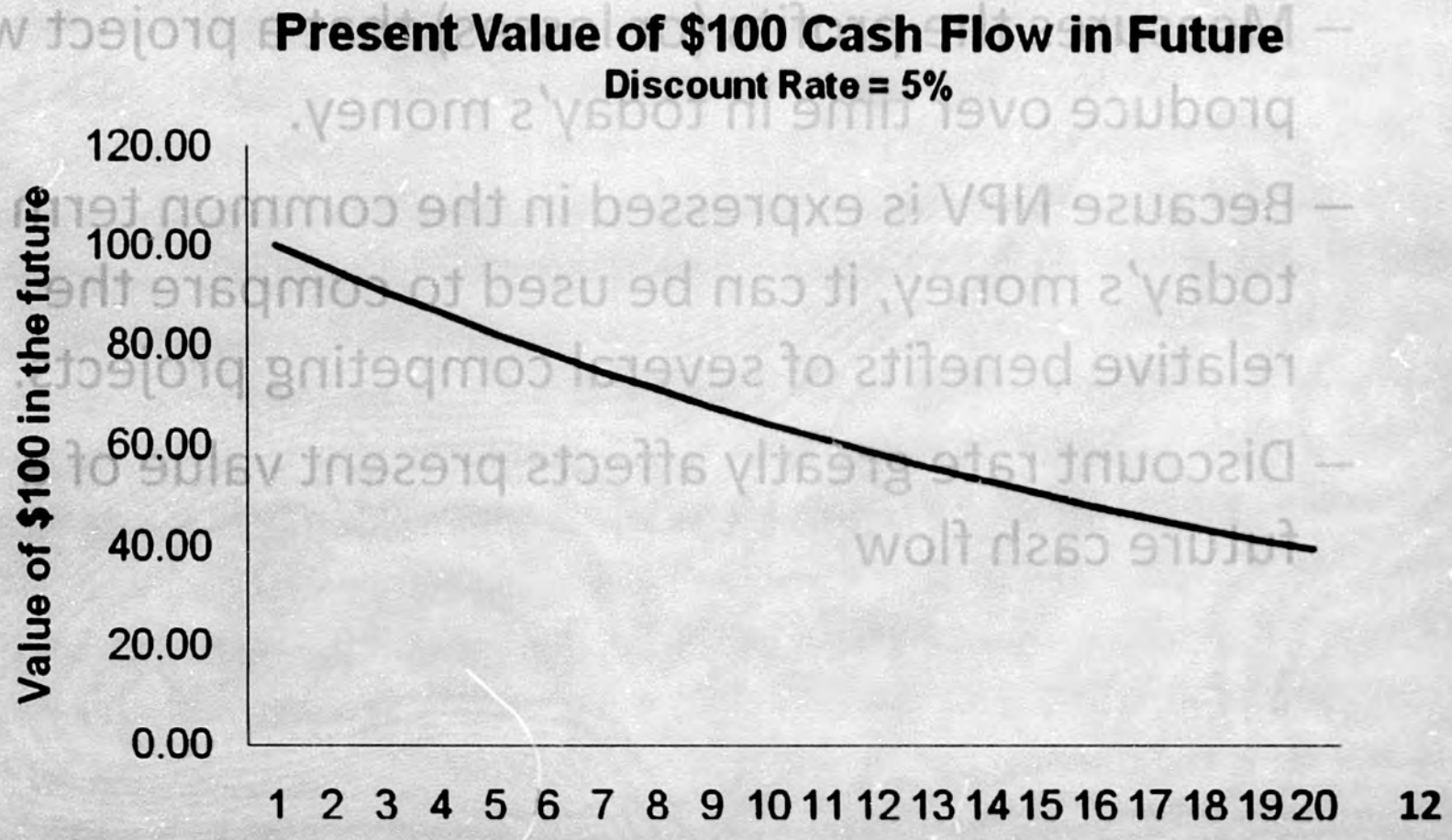
- Net Present Value (NPV) Analysis



Project Economic Analysis

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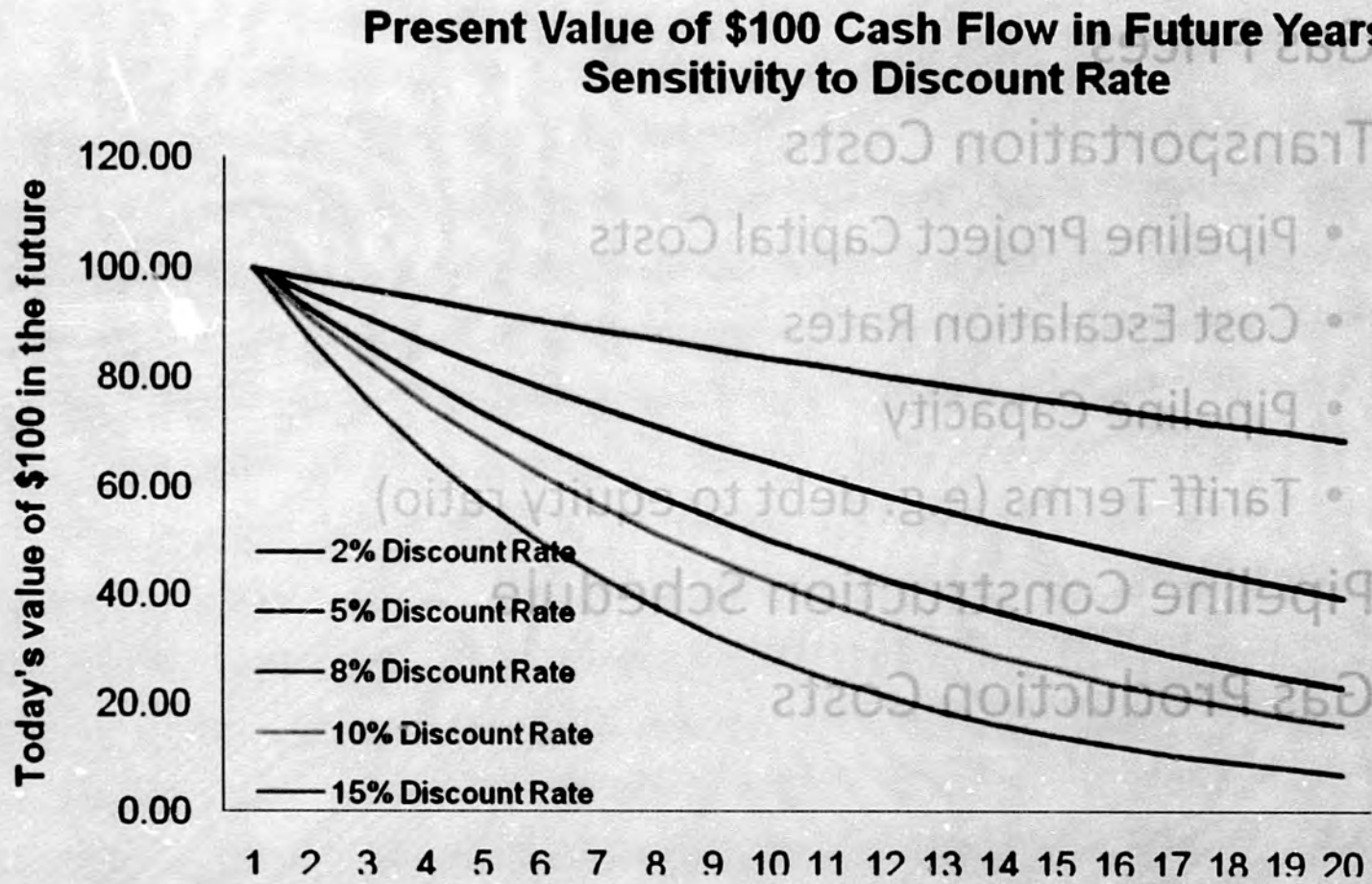
- Net Present Value (NPV) Analysis



Project Economic Analysis

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- Factors in NPV Analysis
  - Gas Prices
  - Transportation Costs
    - Pipeline Project Capital Costs
    - Cost Escalation Rates
    - Pipeline Capacity
    - Tariff Terms (e.g. debt to equity ratio)
  - Pipeline Construction Schedule
  - Gas Production Costs

Project Economic Analysis

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- Two "Base Cases" Reported for TC Alaska's Project
  - "Proposal Base Case"
    - 4.5 Bcf/d (including 0.9 Bcf/d from Pt. Thomson)
    - 75/25 debt to equity
    - 14% return on equity
    - 25 year shipping contracts
  - "Conservative Base Case"
    - 4.0 Bcf/d (No gas from Pt. Thomson)
    - 75/25 debt to equity
    - 14% return on equity
    - 20 year shipping contracts

Project Economic Analysis

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- Gas Price Models
  - Separate price forecasts were obtained from
    - US DOE's Energy Information Administration (EIA)
    - Wood Mackenzie
    - Gas Strategies Consulting
    - Black and Veatch

Project Economic Analysis

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- Project Cost and Schedule
  - "Technical Team", included
    - Westney Consulting
    - Energy Project Consultants
    - Pingo International
    - AMEC Paragon
    - Colt Engineering
    - Mustang Management
    - Energy Operations Consulting
    - Black and Veatch
    - Merlin Associates

Project Economic Analysis

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- Project Cost Estimates – Mid-Range
  - Proposal Base Case
    - $31 Billion in today's dollars
      - $3.19 tariff
    - $45 Billion in dollars spent
      - $4.73 tariff
  - Conservative Base Case
    - $29 Billion in today's dollars
      - $3.59 tariff
    - $42 Billion in dollars spent
      - $5.33 tariff

Project Economic Analysis

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Project Cost Estimates – Why Higher than TC Alaska's?

- Different Purposes – Project Planning vs. Risk Assessment
- Difference Between Assumptions Mandated in the RFA and the final analysis assumptions
  - Exchange rate, cost escalation rate
- Assumed "Neutral Competence" of Operator
- Cost of the GTP
  - One vs. Two seasons of sea-lift
- TC Alaska's Cost Estimates are "realistically aggressive" and appropriate for project planning

Project Economic Analysis

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- Project Schedule
  - Mid-range probability put first gas in 2020
  - State's Canadian Counsel advised on expected regulatory timeline in Canada, including First Nation issues
  - TC Alaska's schedule (first gas in 2017) is "realistically aggressive"

Project Economic Analysis

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NPV Calculation Summary – Proposal Base Case

- Gas Prices (WoodMac)
- Transportation Costs
  - Pipeline Project Capital Costs ($31.5 billion)
  - Cost Escalation Rates (4%)
  - Pipeline Capacity (4.5 Bcf/d)
  - Tariff Terms (e.g. debt to equity ratio[75/25])
- Pipeline Construction Schedule (2020)
- Gas Production Costs

Project Economic Analysis

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Proposal Base Case Results

- The State of Alaska would realize an estimated cash flow of $261.5 billion, and an estimated NPV of approximately $66.1 billion at a discount rate of 5%.
- The Major North Slope Producers would realize an estimated cash flow of $147.4 billion, and an estimated NPV of approximately $13.5 billion at a discount rate of 10%.

Project Economic Analysis

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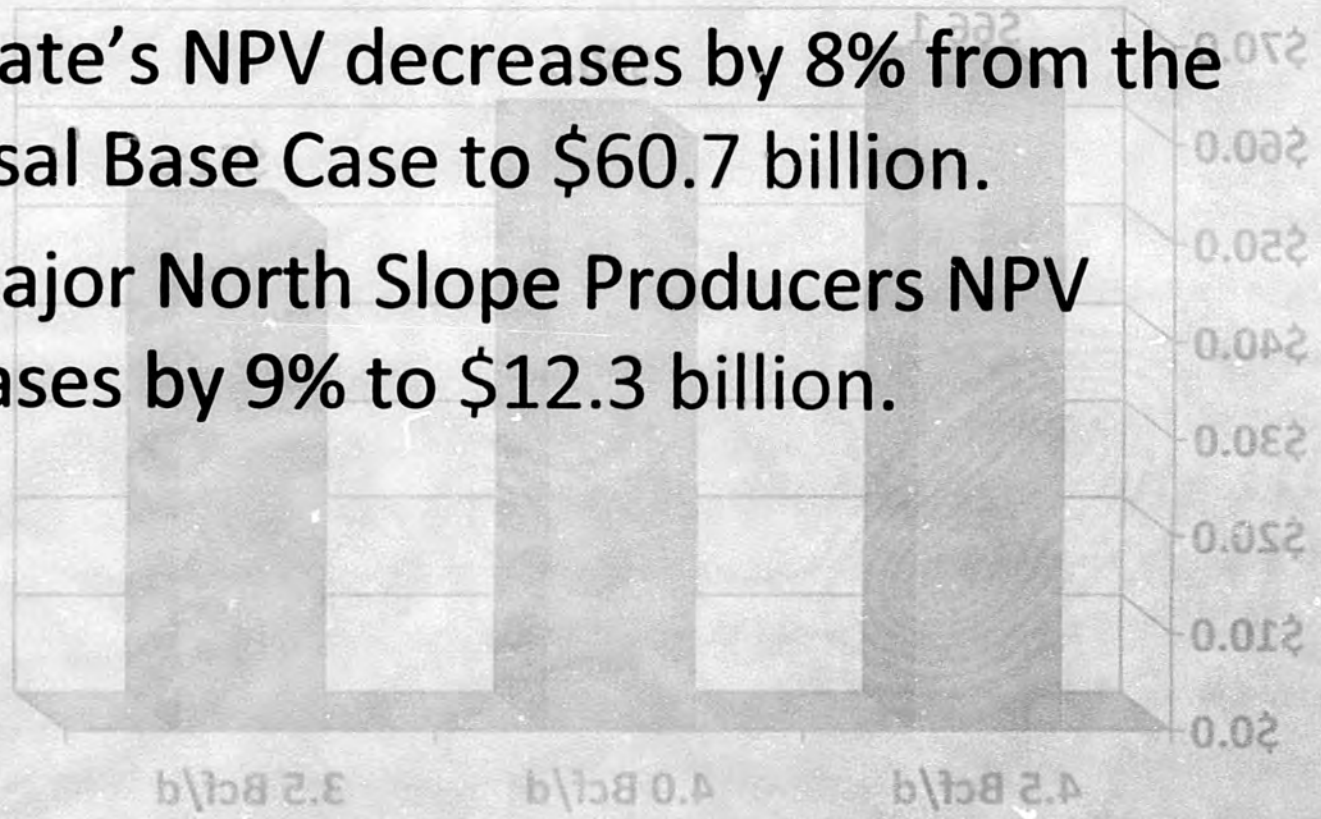
Conservative Base Case Results

- The State's NPV decreases by 8% from the Proposal Base Case to $60.7 billion.
- The Major North Slope Producers NPV decreases by 9% to $12.3 billion.



