

SB

104

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RESPONSE

LETTER

5/9/07

ENBRIDGE

MAY 09 2007

May 9, 2007

Senator Bert Stedman, Chairman
Senate Finance Committee
Alaska State Legislature
Capitol Building
Juneau, Alaska 99801

Senator Stedman,

During our recent presentation to the Senate Finance Committee you requested our specific comments about Senate Bill 104, the Alaska Gasline Inducement Act.

As noted in our presentation, and upon further review of SB 104, Enbridge continues to believe that the single most important thing you could do to improve AGIA would be to make the "Application Requirements" in section AS 43.90.130 objectives rather than absolute requirements. This would in no way preclude the state from selecting an applicant who met all the variables versus one that did not. It would however, allow an applicant who could not meet all of the variables to still make a submission and suggest alternate ways of adding value. There seems to us to be only upside for the state from this approach, versus the current language which we view as too restrictive.

We look forward to reviewing the Senate Finance Committee version of SB 104, and hope to see the change mentioned above included in the new version.

Thank you.



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BACKBONE II

5/1/07

9:05:52 - 9:13:37 AM

**Testimony by the Honorable Walter J. Hickel, House and Senate
Finance Committees, May 1, 2007 - Juneau**

Thank you for inviting us to testify here today.

Our North Slope natural gas is Alaska's greatest opportunity to guarantee the long-term viability of our state.

And Alaska is on the right course to make a gasline a reality in this generation.

It's a large project worthy of our great state.

I am just back from Moscow where I have been working with Russian leaders on two other great projects.

The opening of the Northern Sea Route to the worlda decision that will link the Pacific and the Atlantic oceans.

It will be a breakthrough of the same dimension as the Panama Canal.

And we don't have to build a canal!

The second great project is a tunnel beneath the Bering Strait, linking the U.S. and Russia.

Those who attended the Conference last Tuesday in Moscow realize how serious the Russians are about this visionary concept.

This link between the United States and Russia is going to happen.

And it's going to change the world.

Alaska's immediate opportunity, however, is our North Slope natural gas.

And it is up to our Governor and this legislature to make sure it is used for the maximum benefit of our people, as mandated by our constitution.

Keep in mind that the people of Alaska...the voters who elected you...are the owners of this gas.

You and Governor Palin are the trustees of their inheritance...

...won in our statehood battle and our Statehood Act.

The companies who hold Prudhoe Bay leases have purchased the right to "produce" our gas.

That's why we call them the "producers."

But they don't own the gas.

And they are required, through the leases they hold, to sell our gas if they can earn a "reasonable profit."

So let's get started.

Governor Sarah Palin's plan is a good one.

She has thrown open the process to make sure that the State finds the very best and most timely project.

Her team has designed legislation to put the needs of Alaskans first.

It means revenues for state government.

...gas for our homes...

...gas for our businesses...

...and gas for our remote villages that are in desperate need of affordable energy.

It means making sure that the valuable gas liquids...

...are available for in-state processing to create high-paying legacy jobs for generations of Alaskans.

It means a pipeline that encourages exploration...by the producers and by other companies, large or small, that believe they can find more gas.

Belief is the key to prospecting...and it is the key to life.

Believe me; we haven't begun to explore the natural gas potential of our state.

And we need a pipeline that will accommodate the discoveries of those believers.

In my view, this does NOT mean shipping our gas through Canada.

Any Canadian route has to resolve...

... "First Nation" land claims.

Treaty problems.

A long, expensive route.

Legal issues among competing Canadian interests.

And one bidder who wants to use our gas in the Alberta tar sands to produce oil...

...an outrageous plan for trillions of cubic feet of clean Alaska gas so needed by our nation and the world.

In my view and in the view of the majority of Alaskans...

... "maximum benefit" means an All Alaska Gasline...from Prudhoe to Valdez.

It means a pipeline started sooner and completed several years sooner.

It means an energy source for our villages and cities.

It means feedstock for value-added industries and jobs in Alaska.

We addressed the same issue in the 1960s and 1970s over North Slope oil.

We had to force the oil companies to drill at Prudhoe.

When I was elected Governor in 1966, BP had already given up.

So had all the others except Atlantic Richfield.

In early 1967, I flew to Prudhoe to meet with their head geologist Harry Jamison.

And he announced that they, too, were going to pull out.

(Ad lib: "You drill, or I will.")

In 1968, that rig discovered the biggest oil field in the history of North America.

But two years later as Interior Secretary I had to take Exxon to the mat, or there wouldn't have been a trans-Alaska oil pipeline.

(Ad lib: "Or I'm going public!")

Now we have another Governor who is ready to stand up for Alaska and Alaskans.

And the people are behind her.

Ladies and gentlemen of the State Legislature, this is your moment to step forward and stand with her.

The people of Alaska want a gasline now.

Together you can make history, and Alaska will long remember this generation of leadership.

Thank you.

EXXON MOBIL

ExxonMobil AGIA Testimony
Senate Finance Committee 5-1-07

FINANCE COMMITTEE:

Co-Chairmen: Senators Bert Stedman(R) / Lyman Hoffman(D)

Vice-Chair: Senator Charlie Huggins(R)

Members: Senators Kim Elton(D); Donny Olson(D); Joe Thomas(D); Fred Dyson (R-m)

INTRODUCTION

Good afternoon Chairmen Stedman and Hoffman, Vice-Chair Huggins and members of the Senate Finance Committee. My name is Marty Massey. I am the U.S. Joint Interest Manager for ExxonMobil, a position I have held since November 2001, and I am responsible for the commercialization of ExxonMobil's gas resources in Alaska.

ExxonMobil has been in Alaska for over 50 years and has been a key player in Alaska's oil industry development. We hold the largest working interest at Prudhoe Bay (36.4%) and our current net production in Alaska is approximately 150,000 barrels per day. We have benefited from our involvement in the State of Alaska, and we believe that Alaska has benefited from this long-term relationship as well. Commercializing Alaska's North Slope gas will allow us to continue this mutually beneficial relationship for another 50 years or more.

EXXONMOBIL READY TO PROGRESS PROJECT

The Alaska Gas Pipeline Project is important to Alaska, to our nation, and to ExxonMobil. The project has the potential to generate billions of dollars in revenues for the State of Alaska, the U.S. federal government, and Canada, and could provide a stable and secure source of clean energy for Alaska and North America for decades to come. For ExxonMobil, the project is significant and has the potential to add over 1

billion cubic feet per day of gas sales, which would be more than a 10% increase to our current worldwide daily gas production. This project could also add over one billion oil-equivalent barrels to proved reserves, nearly enough to replace a year of our production. Given the significant impact this project could have on our business, we strongly support efforts to advance a pipeline project.

As an illustration of our commitment, ExxonMobil has spent more than \$180 million studying ways to commercialize Alaska gas. Since the 1970's we have evaluated LNG, gas to liquids and gas pipeline alternatives. Based on these studies we have determined that a Producer Gas Pipeline Project will result in the best value for the State, the Producers and the nation.

GENERAL FEEDBACK ON AGIA

I would now like to provide you with some feedback on AGIA. ExxonMobil embraces the concept of competition all over the world and is ready to participate in a competitive and market-based environment. AGIA, as it is written today, does not encourage market-based competition due to its prescriptive nature. In addition, AGIA does not adequately address the significant upstream issues and risks associated with the scale and magnitude of the Alaska Gas Pipeline Project. We have consistently advised the Legislature and the Administration that AGIA, in its current form, will not encourage competitive proposals and will not result in a commercially viable project. We strongly believe AGIA will not create an acceptable framework for this world-scale mega-project unless it allows the parties taking the risks to make a proposal that properly manages the risks.

After listening to the testimony over the past several weeks, it has become clear to me that one of the reasons the Administration's view of the project is so different from ours is due to flawed assumptions in the State's economic model. The Administration's model fails to recognize the integrated nature of this basin-opening project. The upstream pays for the midstream and you cannot split them apart when evaluating commercial viability. Any attempt to do so will deliver erroneous results. This issue is critically important, because if you put in place a process based on a flawed analysis, it will most likely fail. The Administration's approach is not consistent with how project economics are evaluated, and I'll expand on this later in my testimony.