Project Economic Analysis

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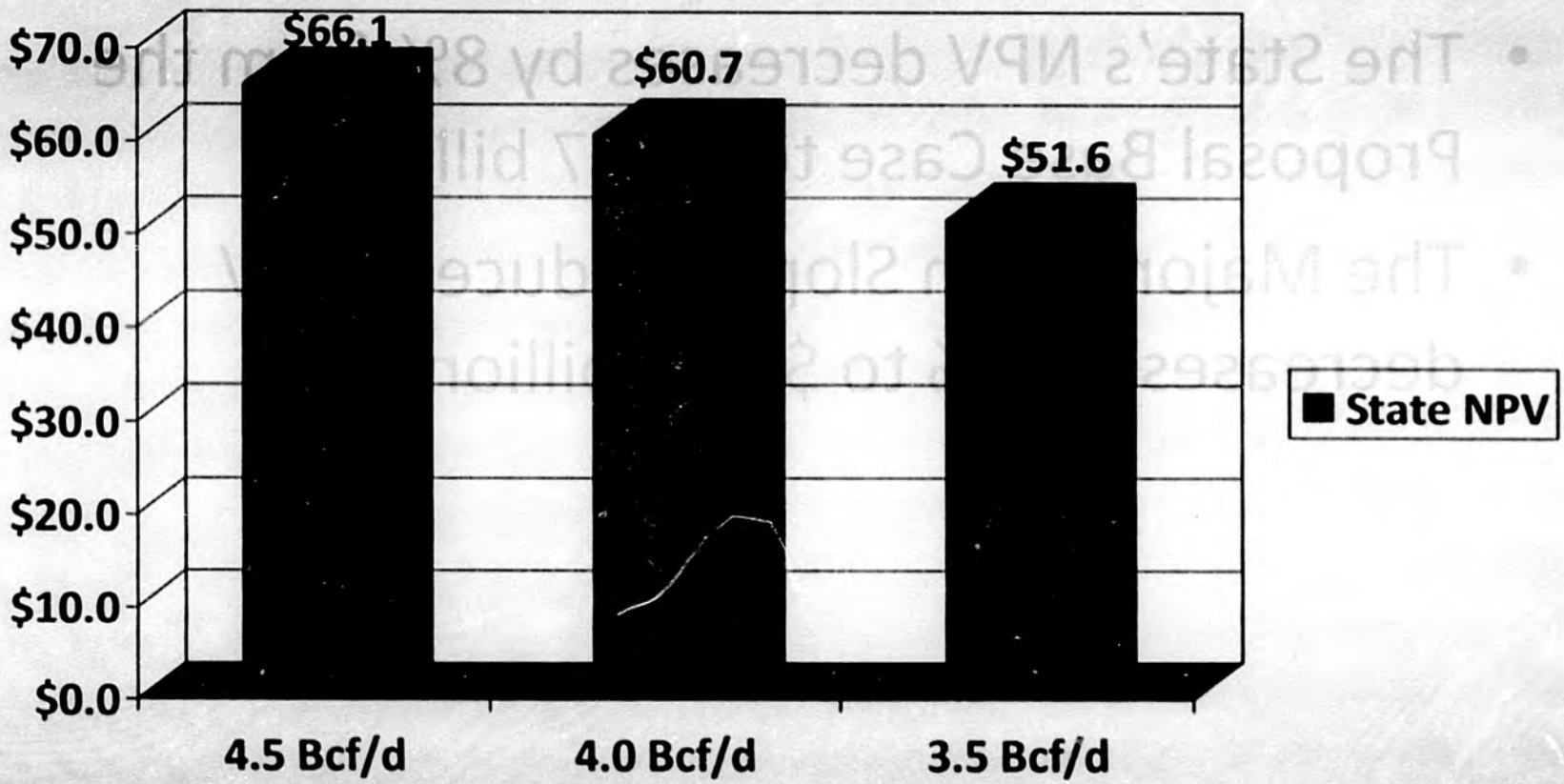
State NPV at Various Initial Capacity



Project Economic Analysis

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- The Project Economics are Extremely Robust
  - It would take a "perfect storm" of worst case scenarios for multiple factors for the Project to be uneconomic.
  - Indeed, a "perfect storm" of low gas prices and high construction costs, together, are not enough to generate negative state NPV.

$500 Million Matching Contribution

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Effect of State's $500 Million Matching Contribution to TC Alaska's Project

- Tariff is reduced by 6 cents
- State's NPV increases by $200 Million

Attracting Gas Commitments to TC Alaska's Project

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- Robust economics and reasonable commercial terms.
- Extremely capable pipeline company.
- State's Upstream Inducements
  - 10-year tax certainty
  - Royalty valuation certainty
- Avoid Problems of Not Committing Gas
  - Duty to develop
  - Anti-trust
  - Congressional Attention
  - Shareholder Questions

TC Alaska Project Is Likely to Succeed

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- TC Alaska has submitted a plan for its project that is technically feasible, reasonable, and specific.
- TC Alaska has demonstrated the technical and financial ability to construct the project.
- TC Alaska has submitted a reasonable commercial plan which, coupled with economic and political factors, should help to encourage firm shipping commitments

TC Alaska Project Is Likely to Succeed

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Contingent Liability Issue

- Risk of litigation is significantly overstated.
- Potential legal claims by withdrawn partners are, at best, weak and unlikely to succeed.
- Not a reasonable basis for the Major North Slope Producers to refrain from partnering with TC Alaska or contracting with the Project.

TC Alaska Project Comparisons

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- Producer Project (Denali)
- LNG Options

Denali Project Is More Risky For the State

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- Lack of commitments create risks for state
- No certainty on project schedule
  - Likely Anti-trust Challenges
- Undefined tariff terms
  - Example, 50/50 debt to equity increases the tariff by $1 compared to 75/25, costing the state over $8 billion in NPV
- Undefined state fiscal concessions needed for Denali
  - SGDA concessions worth over $10 billion
- No Certainty on Expansion Provisions
  - Producer Incentives to exercise basin control
  - Stifles North Slope basin development
  - Loss of long-term jobs and careers
  - Loss of Potential LNG development

Producer Pipeline Considerations

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- Even if TC Alaska License is issued, Producers can proceed with Denali, commit gas to it, and build it without any additional state concessions
- State has significant interest in attracting Producers to commit gas to TC Alaska's project
  - Expansion Provisions
  - Lowest reasonable tariff - Highest Netback
- State Needs to Use Power of Competition to Protect Alaskans Interests

LNG Analysis

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- Extensive Analysis of LNG economics and likelihood of success
  - Asian market price
  - LNG project costs and schedule
  - How LNG projects are developed
  - Potential hurdles for LNG projects

LNG Economic Analysis

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- Ran economics on "unrealistic" 4.5 Bcf/d project
- Also compared with 2.7 Bcf/d project options
- Confirmed Asian market premium price
- Liquefaction plant costs create economic drag
- LNG does not provide time or cost savings
- Asian LNG does not provide "value added" petrochemical industry
- State NPV lower under all LNG options

LNG Likelihood of Success

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- LNG less likely to succeed without TC Alaska
  - Entire project stream, from gas supply, to pipeline, to liquefaction, to tankers, to re-gasification, to gas sales must be negotiated and executed nearly simultaneously
  - Requires reserves certification
  - Expansions are more difficult because of size
  - Liquefaction plant is additional "open access" pinch-point
  - Export authorization is a challenge

Opportunity for "Y line" LNG

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- If sufficient gas, TC Alaska willing to expand to transport gas from Delta Junction to Prince William Sound
- LNG project will benefit from TC Alaska's financial and technical abilities
- State will benefit from supplying gas to both LNG and North American markets
- "Y line" is the best option for the state

Additional Considerations

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- Treble Damages Exposure
- Competition

Treble Damages Exposure

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$Millions

Year	Annual Spend	State Expenditure	TC Alaska Expenditure	3x TC Alaska Expenditure	Cumulative State Exposure
2008	$41	$21	$21	$62	$82
2009*	**$42**	**$21**	**$21**	**$63**	**$166**
2009	$34	$31	$3	$10	$207
2010	$141	$127	$14	$42	$376
2011	$144	$130	$14	$43	$549
2012	$147	$132	$15	$44	$726
2013	$75	$39	$36	$109	$874
Total	**$625**	**$500**	**$125**	**$374**	**$874**

***Scheduled Open Season**

Expenditure Schedule Based on TC Alaska Application

Competition

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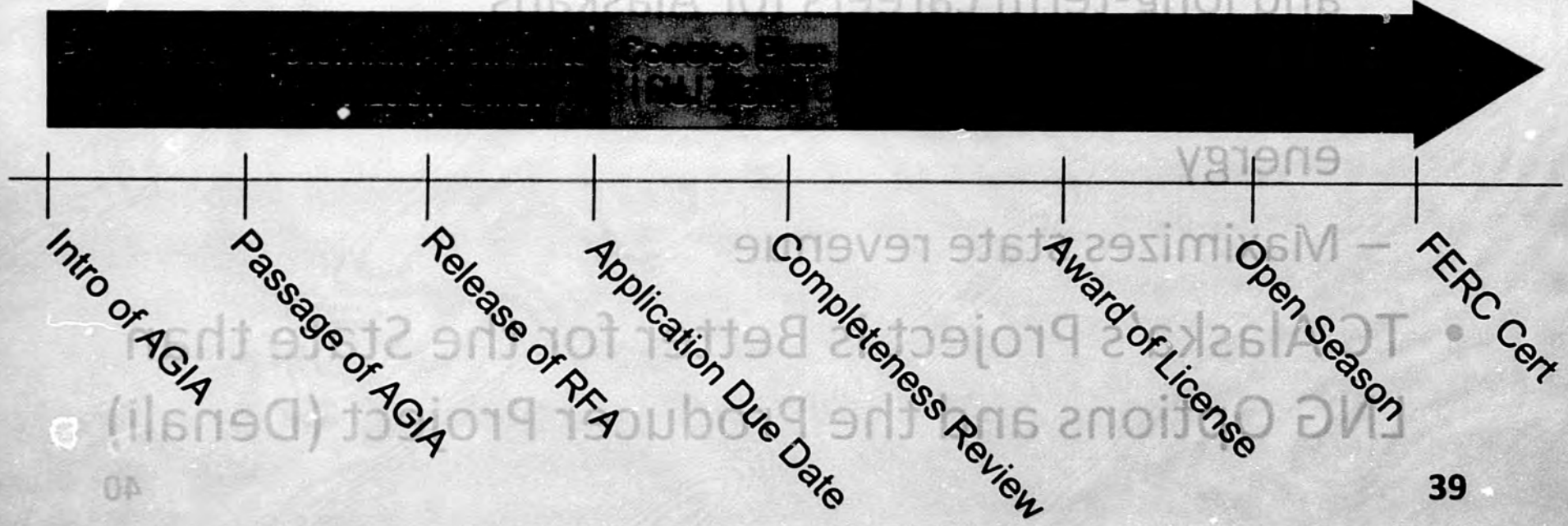

Summary

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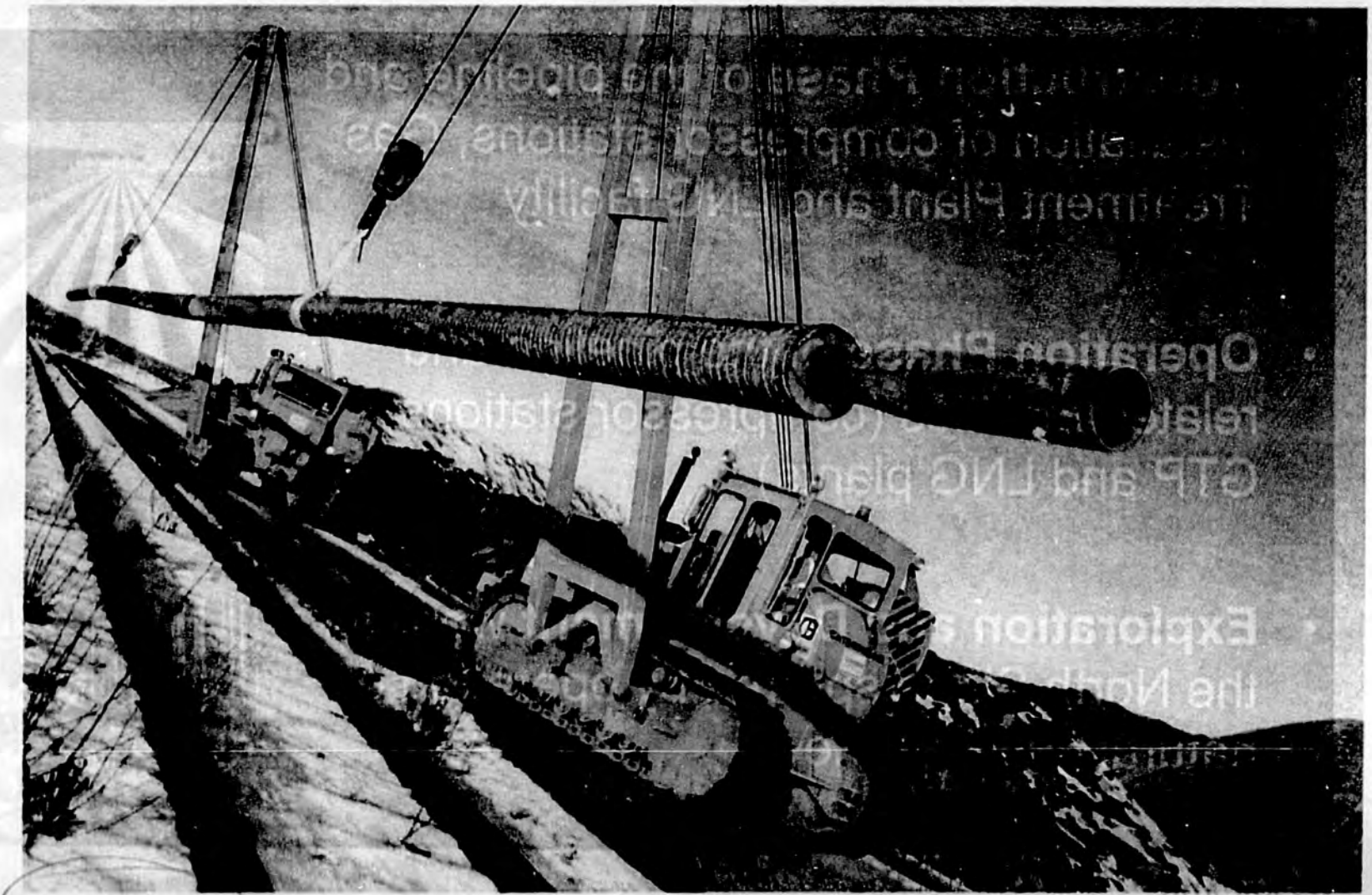
- TC Alaska's Project Maximizes Benefits to Alaskans
  - Best Chance to Get a Pipeline
  - Expansion Provisions Provide best chance for Jobs and long-term careers for Alaskans
  - Increases Alaskans opportunity of affordable energy
  - Maximizes state revenue
- TC Alaska's Project is Better for the State than LNG Options and the Producer Project (Denali)

25th Legis: 3rd Sp. Session June 8, 2008 Sunday presented by Conrad Mulligan ARCADIS

Modeling of Short- and Long-Term Employment Generated by Construction and Operation of an Alaska Natural Gas Pipeline Project



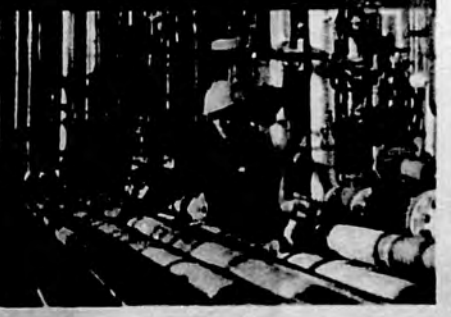
ARCADIS

Employment projections generated for ...

- **Construction Phase** of the pipeline and installation of compressor stations, Gas Treatment Plant and LNG facility

- **Operation Phase** of the pipeline and related facilities (compressor stations, GTP and LNG plants)

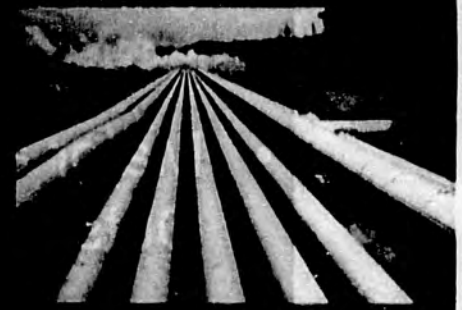
- **Exploration and Development** work on the North Slope spurred by operation of natural gas pipeline



ARCADIS

Sources of Data/Model Used

- Sources of Data
  - Cost data from TC Alaska AGIA Application and other information provided to the State
  - Data generated by State's consultants
  - Information from Division of Oil and Gas

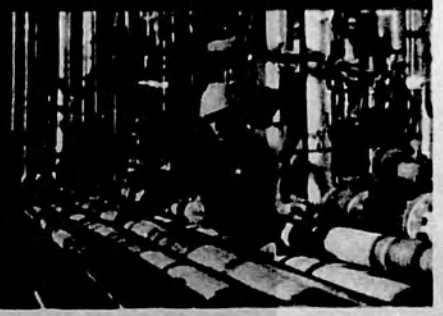


- Model Used
  - IMPLAN
  - Cost-driven
  - Uses Alaska-specific labor factors

ARCADIS

Construction Phase Assumptions

- Gas Treatment Plant and LNG facility will be built Outside
- Major equipment and materials purchased Outside
- Labor force in Valdez constrained by size of camp



ARCADIS

Construction Phase Employment Results

- Any natural gas pipeline project will create thousands of short-term construction jobs

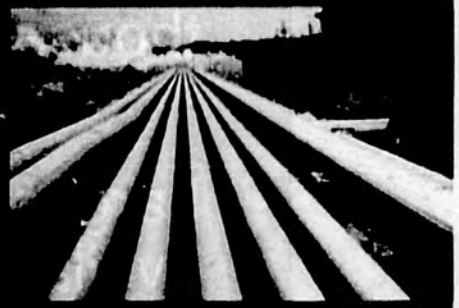
- Largest number of construction jobs will be available during a brief peak period
- LNG option
  - 16,000 jobs in peak year
  - Longer 'peak' period due to LNG installation

- TC Alaska/Producer Pipeline
  - 15,000 jobs in peak year

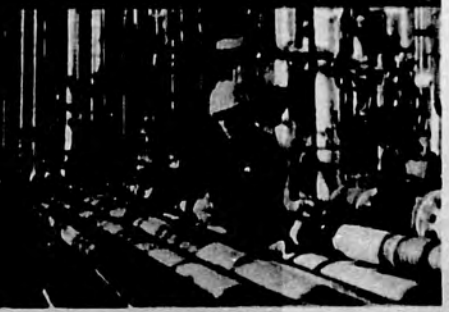
ARCADIS

Operations Phase Employment Results

- TC Alaska or Producer Pipeline: ~200 operations jobs in Alaska

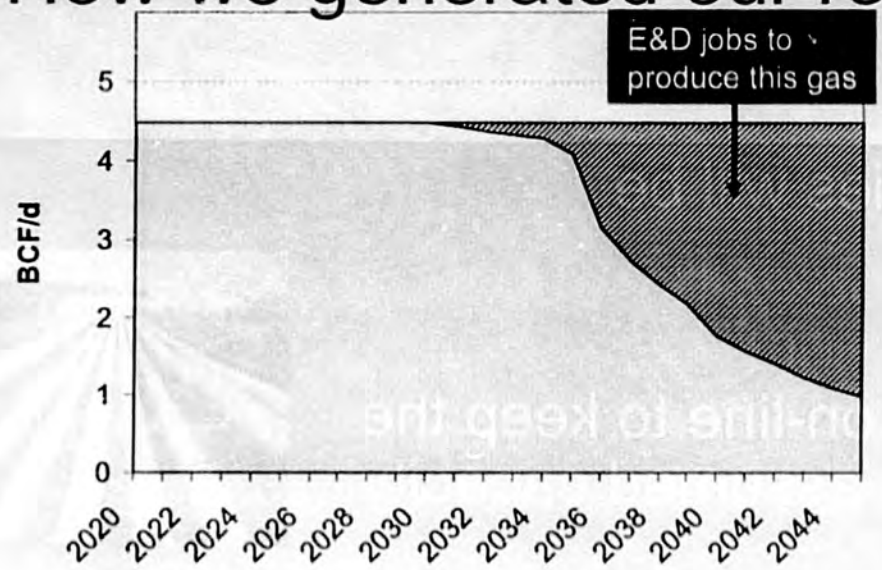


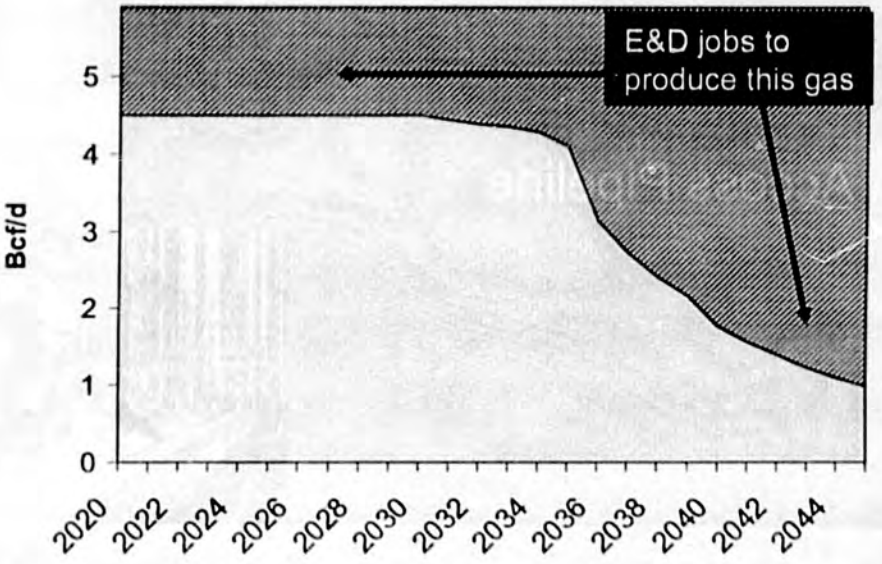
- LNG option: ~600 operations jobs in Alaska
  - ~400 jobs at LNG plant in Prince William Sound



ARCADIS

E&D Employment:
How we generated our results—Scenarios





- Non-Open Access Pipeline
  - No capacity expansion
  - No new natural gas production (or E&D work) until current fields fall off plateau
- TC Alaska Scenario
  - Capacity expansions as demanded + Reasonable tariffs = Favorable explorer economics = E&D rush

ARCADIS

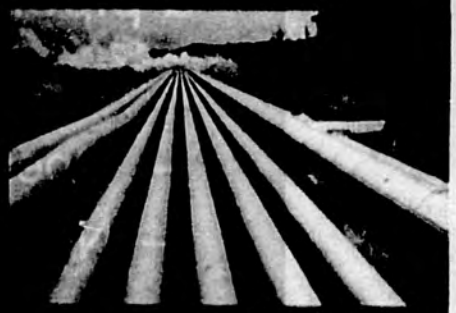
E&D Employment:
How we generated our results—Assumptions

- New production facilities will be constructed in Alaska
- Fields will be brought on-line to keep the pipeline full at a given assumed capacity
  - 5.9 bcf/d for TC Alaska Scenario
  - 4.5 bcf/d for Non-Open Access Pipeline Scenario

ARCADIS

Results: E&D Employment

- TC Alaska
  - Approximately **72,000** E&D jobs in the 2015 to 2045 timeframe
  - Jobs may be created as early as 2015



- Non-Open Access Project
  - Approximately **47,000** E&D jobs in the 2015 to 2045 timeframe
  - Job creation may be delayed as late as 2026

ARCADIS

3rd Sp Session June 2008 June 8, 2008

Results: E&D Employment

- Timing of E&D job creation is a function of a pipeline's characteristics
  - Open Access = Jobs Sooner
  - Non-Open Access = Job Creation Delay

- Creating new natural gas basin-related jobs sooner is important …
  - Offset job losses likely to occur as existing oil fields decline
  - Maintain existing skill sets and talent pool in Alaska

ARCADIS

AGIA
Legislative Special Session

Incentives and Mandates for Pipeline Expansions

Greg Hopper
Black & Veatch
June 8, 2008

"Best Practices" Regarding Expansion

- Bi-annual Open Season Offerings
  - Allows shippers to plan, reduces risk premiums
- Capital Structure Certainty
  - Helps to lower rates for shippers
- Rolled-in Rates
  - Shares the benefits of scale economies, level playing field