To ensure the best result, the logical way forward in our opinion is for AGIA to establish the State's broad key objectives, then allow applicants flexibility so that they can compete to meet those objectives and define the parameters that are necessary to make the project commercially viable. As an illustration of what I am proposing, AGIA could allow the applicant to demonstrate how their proposal encourages exploration and development in Alaska rather than specifying the method of project access and expansion.

If you were to amend AGIA to make it objective driven, it would allow open competition, maximize the number of applicants and allow those applicants to propose innovative solutions to meet the State's needs and open the basin. The State could then evaluate the proposals and select the one that best serves Alaska's needs and assures Alaskans realize the maximum value for their resource. That process would allow ExxonMobil, the largest leaseholder of gas on the North Slope, to compete under the AGIA process

while providing the State complete flexibility on who is chosen to move the Alaska Gas Pipeline Project forward.

To understand why it's important to use broad objectives as opposed to prescribing specific requirements, it is helpful to review project risks and issues surrounding its development that will have to be addressed by an applicant.

PROJECT RISK / PRODUCER CAPABILITIES

The tendency exists for many to underestimate the size, magnitude and risks associated with this project. The Alaska Gas Pipeline Project is a world-scale undertaking with significant risks. In fact, the project would be the largest private investment in North America – significantly larger than most “model” worldwide oil and gas “mega” projects. Let me be clear, this will be a precedent setting global mega-project. As you heard last week from Mr. Fred Rich of Sullivan and Cromwell (Head of Global Project Development and Finance), this project's financing could be many times greater than the largest North American project financing to date (the Alliance pipeline). There is not really another project that compares.

Because of this size, many factors impact commercial viability, including cost and the potential for cost over-runs, gas price, schedule delays, construction conditions, and regulatory and State fiscal uncertainties. Our previous cost estimate of \$20 billion (which is in \$2001) will be substantially higher due, in part, to increasing steel prices, which have nearly doubled since 2001, and because we are experiencing hyperinflation on industry and construction labor costs. World-wide mega-projects are also placing pressure on pricing and availability of global materials, and skilled manpower. In

addition, as we have observed over many years, natural gas prices remain highly volatile.

The State of Alaska cannot anticipate how individual applicants will view the various risks I have discussed or how applicants may choose to address them. Establishing a set of rigid, prescribed terms in AGIA will not allow the flexibility needed by individual applicants to weigh and manage those risks in a way that maximizes value to the State and the applicant.

HOW PIPELINES ARE FINANCED

The way projects are financed gives some insight into who bears the risks for projects of this type and how these risks are managed. Last week you heard how pipelines are financed from Mr. Rich. Commercially-sound oil, gas, and pipeline projects traditionally have been able to obtain financing if they have strong sponsors with proven track records and the financial strength to both provide upfront lender required sponsor equity and to backstop key project commitments. For the Alaska Gas Pipeline Project, key project commitments take the form of completion support (either a full debt guarantee or additional equity overrun commitments) and firm, long-term gas transportation commitments. Firm transportation commitments are binding obligations made by companies to pay for the cost of reserving long term gas capacity as shippers on a pipeline. These commitments are made during an "open season", which is a period during which any and all prospective gas shippers can make binding commitments for a specific volume of transportation capacity.

As you may recall, Mr. Rich indicated that for a project of this scale and magnitude, financial institutions will require substantial, long-term, firm transportation commitments to provide funding. These commitments must be provided by creditworthy shippers because this tariff stream underpins the debt repayment. Furthermore, lenders not only look at the contractual commitments, but place equal importance on the underlying economics of the project. Any potential reduction in the Producer's netback is a concern to the lender since it increases the likelihood that the integrated project may not be economic, that the transportation charges are not paid, and that as a result the lenders are not repaid. Looking at this another way, the lenders are assessing how effectively the parties taking the risks are managing these risks. They will also want these risks reduced to a minimum to make sure they will get paid back. For this reason they would prefer stable fiscal regimes, project sponsors who have a proven track record of delivering mega projects on time and on budget, project sponsors with ownership in the upstream, and shippers who can support and will honor multi-billion dollar firm transportation agreements.

WHO BEARS PROJECT RISKS

That is why it is so important to understand who bears the project risks. Through the firm transportation commitments, the project development costs and the associated cost over-run risks are ultimately borne by the shippers. For this project, the shippers will be the Producers, and, directly or indirectly, the State or the State's shipper. These firm transportation commitments are valued in the tens of billions of dollars for our company alone, and could be over \$100 billion for all the shippers. Shippers must make long-term ship or pay transportation commitments and agree to pay transportation and treating rates that are ultimately based on the final cost of the pipeline and treating

facilities. The only information the shippers will know in advance of making these multi-billion dollar commitments will be a projection of the transportation charges based on the project sponsor's initial estimate of costs. The firm transportation commitments must be paid regardless of whether the shipper making those commitments actually transports gas through its reserved capacity and irrespective of the actual transportation charges. The shipper is also required to pay this reserved capacity commitment even if the market price for the gas is less than the cost of transportation.

For these reasons, the parties taking the risks for a project of this magnitude need to be able to manage those risks. The Producers, as shippers, cannot make firm transportation commitments during an open season unless they are confident the gas pipeline project can be built and operated cost effectively so that producing and shipping gas over the long-term is commercially viable.

INTEGRATED GAS PIPELINE PROJECT ECONOMICS

For this reason, AGIA needs to bring together the upstream and the midstream and provide for an integrated proposal. Any approach that evaluates them separately is flawed. Let me expand on this point. You heard last week that lenders evaluate the upstream very carefully when financing the midstream. The reason is simple – the upstream pays for the midstream. Without the commitment of capital to the pipeline by a producer-affiliate or the huge financial obligation required for firm transportation commitments to a third-party pipeline, there is no way the transportation system will be built. Thus, any analysis of the project which excludes midstream capital or the firm transportation commitments is not correct. Lenders and project sponsors do not make that mistake because they recognize that major gas pipeline projects are built on the

back of direct capital commitments or, long-term, firm transportation commitments.

Since firm transportation commitments are legally binding commitments that are the backbone of any financing and essential to funding a pipeline, it only makes sense to account for these commitments when evaluating project economics. Surprisingly, the Administration's analysis of the economics fails to incorporate these financial obligations associated with underpinning the pipeline. Let me expand on this point by asking you to think about the economics from a shipper perspective. The shipper can either make the investment in the midstream through one of its pipeline affiliates or make a commitment to a third party to build the pipeline. In the case of making the commitment to a third party, the shipper must pay the third party for the cost of the pipeline plus a return to the pipeline builder for the investment he ultimately made, not what he projected the costs to be when the commitment was made. So in this case the shipper is paying for the ultimate cost of the pipeline plus the profit the pipeline builder requires. When you think about it this way, the economics have to be worse for the shipper when he makes a transportation commitment versus directly investing in the pipeline.

Because the Administration's economic analysis is flawed, the resulting assertion that the producer's stand-alone upstream economics are robust and improved without ownership of the pipeline is absolutely incorrect. Again, the upstream pays for the midstream and it is no more complicated than that.

Since it appears AGIA is based on this flawed economic analysis, it is critical the legislature address this issue and AGIA be modified to recognize who is taking the risk, the shipper. For ExxonMobil any decision to invest will be based on integrated project

economics. It only makes sense for the State to evaluate the proposal on an integrated basis as well, because the State is in the same position as the producers receiving the bulk of its revenue from the sale of gas. Because we both receive our revenue from the sale of gas, we should be aligned on the best approach for minimizing transportation costs and maximizing netback value.

IMPORTANCE OF STATE / PRODUCER ALIGNMENT AND BENEFITS OF THE PRODUCER PROJECT

Let me now talk about the importance of alignment between the State and the Producers and the benefits of a Producer Project.

Maximizing the value to the State of Alaska and the resource holders means selecting the right design concept for this mega-project and then executing the Project to deliver the lowest possible cost and fastest possible completion. On a project of this size and magnitude, project construction and operating experience should be a significant consideration. Only a limited number of companies have demonstrated the capabilities, financial strength and arctic experience to effectively participate in and manage world-scale mega-projects.

The Producers have mega-project experience on numerous projects world-wide and have demonstrated success in meeting project objectives. A critical component of that experience is the Producers' Arctic experience in Alaska and throughout the world. ExxonMobil's arctic experience is extensive - over 40 years - with developments in multiple types of arctic environments. Large projects with significant complexity in harsh environments are what we do and we are extremely qualified to take on this work.

ExxonMobil's global project development company is unique within industry and leads the industry in project cost and schedule performance.

ExxonMobil has also demonstrated world-class leadership in safety, health and environmental performance. ExxonMobil is a leader in operating efficiency and a pacesetter in operating safety.

In addition to our project and operational excellence, ExxonMobil has the financial strength to make this mega-project a reality. ExxonMobil has consistently maintained one of the strongest financial positions of any company in the world. We are one of just a few public companies to maintain the highest credit rating from Standard and Poor's (AAA) and Moody's (Aaa), and we have done so for each of the last 88 years. Our financial strength minimizes the likelihood that external financing requirements will significantly delay the project timeline, even in times of financial market turmoil.

It is important to remember that the Alaska Gas Pipeline Project is a basin-opening project that will benefit the State and the oil and gas industry in Alaska for decades into the future. Basin-opening projects throughout the world have progressed and been successful when there is alignment between the host government and the leaseholders. The Producers and the State both want a pipeline project to commercialize the known ANS gas resources and open the basin to gas exploration.

We believe a Producer gas pipeline project will result in maximum value to the State and the Producers. The reason is the Producers and the State have maximum incentive to control costs. Low capital and operating costs, which result in lower treating

and transportation costs, and access to premium market price, result in higher netback value on the gas. It's important to keep in mind that the State will receive the majority of its revenue from the value of gas sales via revenue received under its lease royalty agreements and from production taxes, which are valued based on the netback received from the gas.

Third-party owners do not share the same incentives in that they actually benefit from increased capital costs.

Based on the demand for workers that this Project will generate, Alaskans are obviously key to successful project execution. Both the State and the Producers want Alaskans to benefit from the many job opportunities that will exist.

We believe that financial strength, experience and the ability to get the job done should be critical components of any evaluation of proposals. When you consider carefully the options available, a Producer pipeline will provide maximum value to the State of Alaska.

IMPORTANCE OF PREDICTABLE AND DURABLE FISCAL TERMS

I would now like to talk about fiscal predictability and its importance for a mega-project such as the Alaska Gas Pipeline Project. For ExxonMobil to progress this mega-project and mitigate its inherent risks, we will need to work together with the State on some very important fiscal issues. Because of the nature and magnitude of the risks associated with this Project, fiscal terms that are predictable and durable are necessary. This is a common thread for any mega-project investments. In all such cases, we are

willing to take geologic risks, we are willing to take cost risks, and we are willing to take commodity price risks, but we cannot take the risk of fiscal terms changing. Let me expand on this further. The first two risks, geologic and cost risk are risks for which we have developed an industry leading expertise to manage. This is what we do day after day at ExxonMobil. Market risk is inevitable in a commodity business such as oil and gas and we manage that by attempting to ensure that we deliver those products into the highest value market at the lowest cost. However, the risk of a change in fiscal terms is of a completely different nature and completely outside our control. We must have agreements that will allow us to develop this mega-project under predictable and durable terms, so that we can make an investment decision with an adequate degree of certainty. This does not mean that taxes cannot change over the life of the project. Predictability means that the State's tax and take terms are sufficiently understood that they can be defined and predictably modeled over time for purposes of evaluating the overall project economics. If fiscal terms can be changed in unpredictable ways in the future, then we are not able to make a well founded investment decision on behalf of our shareholders, nor will lenders be as confident in providing financing for a project of this size.

The Alaska Gas Pipeline Project will require massive investments, billions of dollars, to be made over a period of many years before any revenue is generated from those investments. As a result, increases in taxes on oil and gas related activities during the life of the project could significantly impact the commercial viability of the project, offset the benefits of taking on a project of this magnitude, and could increase lender concern. Because fiscal terms could be modified under the proposed AGIA legislation, it does not provide the fiscal predictability necessary to ensure a commercially viable project.

It is important for the State to recognize that for mega-project developments, governments do grant long term fiscal stability. These contracts include fiscal stability protection that in some cases runs for the length of the contract and in other cases runs for 40 years or more.

AGIA should allow applicants to put forward their best proposal on what is required to make the project commercially viable, which will allow the State the opportunity to consider those proposals that have the best chance of actually delivering an Alaska gas pipeline.

ADDITIONAL FEEDBACK ON AGIA

I would like to now give some specific feedback on AGIA which is based on the conclusions and principles I've mentioned. I will also outline some additional thoughts on how AGIA should be modified to ensure the best chance of a successful result and allow the State to maximize value. As I previously stated, alignment between the State and the leaseholders is essential to a basin opening project of this magnitude. Therefore, establishing the right approach going forward is the most important activity for the project at this time. To be able to calculate the revenue from the upstream we must have clarity on the taxes and royalty from our oil and gas operations and the taxes and royalties must be set at a level that makes the project viable. In order to ensure a viable project from the outset, we believe this must be done at the beginning.

ExxonMobil recognizes the importance to the State, explorers and others of having access to the project so their gas can be treated and transported to markets. To ensure

that a project is constructed, it must be commercially attractive to shippers at the time they make their initial firm transportation commitments. Shippers, particularly those who must invest substantially to explore for, develop and produce gas resources, will 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 initial rates will be significantly increased in the future in order to accommodate expansions.

Under the Alaska Natural Gas Pipeline Act, Congress struck what it determined was the proper balance between encouraging investment by those willing to commit to pay for initial capacity and encouraging exploration by providing an opportunity for future access to the pipeline. Because of the unique nature of the Alaska gas pipeline project, FERC approved unprecedented policies to enable a FERC-mandated expansion to benefit explorers.

In addition, the pipeline entity should not be required to accept a FERC certificate irrespective of FERC imposed conditions.

Under AGIA, the proposed upstream inducements would require significant modification to ensure a commercially viable project is obtained. In fact, we do not believe it is practical to address these terms in legislation. Therefore, it would be better for AGIA to not prescribe specific upstream terms and allow applicants to make proposals to address those terms.

AGIA also prescribes activities that must be completed within a specific timeframe or date certain. Setting arbitrary target dates is not consistent with good project

who will ultimately pay for the project. It also appears AGIA is based on flawed economic assumptions. It is critical that the legislature and administration address these problems in AGIA or we will end up with a process that sets unrealistic expectations and results in disappointment and failure. In addition, the existing prescriptive terms in AGIA will preclude ExxonMobil from being able to make an open, competitive and conforming proposal; thus, the State will be denied the opportunity to even consider terms from the party holding the largest discovered gas resource and has the capability to deliver a successful project.

ExxonMobil possesses the financial strength and project experience required to make this project a success. We are ready to work with the Administration and the Legislature to establish a process that recognizes the integrated nature of the project and mitigates the risks I've discussed to allow the project to progress. We suggest AGIA be amended to provide for a broad objective driven process that sets out what the State wants to achieve and allows each applicant to propose how best to meet those objectives and identify what is required from the State to advance the project. This process will secure more viable applications, create more competition, afford the State the opportunity to secure the most value and actually get the pipeline built. We are ready to participate in a competitive, open and transparent process as I've described, but unless AGIA is modified we will not be able to participate.