Development

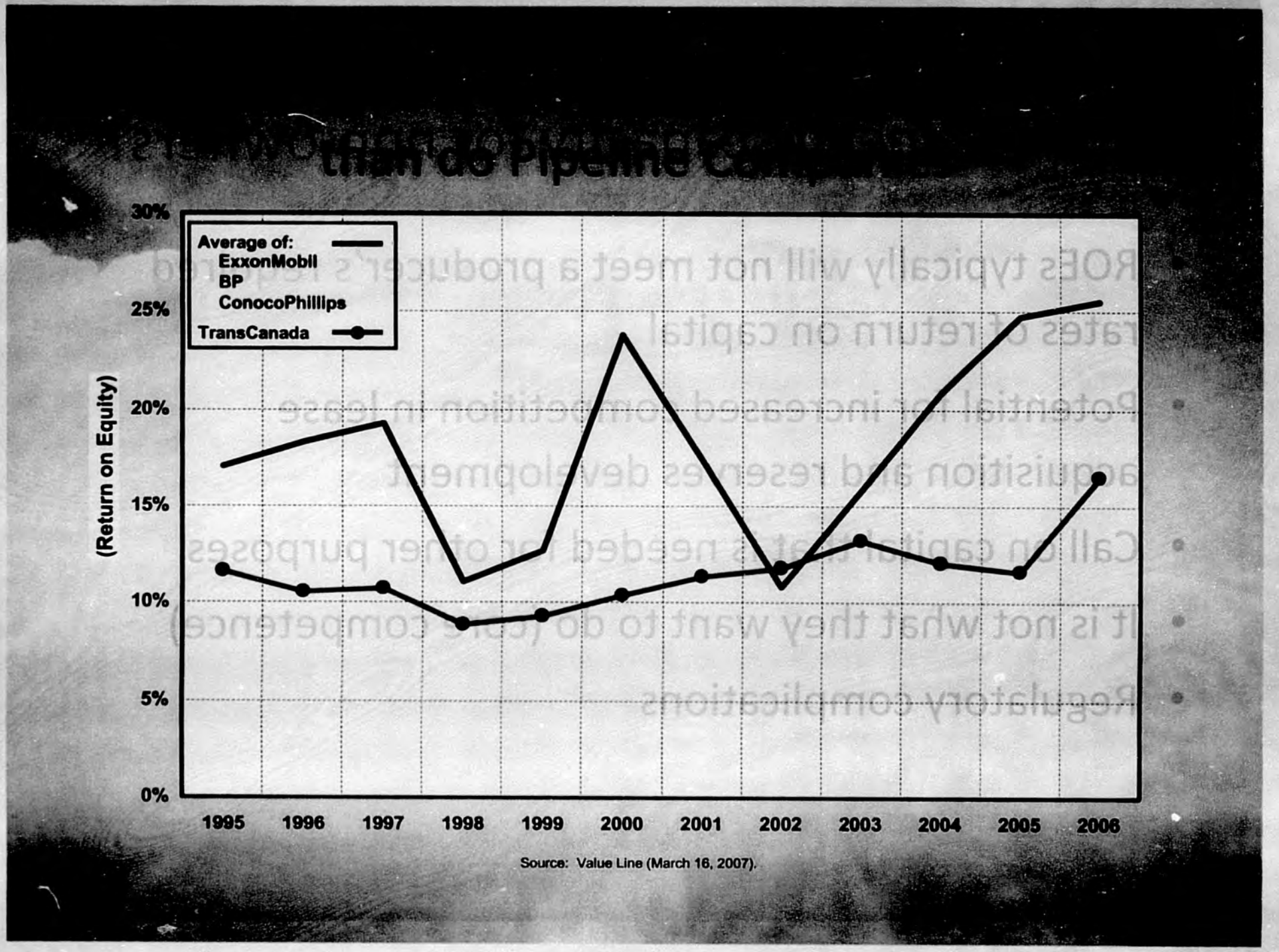
- Cost control
- Operating control
- Capacity certainty
- Expansion timing
- Strategic

Expansion

- Outlet for increased equity production
- ?

Pipeline vs. Producer Returns on Equity

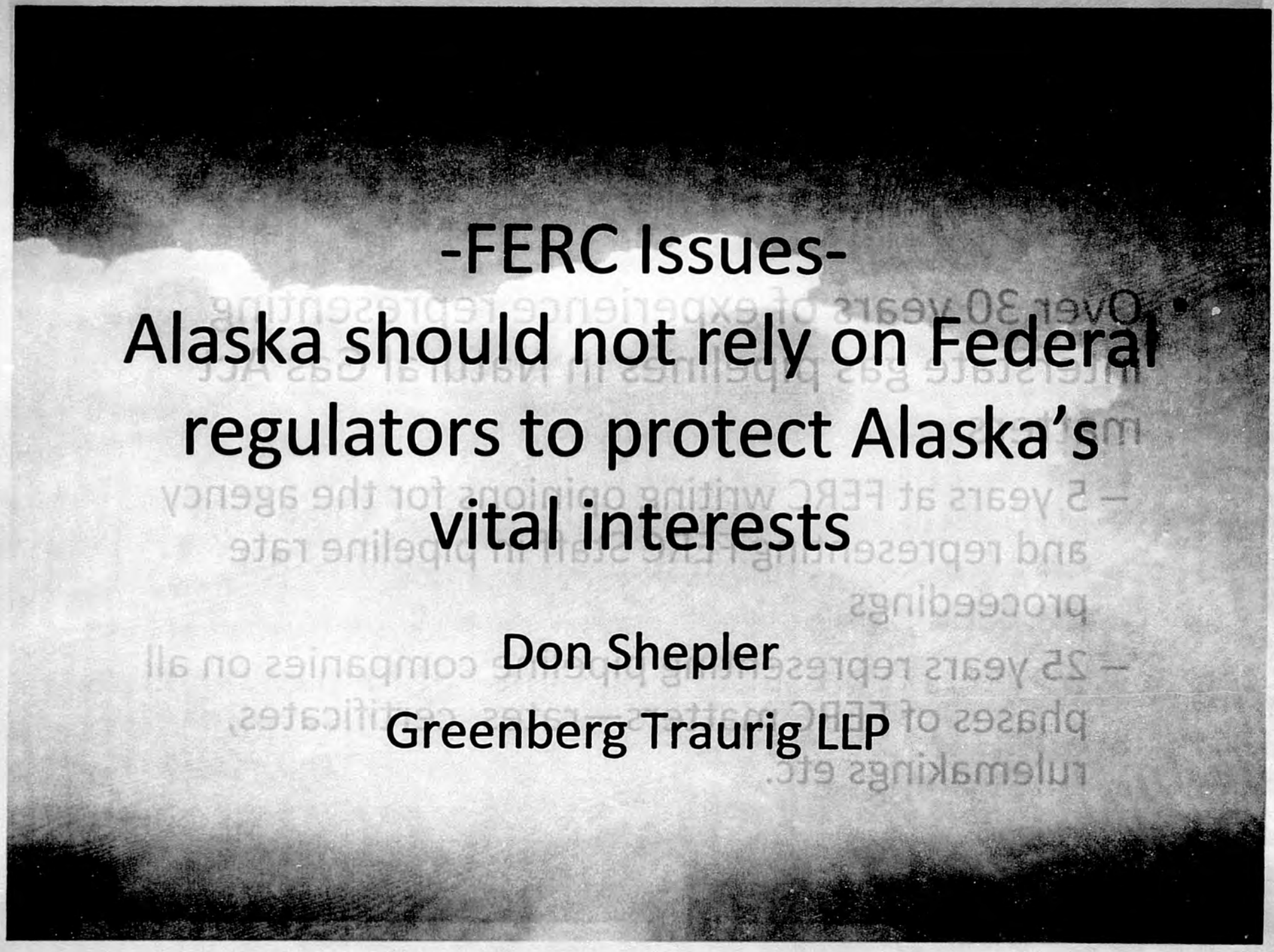
- Gas pipeline regulated rates of return on equity (ROE) generally recognize lower levels of operating risks than other industries
  - FERC ROEs of 14% or less are common
  - ROEs granted to pipelines prior to in-service are often reduced in subsequent rate cases
- Exploration and Production company shareholders require relatively higher (15% – 20%+) ROEs to compensate for higher perceived risks



Source: Value Line (March 16, 2007).

pipeline capacity for non-owners?

- ROEs typically will not meet a producer's required rates of return on capital
- Potential for increased competition in lease acquisition and reserves development
- Call on capital that is needed for other purposes
- It is not what they want to do (core competence)
- Regulatory complications



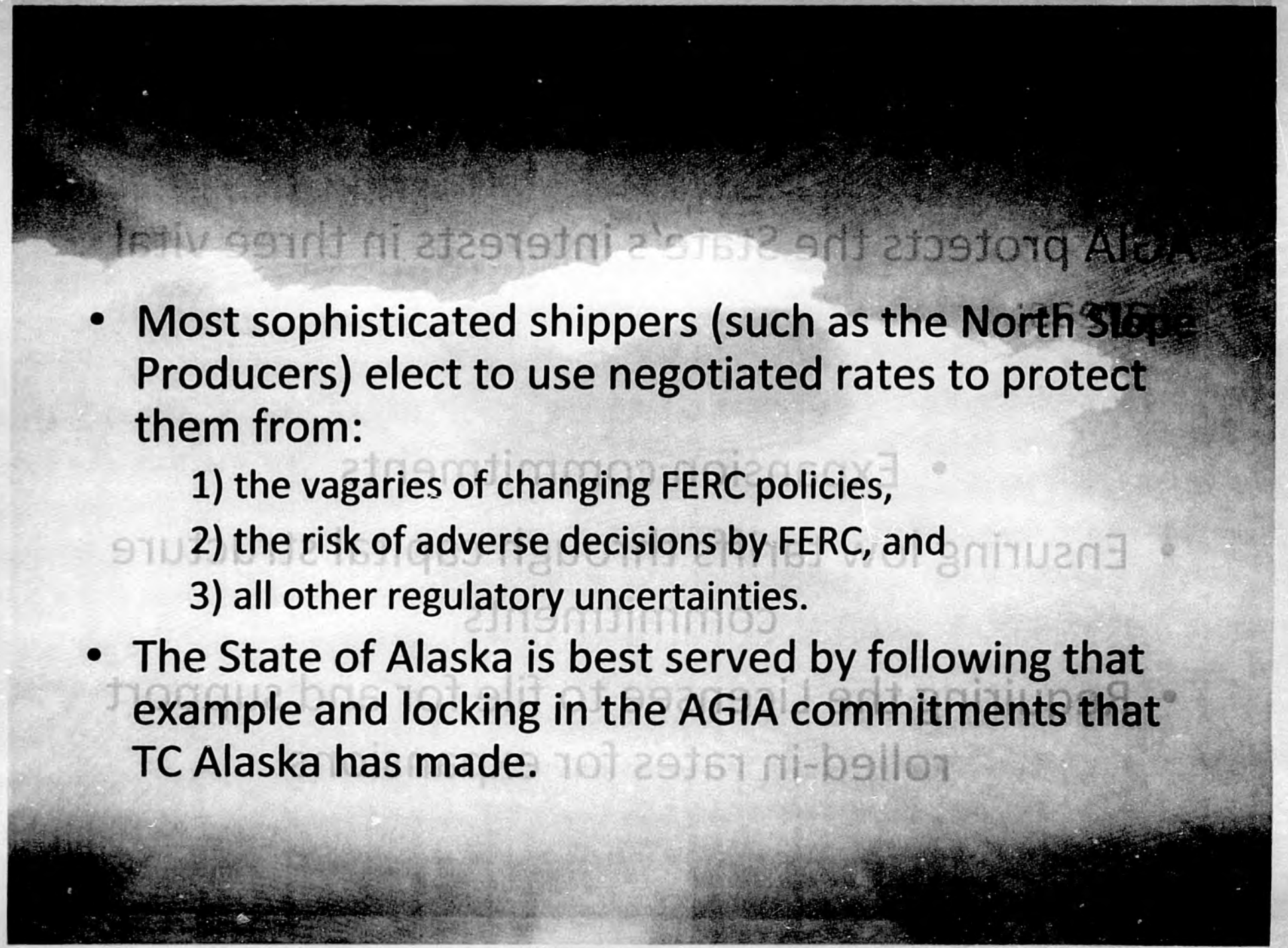
-FERC Issues-
Alaska should not rely on Federal regulators to protect Alaska's vital interests