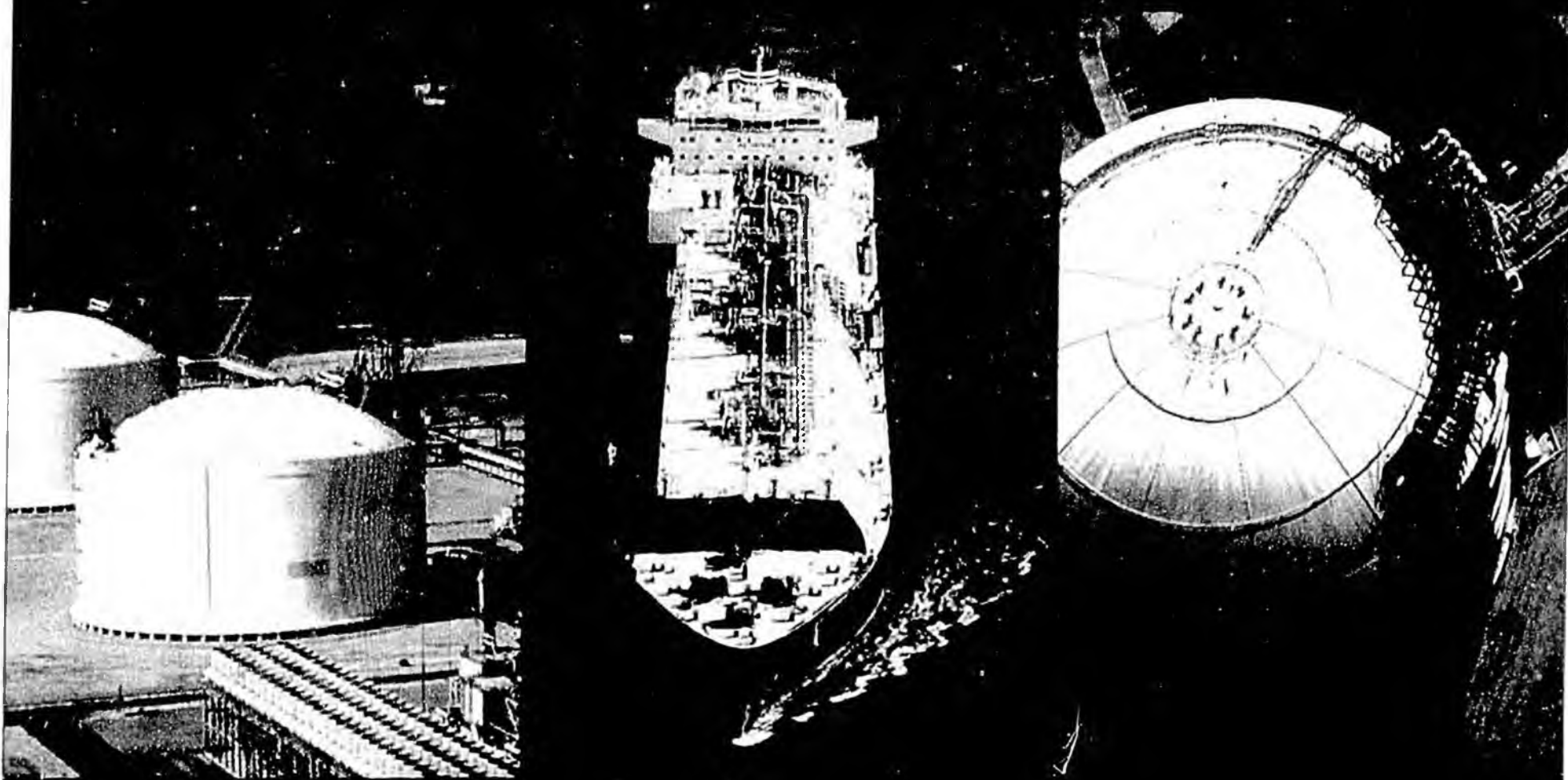
What we are struggling to understand is why the State is insisting on such a prescriptive way forward. AGIA should allow all interested parties to submit a conforming bid so that the people of the State of Alaska have the opportunity to see and compare all of the bids put forward to build the Alaska gas pipeline.

Thank you for your attention and for the opportunity to address this important topic today. I look forward to addressing your questions.

BG N. AMERICA

BG North America

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David Keane • Juneau • 3 – 4 May 2007

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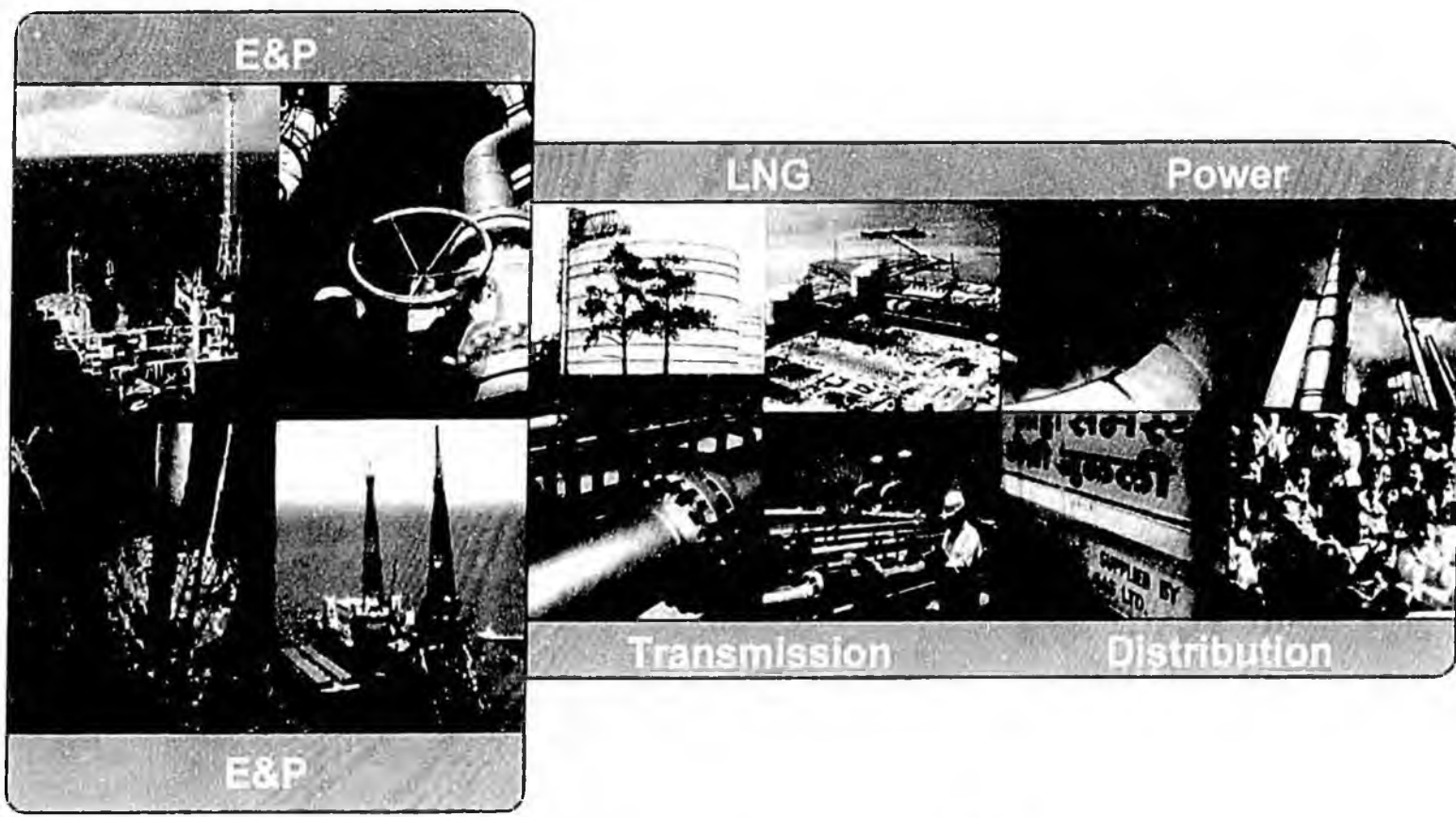
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BG Group snapshot



- A world leader in natural gas
- A FTSE 20 company, listed on London and New York Stock Exchanges
- Market capitalisation over \$49 billion
- Production circa 70% gas; 30% oil
- Employs approx 4,766 staff; 64% outside UK, at year end 06