Don Shepler

Greenberg Traurig LLP

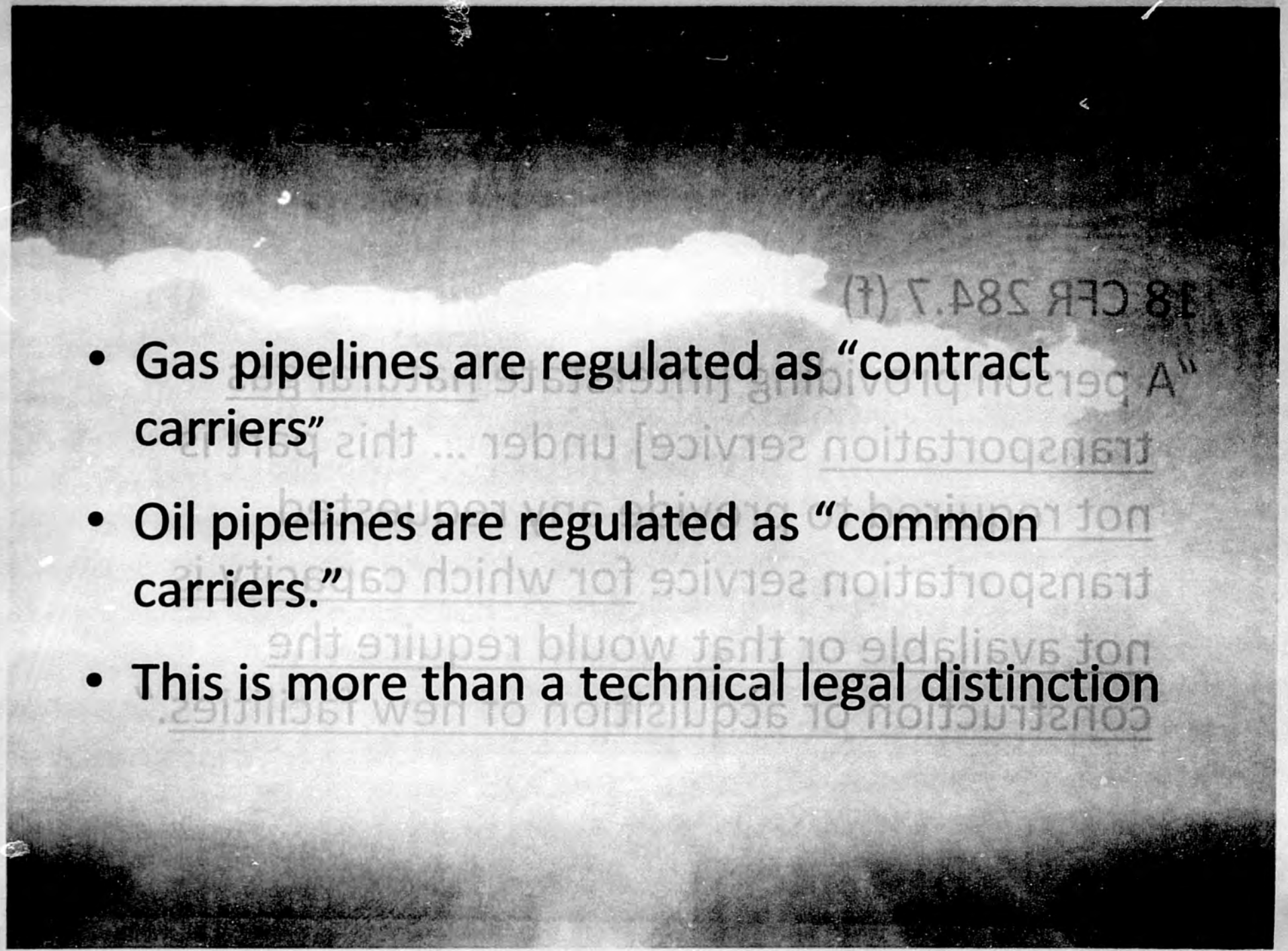
My Background

- Over 30 years of experience representing interstate gas pipelines in Natural Gas Act matters
  - 5 years at FERC writing opinions for the agency and representing FERC Staff in pipeline rate proceedings
  - 25 years representing pipeline companies on all phases of FERC matters—rates, certificates, rulemakings etc.


• Most sophisticated shippers (such as the North Slope Producers) elect to use negotiated rates to protect them from:
1) the vagaries of changing FERC policies,
2) the risk of adverse decisions by FERC, and
3) all other regulatory uncertainties.
• The State of Alaska is best served by following that example and locking in the AGIA commitments that TC Alaska has made.

AGIA protects the State's interests in three vital areas:

- Expansion commitments
- Ensuring low tariffs through capital structure commitments
- Requiring the Licensee to file for and support rolled-in rates for expansions

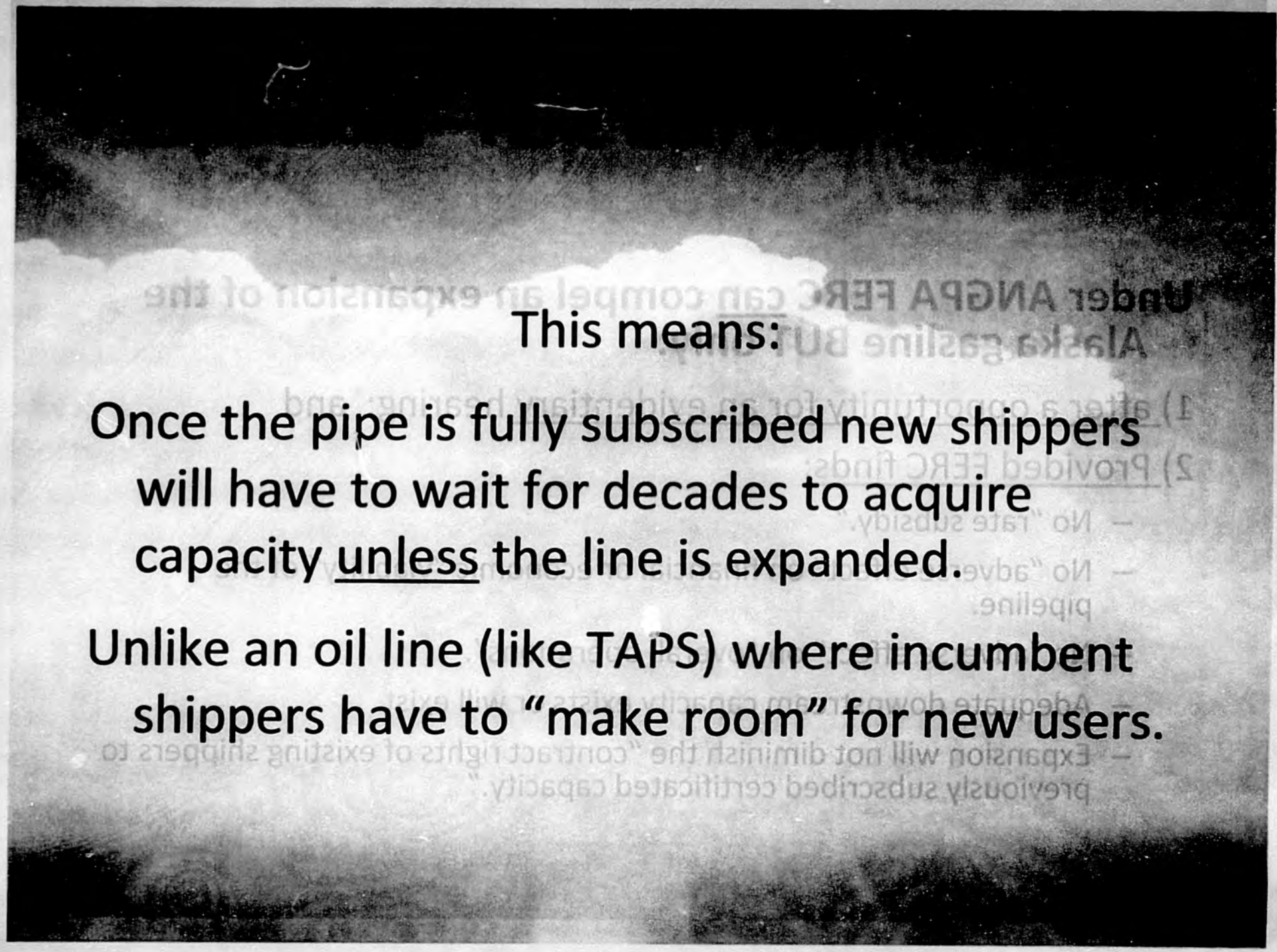


- Gas pipelines are regulated as "contract carriers"
- Oil pipelines are regulated as "common carriers."
- This is more than a technical legal distinction

FERC won't bail Alaska out

18 CFR 284.7 (f)

"A person providing [interstate natural gas transportation service] under ... this part is not required to provide any requested transportation service for which capacity is not available or that would require the construction or acquisition of new facilities."


This means:
Once the pipe is fully subscribed new shippers will have to wait for decades to acquire capacity unless the line is expanded.
Unlike an oil line (like TAPS) where incumbent shippers have to "make room" for new users.

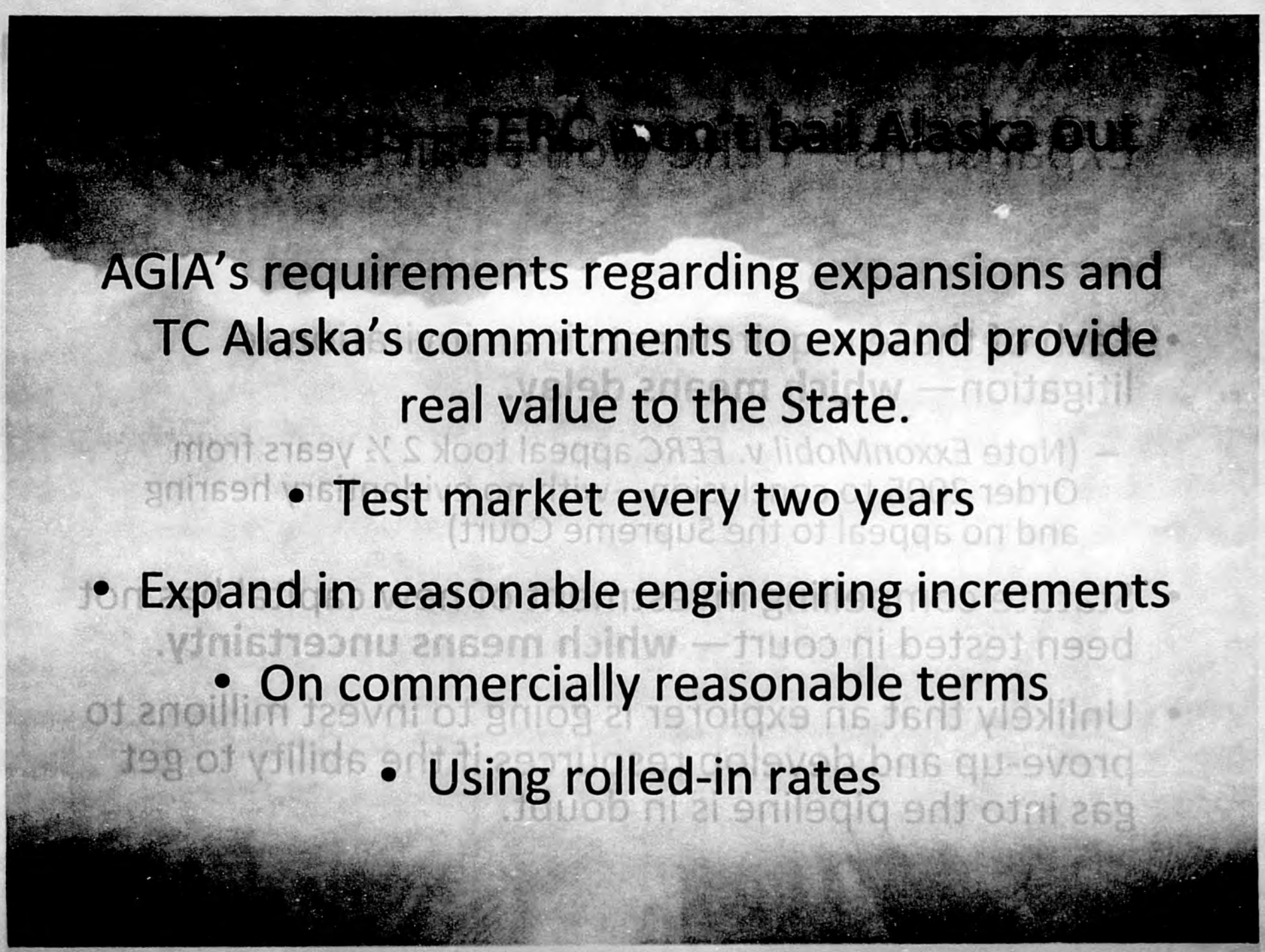
Under ANGPA FERC can compel an expansion of the Alaska gasline BUT only:

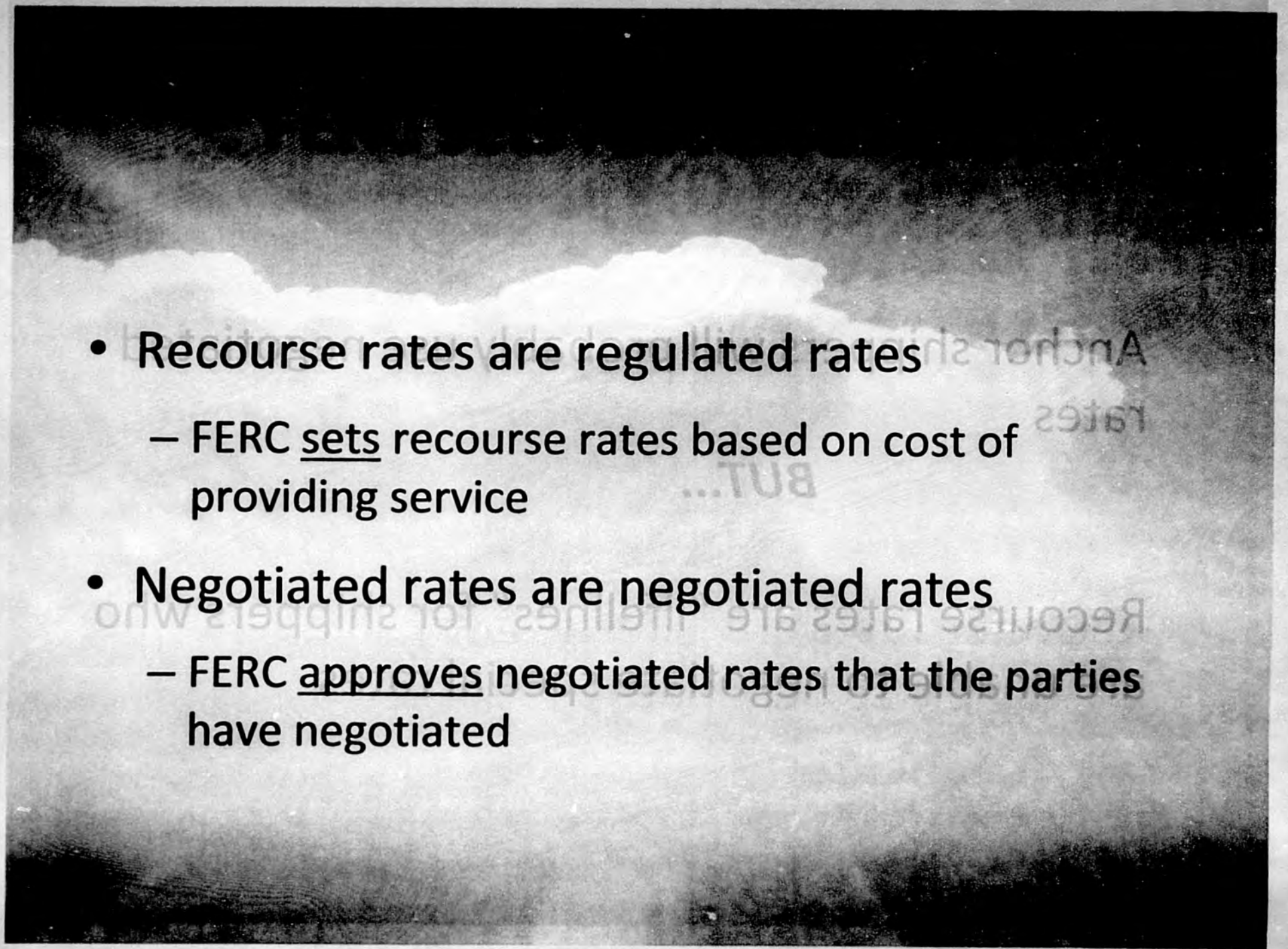
1) after a opportunity for an evidentiary hearing; and

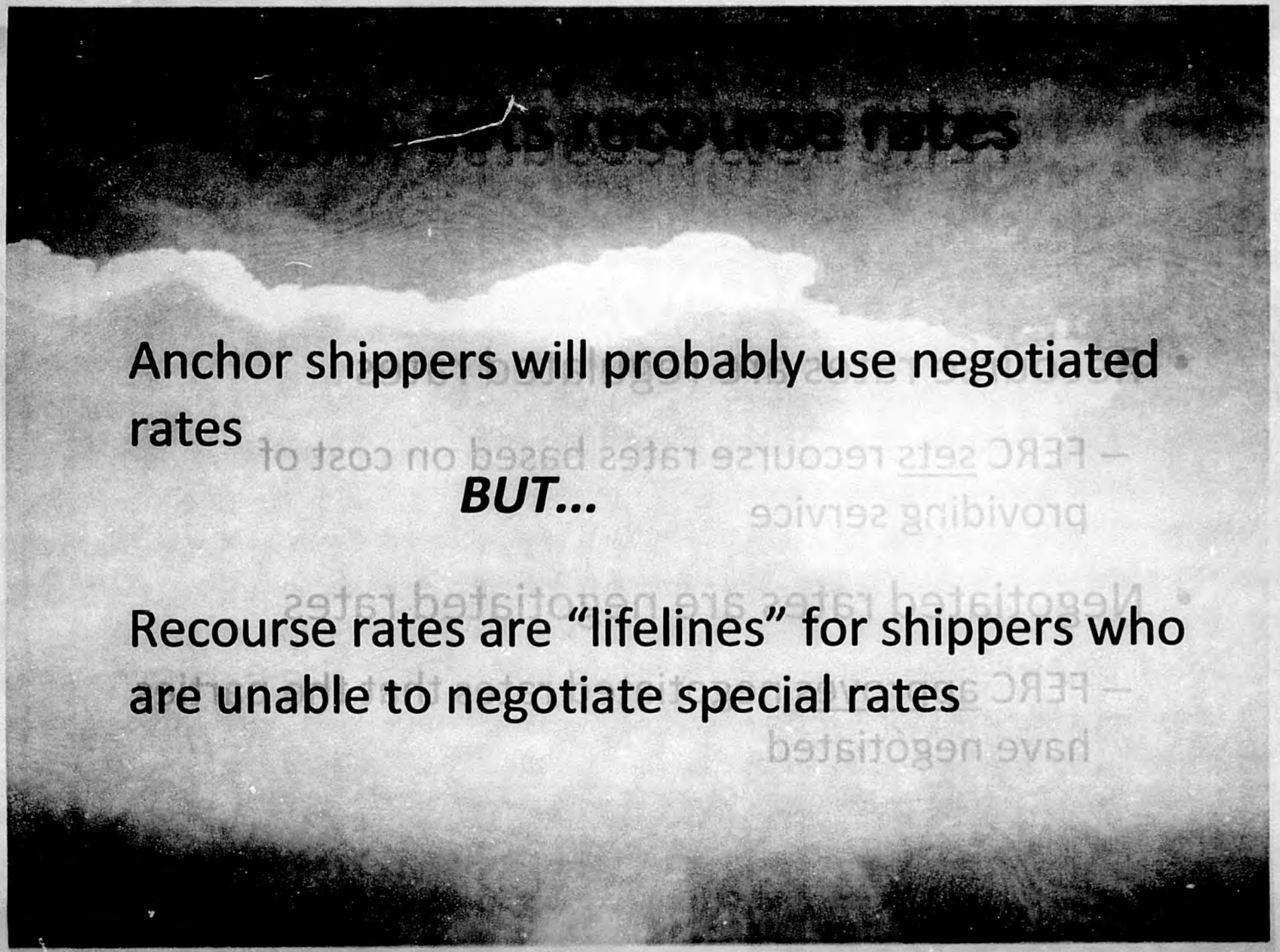
2) Provided FERC finds:

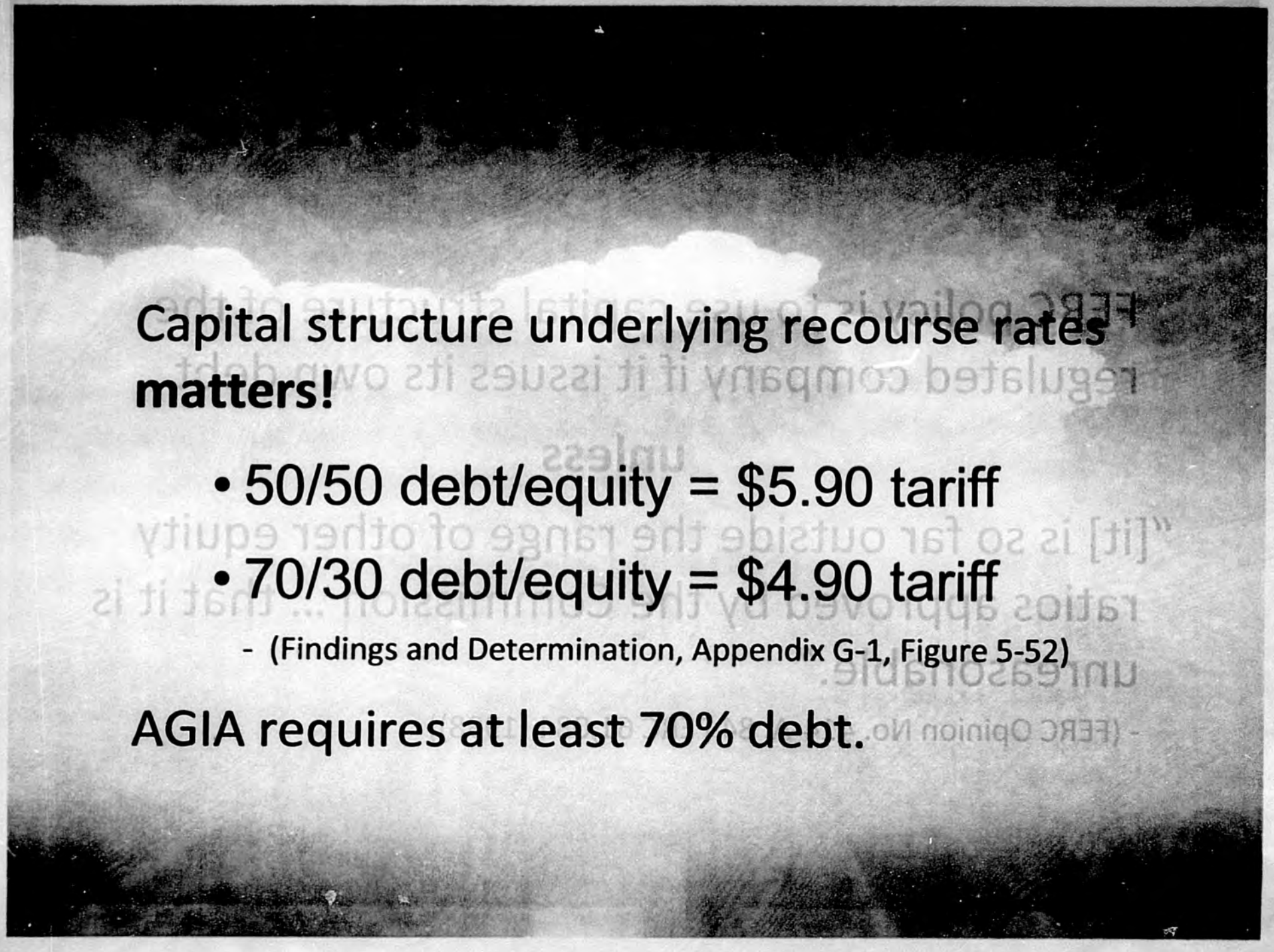
- No "rate subsidy."
- No "adverse effect" on financial or economic "viability" of the pipeline.
- No "adverse effect" on "overall operations".
- Adequate downstream capacity exists or will exist.
- Expansion will not diminish the "contract rights of existing shippers to previously subscribed certificated capacity."

- Each of these requirements is an invitation to litigation— **which means delay.**
  - (Note *ExxonMobil v. FERC* appeal took 2 ½ years from Order 2005 to conclusion—with no evidentiary hearing and no appeal to the Supreme Court)
- Statute compelling investment of new capital has not been tested in court— **which means uncertainty.**
- Unlikely that an explorer is going to invest millions to prove-up and develop resources if the ability to get gas into the pipeline is in doubt.


AGIA's requirements regarding expansions and TC Alaska's commitments to expand provide real value to the State.
• Test market every two years
• Expand in reasonable engineering increments
• On commercially reasonable terms
• Using rolled-in rates


• Recourse rates are regulated rates
– FERC sets recourse rates based on cost of providing service
• Negotiated rates are negotiated rates
– FERC approves negotiated rates that the parties have negotiated


Anchor shippers will probably use negotiated rates
BUT...
Recourse rates are "lifelines" for shippers who are unable to negotiate special rates


Capital structure underlying recourse rates **matters!**
• 50/50 debt/equity = $5.90 tariff
• 70/30 debt/equity = $4.90 tariff
- (Findings and Determination, Appendix G-1, Figure 5-52)
AGIA requires at least 70% debt.

FERC sets recourse rates

FERC policy is to use capital structure of the regulated company if it issues its own debt

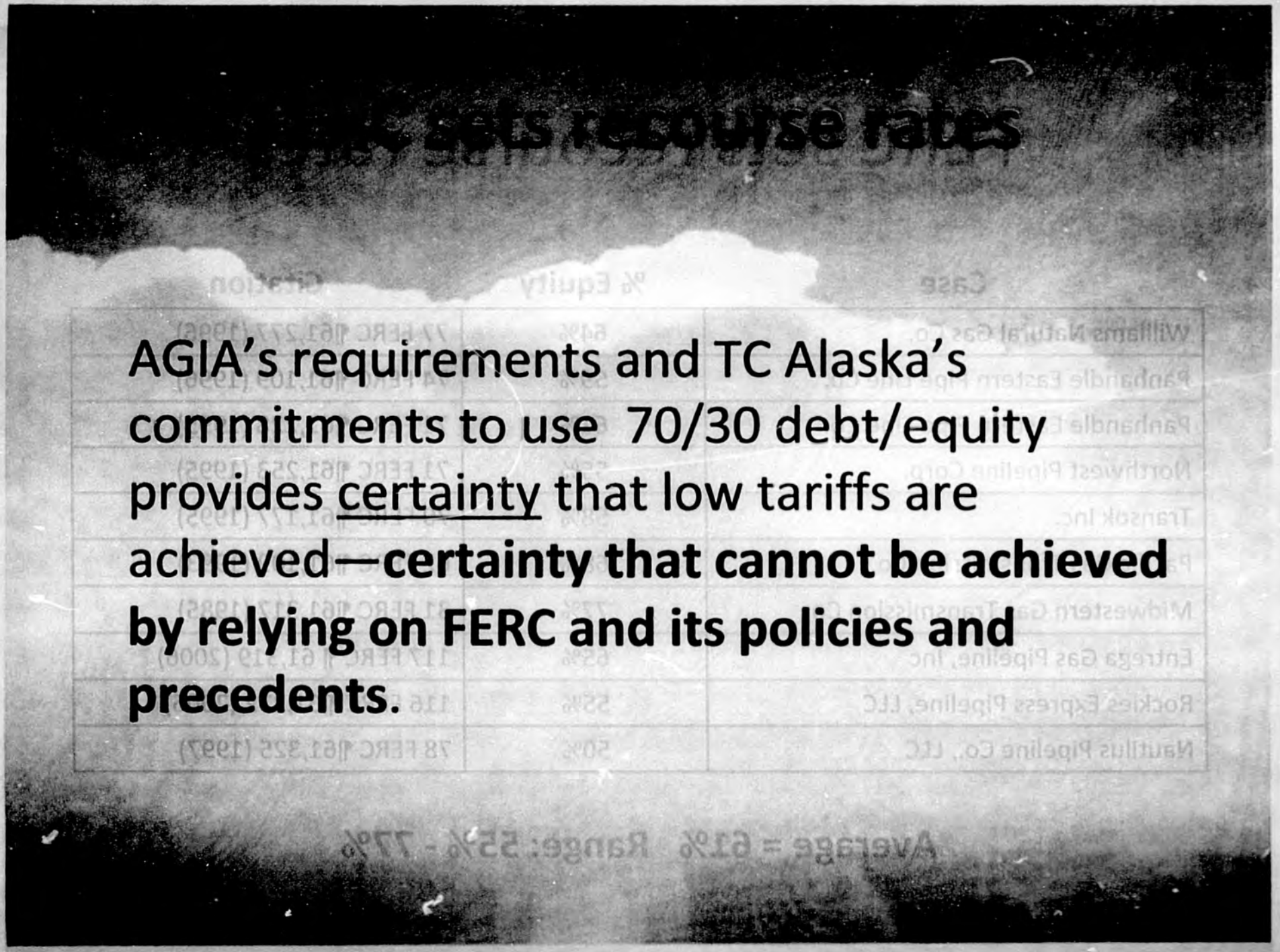
unless

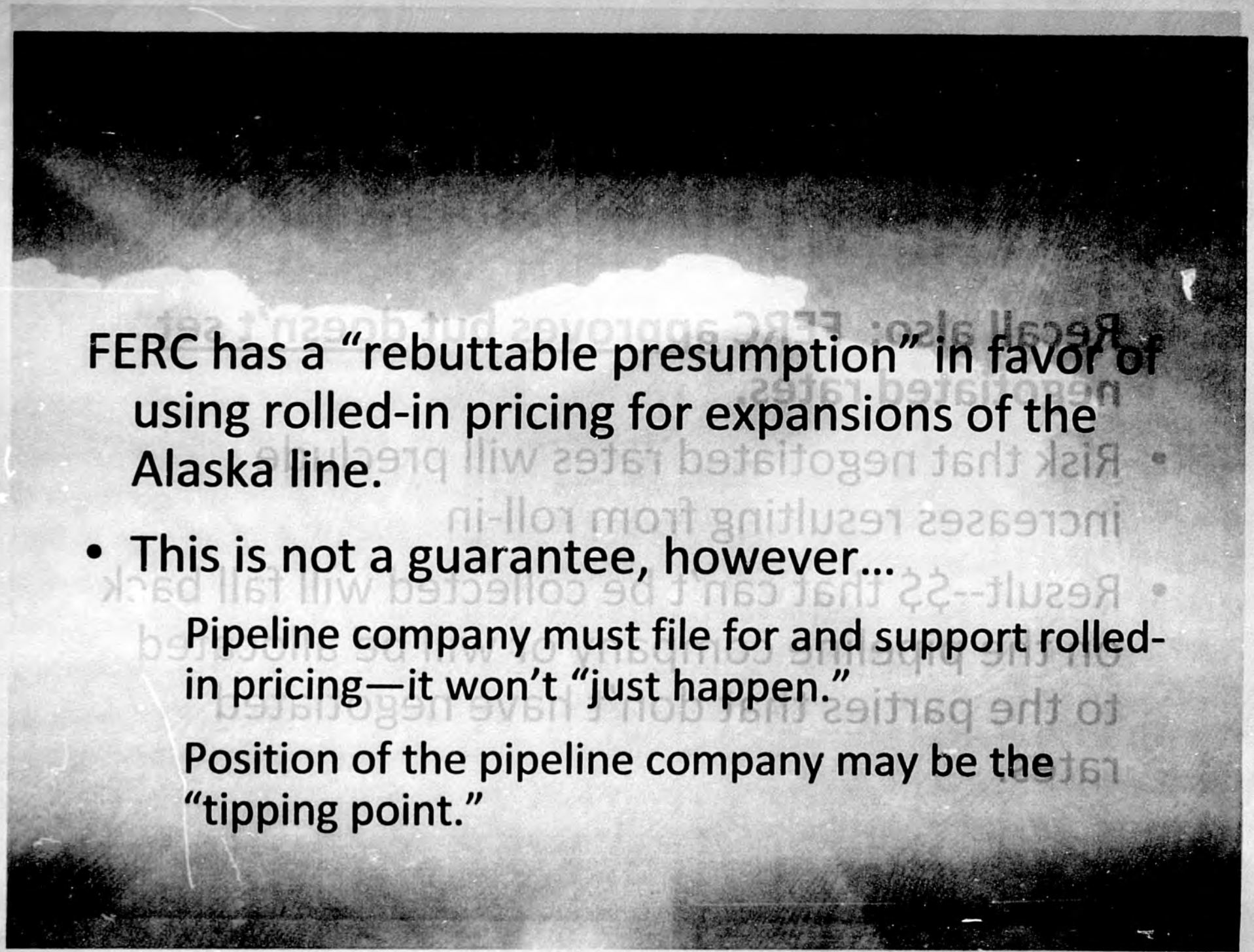
"[it] is so far outside the range of other equity ratios approved by the Commission … that it is unreasonable."

- (FERC Opinion No. 414-A, 84 FERC 61,084 (1998))

Case	% Equity	Citation
Williams Natural Gas Co.	64%	77 FERC ¶61,277 (1996)
Panhandle Eastern Pipe Line Co.	59%	74 FERC ¶61,109 (1996)
Panhandle Eastern Pipe Line Co.	61%	71 FERC ¶61,228 (1995)
Northwest Pipeline Corp.	55%	71 FERC ¶61,253 (1995)
Transok Inc.	58%	70 FERC ¶61,177 (1995)
Pacific Gas Transmission Co.	68%	62 FERC ¶61,109 (1993)
Midwestern Gas Transmission Co.	77%	31 FERC ¶61,317 (1985)
Entrega Gas Pipeline, Inc	65%	117 FERC ¶ 61,319 (2006)
Rockies Express Pipeline, LLC	55%	116 FERC ¶61,272 (2006)
Nautilus Pipeline Co., LLC	50%	78 FERC ¶61,325 (1997)

Average = 61% Range: 55% - 77%


AGIA's requirements and TC Alaska's commitments to use 70/30 debt/equity provides certainty that low tariffs are achieved—**certainty that cannot be achieved by relying on FERC and its policies and precedents.**



FERC has a "rebuttable presumption" in favor of using rolled-in pricing for expansions of the Alaska line.

- This is not a guarantee, however…
  - Pipeline company must file for and support rolled-in pricing—it won't "just happen."
  - Position of the pipeline company may be the "tipping point."

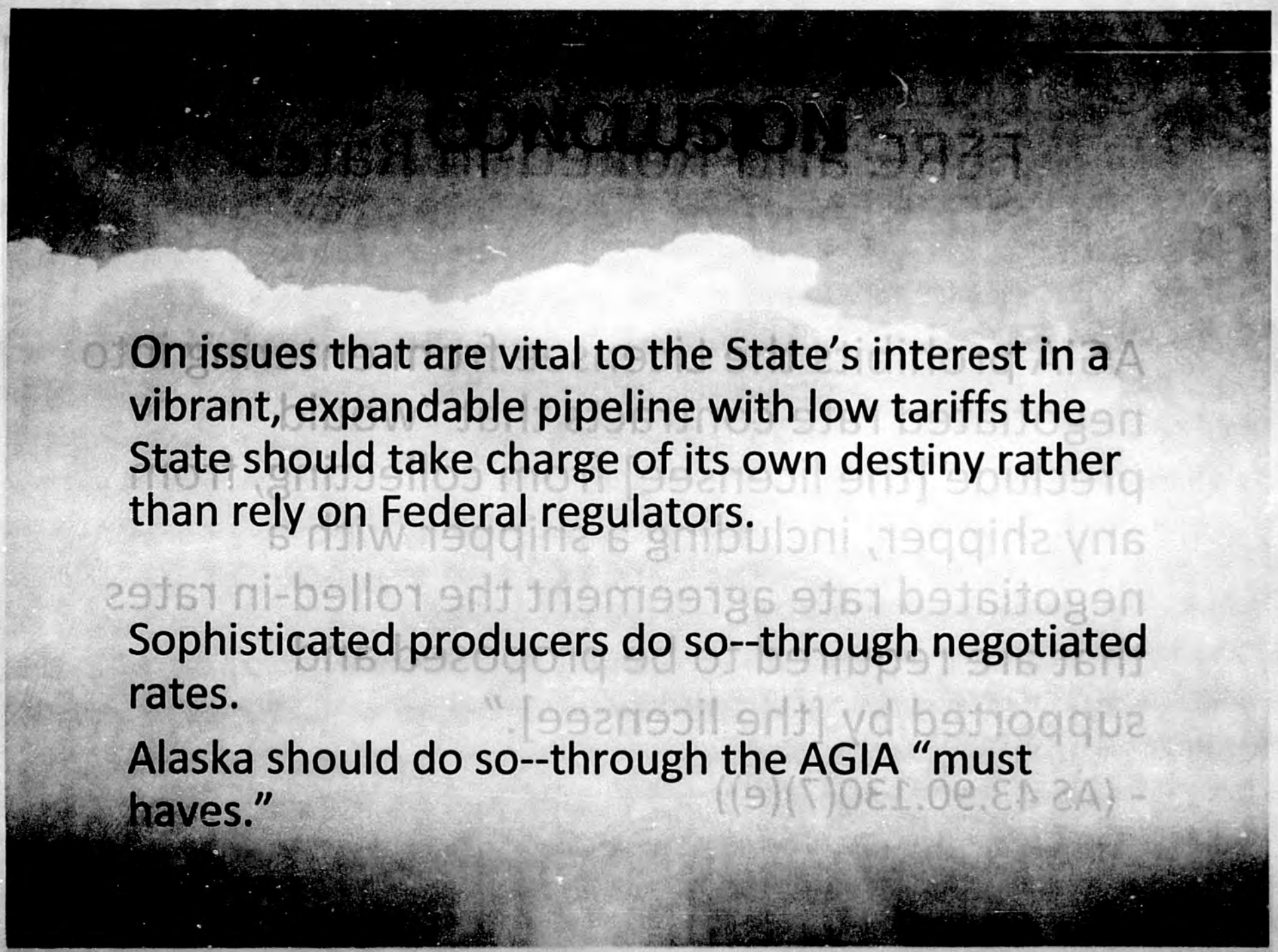
and Rolled-in Rates

Recall also: FERC <u>approves</u> but <u>doesn't set</u> negotiated rates.

- Risk that negotiated rates will preclude increases resulting from roll-in
- Result--$$ that can't be collected will fall back on the pipeline company or will be allocated to the parties that don't have negotiated rates.

AGIA prohibits the Licensee from entering into negotiated rate contracts that "would preclude [the licensee] from collecting, from any shipper, including a shipper with a negotiated rate agreement the rolled-in rates that are required to be proposed and supported by [the licensee]."