Business model



Resources



Enabling



Markets

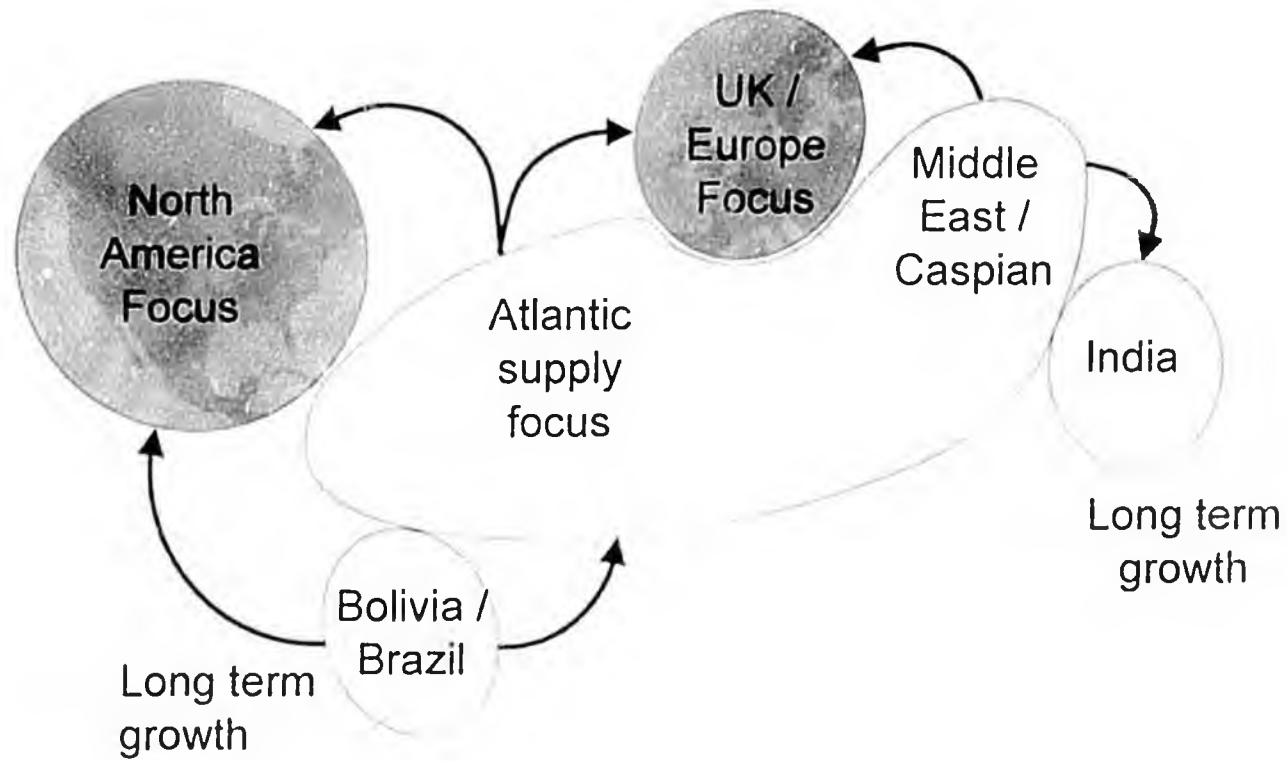
A global natural gas business

Countries of current operation



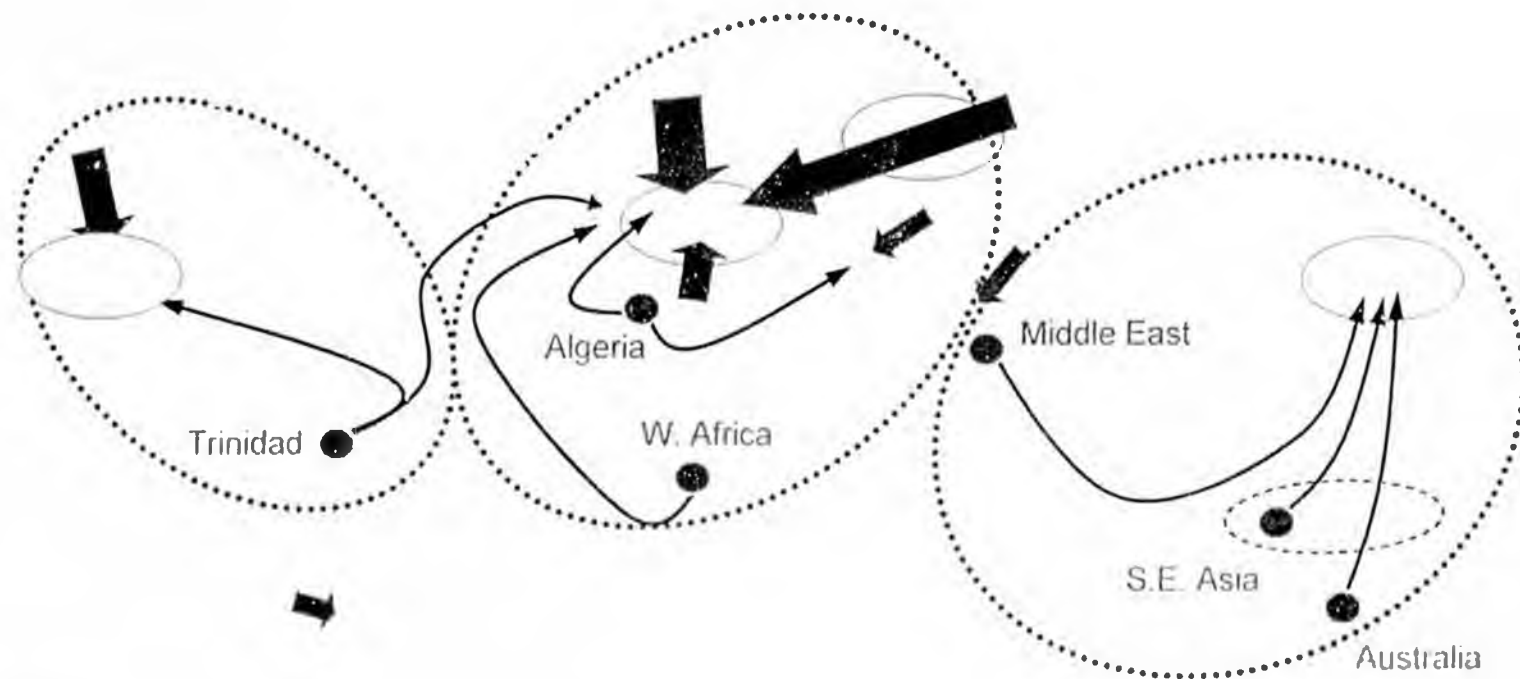
Active in over 25 countries

Gas market focus



● Developed Market ○ Developing Market ○ Supplies

Global gas trade – the recent past

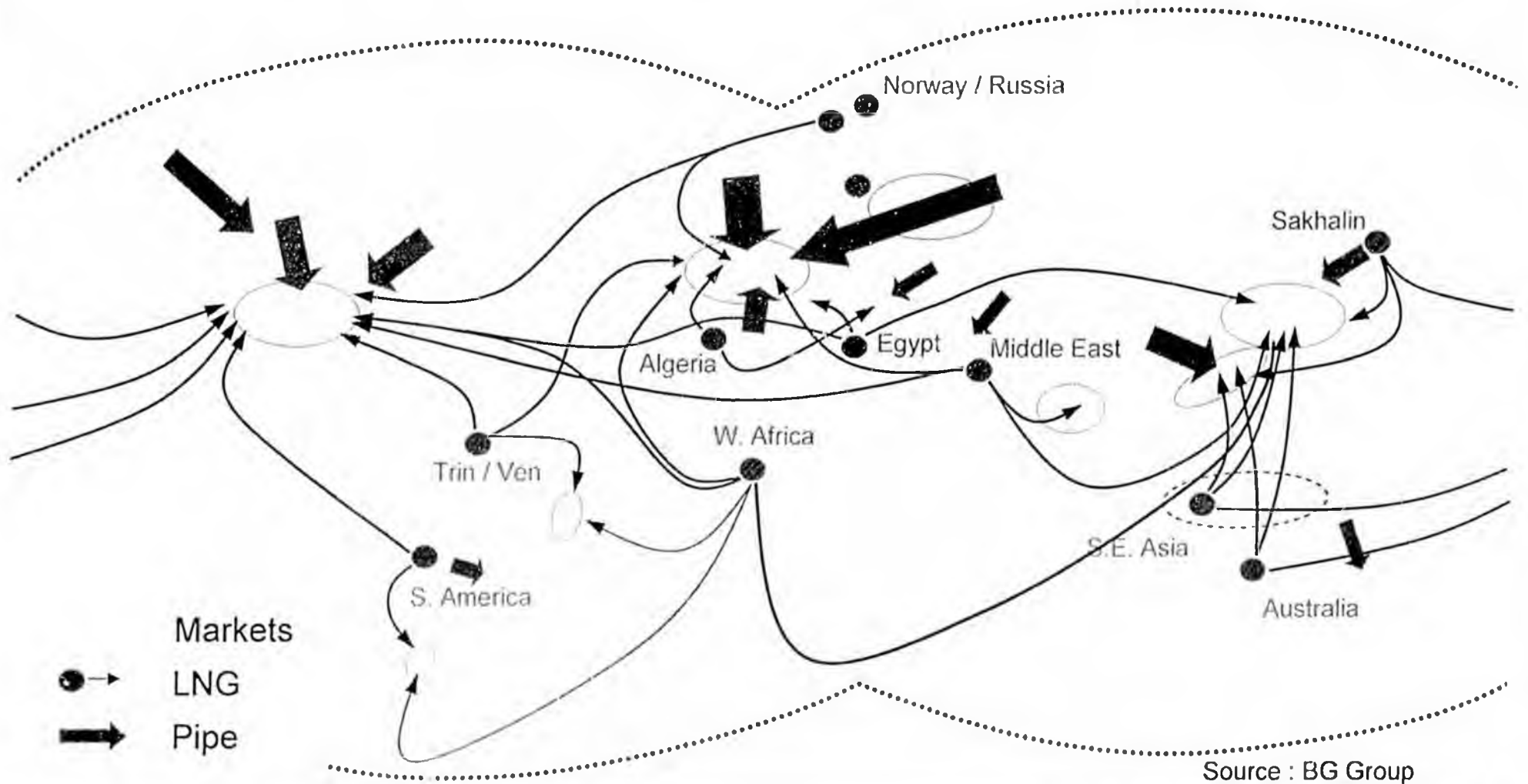


- Markets
- → LNG
- ➔ Pipe

Source : BG Group

Industry evolution: from three main trade regions...