- (AS 43.90.130(7)(e))

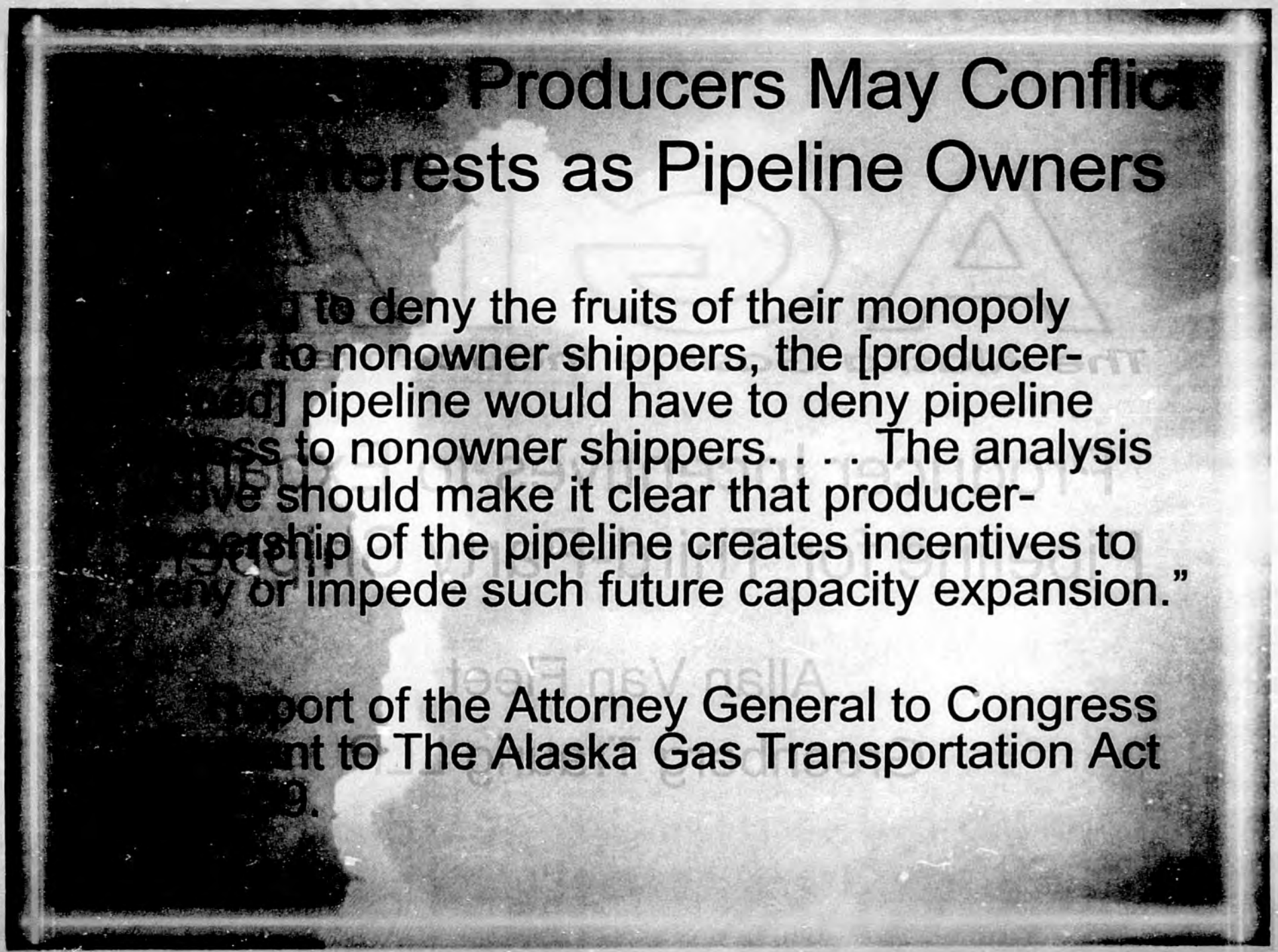

On issues that are vital to the State's interest in a vibrant, expandable pipeline with low tariffs the State should take charge of its own destiny rather than rely on Federal regulators.
Sophisticated producers do so--through negotiated rates.
Alaska should do so--through the AGIA "must haves."

AGIA

The Alaska Gasline Inducement Act

Producer Incentives to Expand Pipeline for Third-Party Shippers

Allan Van Fleet
Greenberg Traurig LLP


Producers May Conflict
terests as Pipeline Owners
to deny the fruits of their monopoly
to nonowner shippers, the [producer-
d] pipeline would have to deny pipeline
ss to nonowner shippers. . . . The analysis
e should make it clear that producer-
ership of the pipeline creates incentives to
y or impede such future capacity expansion."
port of the Attorney General to Congress
nt to The Alaska Gas Transportation Act
9.

Gas Development Act History

- Draft SGDA contract included the 10 ANGPA requirements for expansion and added 20 more conditions
- Explorers objected that they were better off with no contract expansion terms
- Draft LLC agreement provided that pipeline board representatives owed fiduciary duties not to the pipeline, but to producers that appointed them.

AGIA History

- Phillips alternative proposal
  - for expansion less often and at
  - cost to new shippers than AGIA
  - es
- proposal makes no expansion
  - itments

June 8, 2008 — 3:45
Sunday

Hoste presented by Telecom
Day 6 - 3rd Sp Session AGIA Licensing

Legal Issues Affecting Producer Participation

Spencer Hosie
Hosie McArthur LLP

Allan Van Fleet
Greenberg Traurig LLP

U.S. Commodities Futures Trading Commission

- Is investigating possible fraud in trading of crude oil futures contracts

- ConocoPhillips has been subpoenaed – not charged with any wrongdoing

- Is concerned generally with particular trader transactions, rather than wholesale withholding product from the market

COMPETITION LAW360

...ocoPhillips Subpoenaed By CFTC In Oil ...

...Elaine Chow, *Portfolio Media, New York (June 3, 2008)*--Oil giant **ConocoPhillips** Co. ...vealed on Monday that it was subpoenaed in ...tember by the U.S. Commodity Futures ...ng Commission as part of the agency's ...ing investigation into possible price ...ulation in the crude oil market.

FTC website notice of advance regulation

[C]ost BP in Alaska North Slope

- [C]required BP to divest ARCO's ANS
  [h]oldings to Phillips (now ConocoPhillips)
- [T]he Commission had reason to believe
  [t]hat BP occasionally had exported ANS
  [c]rude oil to the Far East in order to
  [i]ncrease spot prices for ANS crude oil on
  [t]he West Coast and that BP benefitted
  [f]rom those higher spot prices because of
  [i]ts status as a merchant marketer."

FTC Advance
ice of Proposed Regulation

gulated petroleum pipelines may not
w new shippers a share of a pipeline's
pacity when historical shippers seek to
nsport more petroleum products than
pipeline is capable of transporting.
The Commission seeks comment on
her pre-announcements that pipelines
pproaching capacity constraints may
conduit for market manipulations or
. . ."

FTC Advance Notice of Proposed Regulation

- Identifies "Potential Practices" that may constitute market manipulation
- Seeks comments "on the circumstances, if any, under which a firm's decision regarding supplying a market (including whether to reduce, increase, or maintain unchanged the amount it supplies) should be considered manipulative or deceptive"

Market Manipulation Statues

Energy Independence and Security Act of 2007

- Prohibits any manipulative or deceptive device or contrivance in connection with purchase or sale of crude oil or gasoline or petroleum distillates
- Authorizes FTC to prescribe regulations

Market Manipulation Statutes

Energy Policy Act of 2005

- Gives FERC new enforcement powers over natural gas and electricity markets
- FERC imposed $200 million penalty in one pending case; nearly $100 in another (in addition to disgorging unjust profits)

Evaluating Natural Gas Gathering Facilities. On behalf of an interstate pipeline, ICF International estimated the value of a nonjurisdictional gathering pipeline system. The analysis used the EADSS™ to examine the implications of possible new production coming on line, gas market prices on different connecting pipelines, and competition from nearby gathering systems. The analysis showed the expected stream of revenues and the high and low values associated with project uncertainties.

Pacific Northwest Gas Storage Strategy Study. ICF International used EADSS™ to evaluate strategies for purchasing or releasing transportation capacity and purchasing gas storage capacity. The work was performed for the owner of a gas-fired generator and thus

Alaskan Pipeline. For producers on the Alaskan North Slope, ICF International evaluated the effect of Alaskan and MacKenzie Delta gas on U.S. and Canadian gas markets, prices, and pipeline flows. We evaluated various scenarios to assist the producers in understanding the implications of different assumptions and configurations for bringing frontiers supplies into the

market.

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Energy Efficiency & Demand Management

Water Utilities & Markets

Regulatory & Litigation Support

Fuels Markets

To help clients control a critical and potentially volatile component of the energy equation, ICF International assesses and forecasts natural gas, petroleum, and coal markets worldwide using deep industry expertise and proprietary models and databases. Our analyses and valuations have supported the financing of more than US$10 billion in gas assets.

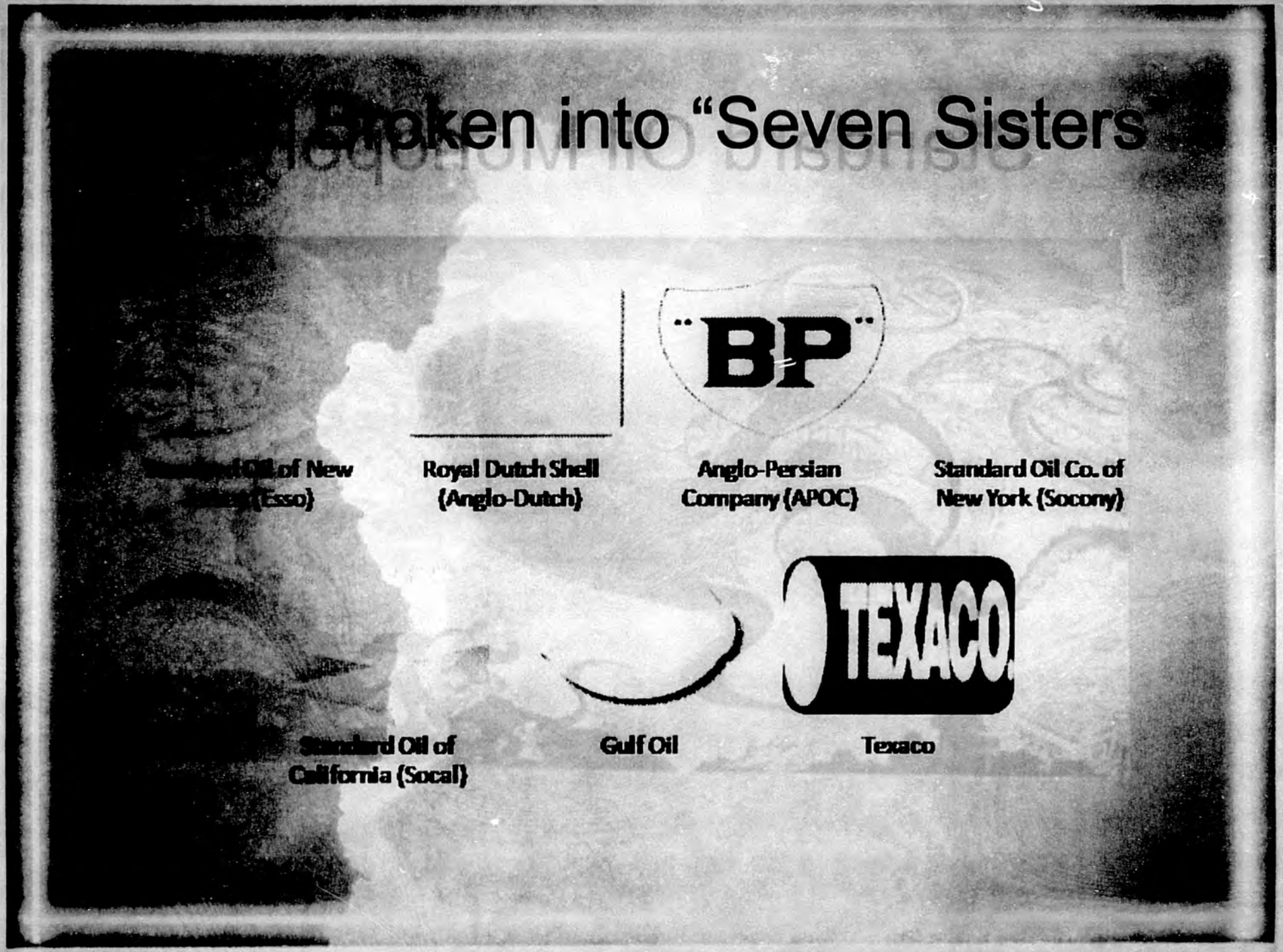
ICF's gas area expertise was augmented in January 2007 with the acquisition of Energy and Environmental Analysis (EEA), a national leader in gas market analysis.

- **Natural Gas Market Analysis**
- **Supply Assessments and Project Evaluation**

WHAT'S NEW

» **U.S. Emission & Fuel Markets Outlook**

Broken into "Seven Sisters"



Standard Oil Monopoly

Antitrust Statutes

- han Act §§ 1-2
- eral Trade Commission Act § 5
- a Restraint of Trade and Monopolies
- AS §§ 45.50.562-596

- hibit exclusionary conduct to maintain
  opoly power

- hibit joint action to withhold supply from
  rket

Antitrust/Market Manipulation

- State and Federal Antitrust Laws
- Federal Energy Market Manipulation Laws

HOSIE

to Develop and Market

- of Alaska – Producer Agreement
- se Provisions
- ska Common Law
- e It or Lose It"
- olution

3rd Sp. Session presented 6-08-2008 Sunday 3:45pm Juneau - Terry Miller GYM

AGIA

The Alaska Gasline Inducement Act

Legal Issues Affecting Producer Participation

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