Global gas trade – gradually evolving

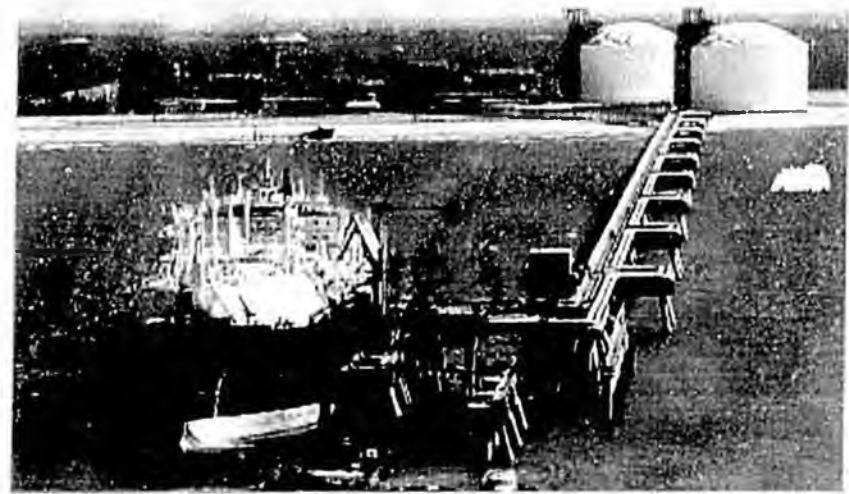


... to a globalising gas industry

BG LNG supply projects



- Train 1: 3.1 mtpa – 1999 (BG 26.0%)
- Train 2/3: 6.6 mtpa – 2002 (BG 32.5%)
- Train 4: 5.2 mtpa – 2005 (BG 28.9%)
- BG initiated project and was instrumental in Phillips design
- Single train start-up



- Train 1: 3.6 mtpa – 2005 (BG 35.5%)
- Train 2: 3.6 mtpa – 2005 (BG 38.0%)
- Egypt's largest project financing to date
- Unique project commercial structure
- Utilized lessons learnt from ALNG

Atlantic LNG – total export capacity of 15 mtpa in just 7 years

US market summary



- Lake Charles import terminal
 - Phase I expansion Q4 2005
 - 1.2 bcf/d sustainable send out
 - 1.5 bcf/d peak send out
 - 9.1 bcf total storage
 - Phase II expansion Q2 2006
 - 1.8 bcf/d sustainable send out
 - 2.1 bcf/d peak send out
- Elba Island import terminal
 - 0.45 bcf/d sustainable send out
 - 0.67 bcf/d peak send out
 - 4.0 bcf storage capacity
 - 1.17 bcf/d firm send out & 8.2 bcf storage after second expansion



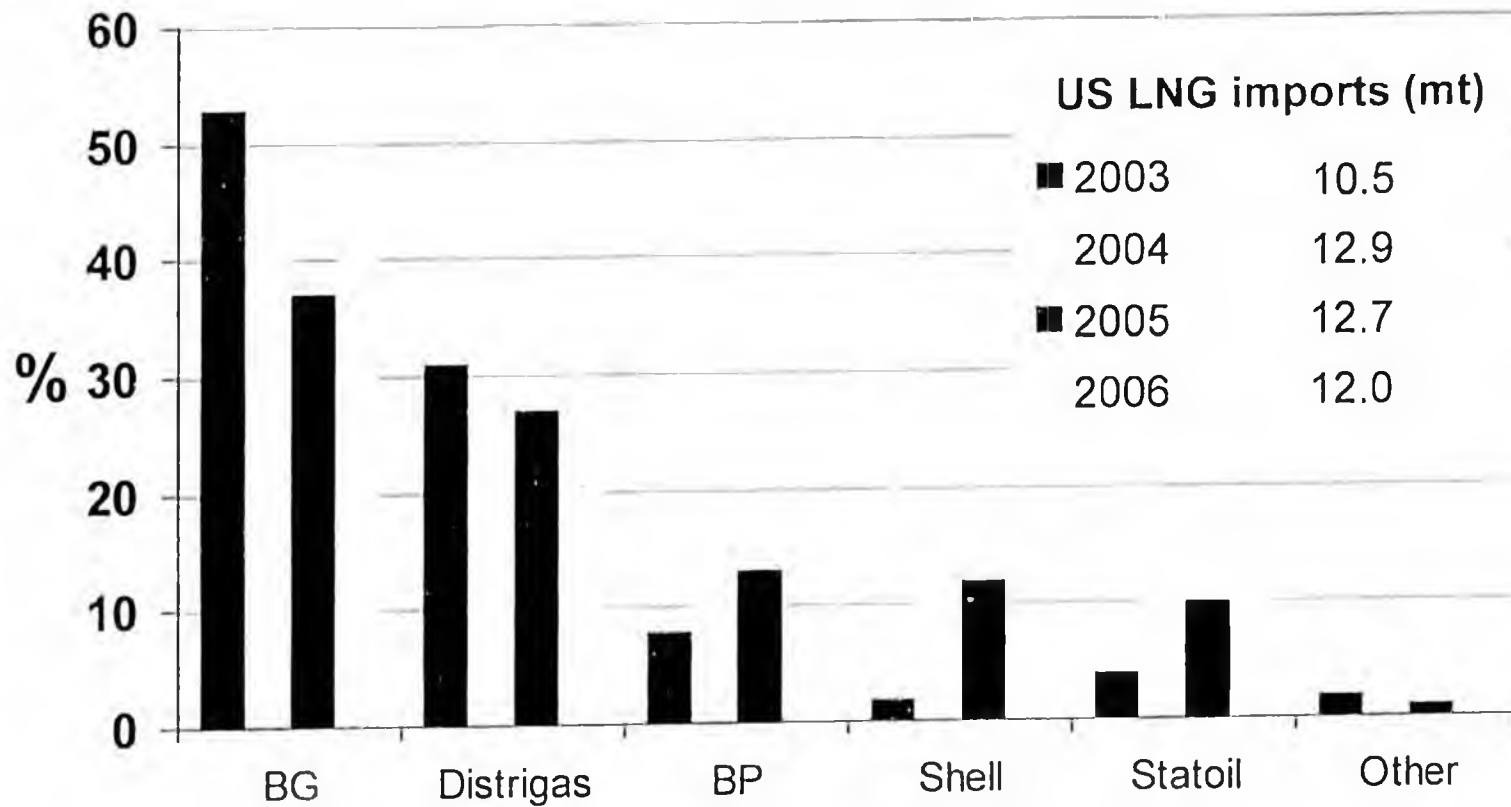
Lake Charles



Elba Island

LNG imports – 2003 to present

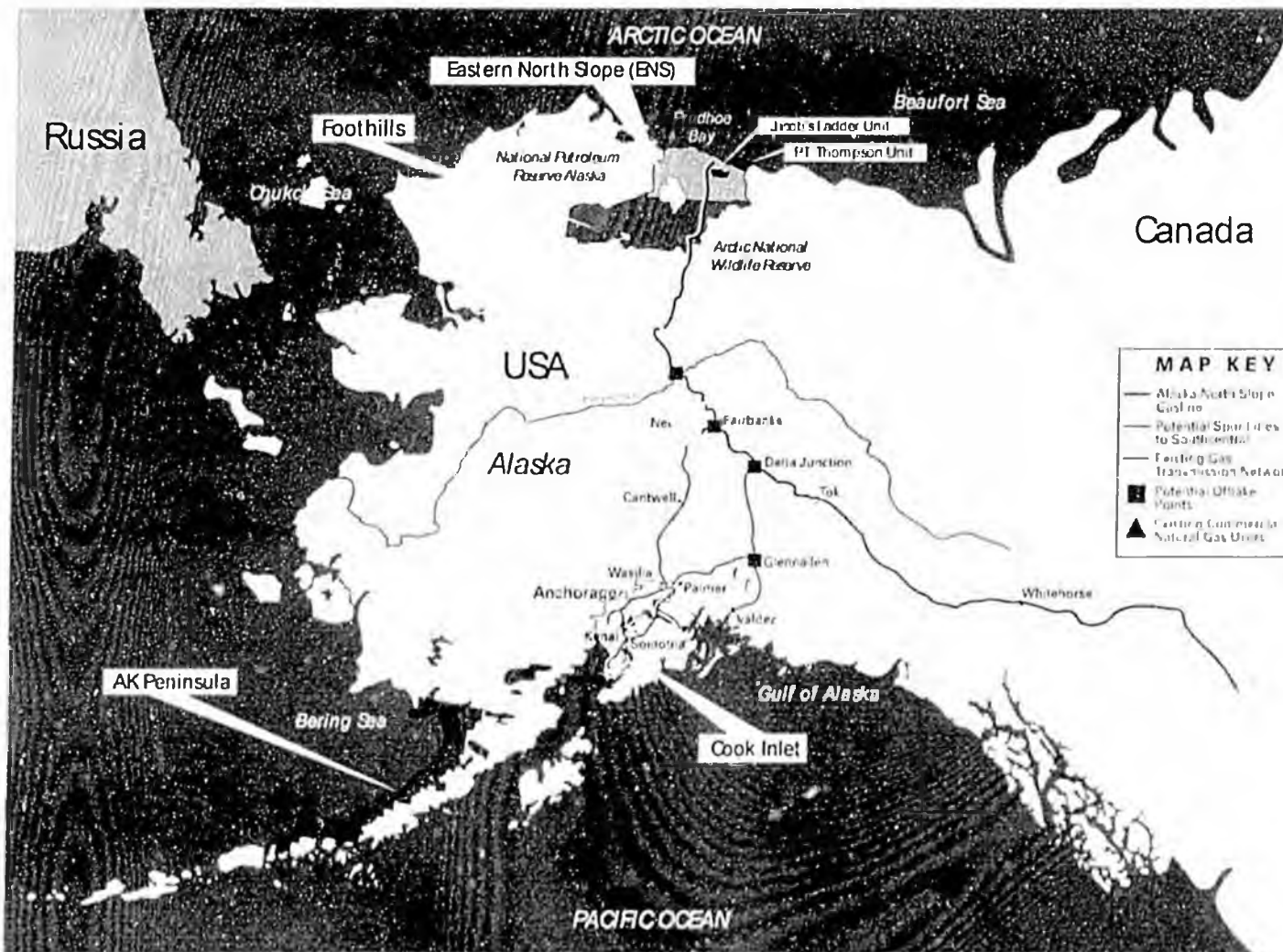
Share of US LNG imports



Source : DOE

BG – the largest US LNG importer in 2003, 2004, 2005 and 2006

Alaska E&P



2.1 million acres in the Foothills of ANS and .2 million in the ENS

Alaska Gasline Inducements Act



- BG is investing in Alaska
 - Exploring along North Slope and ENS
- BG supports AGIA
 - The process is fair, open and inclusive
 - BG supports the mandatory provisions on access and rates
 - Will encourage new explorers to invest in Alaska
- AGIA provides:
 - Opportunities for input by all interested parties
 - Several opportunities for legislators to provide input:
 - Initial legislation
 - When pipeline applications are submitted
 - Legislative review of the winning application

Alaska Gasline Inducements Act



- AGIA addresses BG's concerns by:
 - Providing a level playing field for all participants
 - Providing certainty that when we discover gas, we will have access to pipeline capacity
 - Providing a mechanism to ensure just and reasonable rates
- AGIA creates competition to build the pipeline and possibly an LNG export facility
- AGIA spells out what is required of any applicant
- Clearly identifies the State's "must haves"
- BG's "must haves" are:
 - Regulated pipeline
 - Open access provisions in the tariff
 - Just and reasonable rates

Key messages



- AGIA is good for Alaska and for the natural gas industry
- AGIA will encourage the continued development of Alaska's untapped natural gas reserves
- AGIA's purpose:
 - "...to encourage expedited construction of a natural gas pipeline that
 - (1) Facilitates commercialization of North Slope gas resources of the state;
 - (2) promotes exploration and development of oil and gas resources on the North Slope;
 - (3) maximizes benefits to the people of the state from the development of oil and gas resources in the state; and
 - (4) encourages oil and gas lessees and other persons in the state to commit natural gas from the North Slope to a gas pipeline system for transportation to markets in this state or elsewhere."

BG North America

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FEDERAL

PRESENTATIONS

David R. Hill
General Counsel
U.S. Department of Energy

David R. Hill is the General Counsel of the United States Department of Energy (DOE). President Bush nominated Mr. Hill to this position on April 14, 2005; he was confirmed by the United States Senate on July 28, 2005, and sworn in by Secretary of Energy Samuel W. Bodman on August 10, 2005.



As General Counsel, Mr. Hill is responsible for providing legal advice, counsel and support to the Secretary of Energy, the Deputy Secretary of Energy, and principal Secretarial officers at the Department. He is charged by the Secretary of Energy with the authority to determine the Department's authoritative position on any question of law, and is the Department's Regulatory Policy Officer.

Prior to becoming General Counsel, Mr. Hill served as Deputy General Counsel for Energy Policy at DOE from March 2002 to August 2005. Before joining the Department, Mr. Hill was a partner in the Kansas City, Missouri law firm of Blackwell Sanders Peper Martin, and before that was a partner with Wiley, Rein & Fielding in Washington, D.C. In private practice, Mr. Hill's work covered a wide range of regulatory, litigation and corporate matters, including regulatory matters before the Federal Energy Regulatory Commission, the Environmental Protection Agency, and other federal and state agencies. Earlier in Mr. Hill's career, he served as a law clerk for Judge James K. Logan of the U.S. Court of Appeals for the Tenth Circuit, was an associate at the Washington, D.C. law firm of Wilmer, Cutler & Pickering, and served as associate counsel to the U.S. House of Representatives Committee on Agriculture.

Mr. Hill is a native of Missouri and received his bachelor's degree with honors from the University of Missouri-Columbia College of Agriculture in 1985. He received his law degree with honors in 1988 from the Northwestern University School of Law in Chicago, where he served as editor-in-chief of the Northwestern University Law Review. Mr. Hill and his wife Kristina reside in Alexandria, Virginia with their three daughters.

James A. Slutz
Deputy Assistant Secretary for Oil and Natural Gas
Office of Fossil Energy
U.S. Department of Energy



Jim Slutz currently serves as the Deputy Assistant Secretary for Oil and Natural Gas in the Office of Fossil Energy of the U.S. Department of Energy. In this position, Mr. Slutz is responsible for administering domestic and international oil and gas programs, including research and development, policy analysis, and natural gas import and export licensing. The oil and natural gas office leads DOE's LNG program which involves the analysis of safety and other technical issues.

Prior to his appointment in June 2002, Mr. Slutz served as the Director, Indiana Division of Oil and Gas, with responsibilities for overseeing oil and natural gas exploration and production, natural gas storage, and leasing of state land for exploration. From the period of 1981 to 1992, Mr. Slutz worked for the Ohio Department of Natural Resources, Division of Oil and Gas, where he served in managerial and technical positions.

Mr. Slutz holds an MBA degree from The Ohio State University, Fisher College of Business, and a B.S. degree from The Ohio State University, School of Natural Resources.

TRANSMITTAL
LETTER

SARAH PALIN
GOVERNOR

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March 2, 2007

The Honorable Lyda Green
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Green:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill that facilitates commercialization of Alaska's North Slope natural gas resources and promotes continued exploration and development of those resources. The bill will induce expeditious construction of a natural gas pipeline to transport Alaska's North Slope natural gas to market using a process that is fair, transparent, and competitive. Our nation's energy markets are hungry for Alaska's gas resources, and Alaskans have waited for decades to see these resources developed.

Earlier this week I had several successful meetings with federal officials in Washington, D.C., including the distinguished members of Alaska's Congressional delegation. These meetings affirmed for me that it is time for Alaska's natural gas resources to be developed in order to meet the energy demands of our nation. The Chairman of the Federal Energy Regulatory Commission, Joseph Kelliher, made the statement that my plan does "represent the best hope for building a pipeline to bring Alaska's vast natural gas resources to the energy consuming lower 48 states."

This bill sets forth the following: (a) midstream inducements to encourage companies to identify development benchmarks and build the gas pipeline; (b) upstream inducements that will encourage the holders of North Slope gas reserves to commit their gas to the project; (c) terms that an application must contain to qualify to compete for an exclusive license to the midstream inducements; (d) evaluative criteria by which competing applications will be measured; (e) a public process for reviewing the applications; (f) a procedure by which the applications will be reviewed and a notice of intent to issue a license that will be transmitted to the legislature; and (g) auditing and enforcement tools to protect state contributions and interests.

COMMITTEE COPY

SENATE BILL NO. 104

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The midstream inducements will include a matching contribution of up to \$500 million paid out during the highest risk phase of the project, which is the period the licensee is completing the work necessary to obtain a certificate from either the Federal Energy Regulatory Commission (FERC) or the Regulatory Commission of Alaska (RCA). The licensed project will also benefit from a state program that provides training to Alaskans for gas pipeline jobs.

The bill offers explicit requirements that state permits and authorizations relating to the pipeline be expedited and coordinated in order to avoid complicated, time-consuming and conflicting state and federal permitting processes. In order to facilitate a successful project and an expedient process, the bill will empower the governor to appoint a gas pipeline coordinator to oversee the state permitting process and work with the federal pipeline coordinator to integrate the state and federal permitting processes.

The upstream inducements will encourage those who hold gas reserves under lease to commit that gas to the pipeline licensed under the bill. Under the "royalty inducements," the state will develop regulations to provide predictability in the determination of royalty value and the exercise of its right to take its royalty share in kind (as gas) or in value (as money). A "gas production tax exemption" will give shippers of gas an exemption from production tax equal to the difference between the tax obligation based upon the tax rate in affect at Open Season, and any higher rate that becomes effective in the ten years following commencement of the gas pipeline commercial operations. These provisions address leaseholders' concerns that they need to know how their royalty and tax obligations will be measured for a reasonable period into the future before they irrevocably commit to ship their gas at an Open Season. The benefits will be available to all leaseholders who commit gas to the licensed gas pipeline project during the initial Open Season.

The bill will accomplish six primary goals: (1) initiate an application process open to any project sponsor; (2) take clear steps to promote the construction of a gas pipeline as quickly as possible; (3) ensure the North Slope basin is open to long-term gas exploration and development; (4) ensure reasonable tariff rates are available to transport Alaska's natural gas to market; (5) ensure North Slope natural gas is available to Alaskans; and (6) ensure Alaskans are trained and ready for the natural gas pipeline jobs and those jobs are made available to Alaskans.

To accomplish the first goal, applications will be welcomed from any entity or a coalition of entities interested in constructing the gas pipeline. However, only those

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applications that fulfill the "qualifying application requirements" will be considered for the license to the midstream inducement package.

To accomplish the second goal, the bill will require that applications provide a detailed description of the applicant's proposed project, including route, size, design capacity, timeline and budget. Applicants must agree to hold an Open Season (to solicit firm commitments to ship gas on the pipeline) within three years of getting the license, and will detail steps toward obtaining a Certificate of Public Convenience and Necessity from FERC or the RCA. The state gas pipeline coordinator will also ensure an expeditious regulatory process.

To accomplish the third goal, applicants must commit to expanding the pipeline project when new gas is available. There is currently more than 35 trillion cubic feet (Tcf) of proven reserves of natural gas on Alaska's North Slope. However, most geologists agree that there is many times that amount of North Slope gas awaiting discovery. By ensuring that the pipeline will be expanded when more gas is discovered and ready to be shipped, the bill assures that Alaska's gas will serve the nation's energy needs for decades. Therefore, applicants must commit to evaluate the demand for pipeline expansion at least every two years, and to expand when there is sufficient quantities of gas to ensure an economic expansion. The costs of any expansions will then be collected through "rolled-in" rates that pass those expansion costs on to all shippers in the gas pipeline. The AGIA will cap the cost of rolled-in price increases at no more than 15 percent of initial rates, in response to concerns regarding the predictability of tariff rates.

To accomplish the fourth goal, applicants will have to commit to propose and support tariff rates that would produce the lowest reasonable transportation costs in order to produce the highest price at the wellhead. Minimizing transportation costs result in the state maximizing its royalty revenue stream as well as that of the producers.

To accomplish the fifth goal, applicants must provide for a minimum of five off-take points in Alaska. This, in conjunction with the "distance sensitive tariff rates", will allow gas to be withdrawn from the pipeline at reasonable transportation costs in order to serve residential and business needs across the state.

To accomplish the sixth goal, applicants must commit to establishing a gas pipeline project headquarters in Alaska, establishing hiring offices in Alaska, and hiring qualified Alaskans, thus giving Alaskans access to the thousands of new pipeline jobs.

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The bill requires the application process to commence no more than three months after the bill passes, when the commissioners of Natural Resources and Revenue issue a request for applications (RFA). Applications will be due under a deadline established by the commissioners; however, our intention is to allow applicants three (3) months to respond to the RFA.

Applicants will be deemed "qualified" by having fulfilled the bill's requirements. Qualified applications will then be evaluated by the commissioners of Natural Resources and Revenue to determine which application best meets the stated goals. Before issuing a written determination, the commissioners will publicly release complete applications and take comments for 60 days. Applicants could apply to keep confidential the proprietary information or trade secrets included in their applications.

The bill sets forth "evaluative criteria" to facilitate the selection process. The evaluative criteria are: the proposed project timeline, the proposed method to manage cost overruns, the proposed tariff rates, the ability of the project design to accommodate expansion, the percentage of the state matching fund that will be used, whether the project is feasible, and the applicant's ability to perform. The commissioners will publish a notice of intent to issue a natural gas pipeline project license with written findings, and forward the notice of intent, with findings and supporting documentation, to the legislature. The legislature will have 30 days to disapprove the commissioners' proposed action.

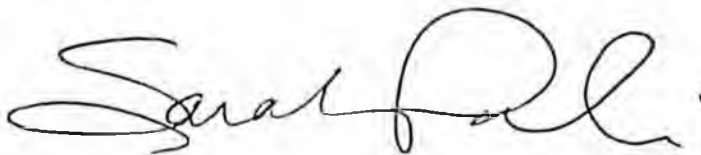
The bill also provides that the licensee must commit to spend the money necessary to build the pipeline within one year of receiving a certificate from the FERC or the RCA if the project has credit support adequate to finance construction of the project. If necessary, the licensee would have an additional four years to obtain financing, or transfer the certificate and all associated work product to another licensee designated by the state. If the project becomes uneconomic after the license is awarded, the bill provides a process for relinquishing the license that will enable the state to recover the benefit of its investment in the project and issue another license. To encourage the licensee to spend its money working toward Open Season, and certification, and building the gas pipeline project, the state will agree that if it provides financial benefits to another company to encourage the construction of a competing pipeline project after the license is issued, the licensee will be entitled to recover from the state three times the amount it spent on the project.

The bill identifies quantifiable values the state is willing to commit to encourage early and appropriate development of an Alaska Gas Pipeline project. It also identifies the elements necessary to protect the state, and the nation's, long-term interests in

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development of additional gas reserves. The bill protects the state from untenable risks and will induce expedited construction of a gas pipeline that powers the state and the nation. I urge your prompt and favorable action on the bill.

Sincerely,

A handwritten signature in black ink that reads "Sarah Palin". The signature is written in a cursive, flowing style with a large initial "S" and a distinct "P".

Sarah Palin
Governor

TIMELINES

Estimated Project Timeline for a Gas Pipeline

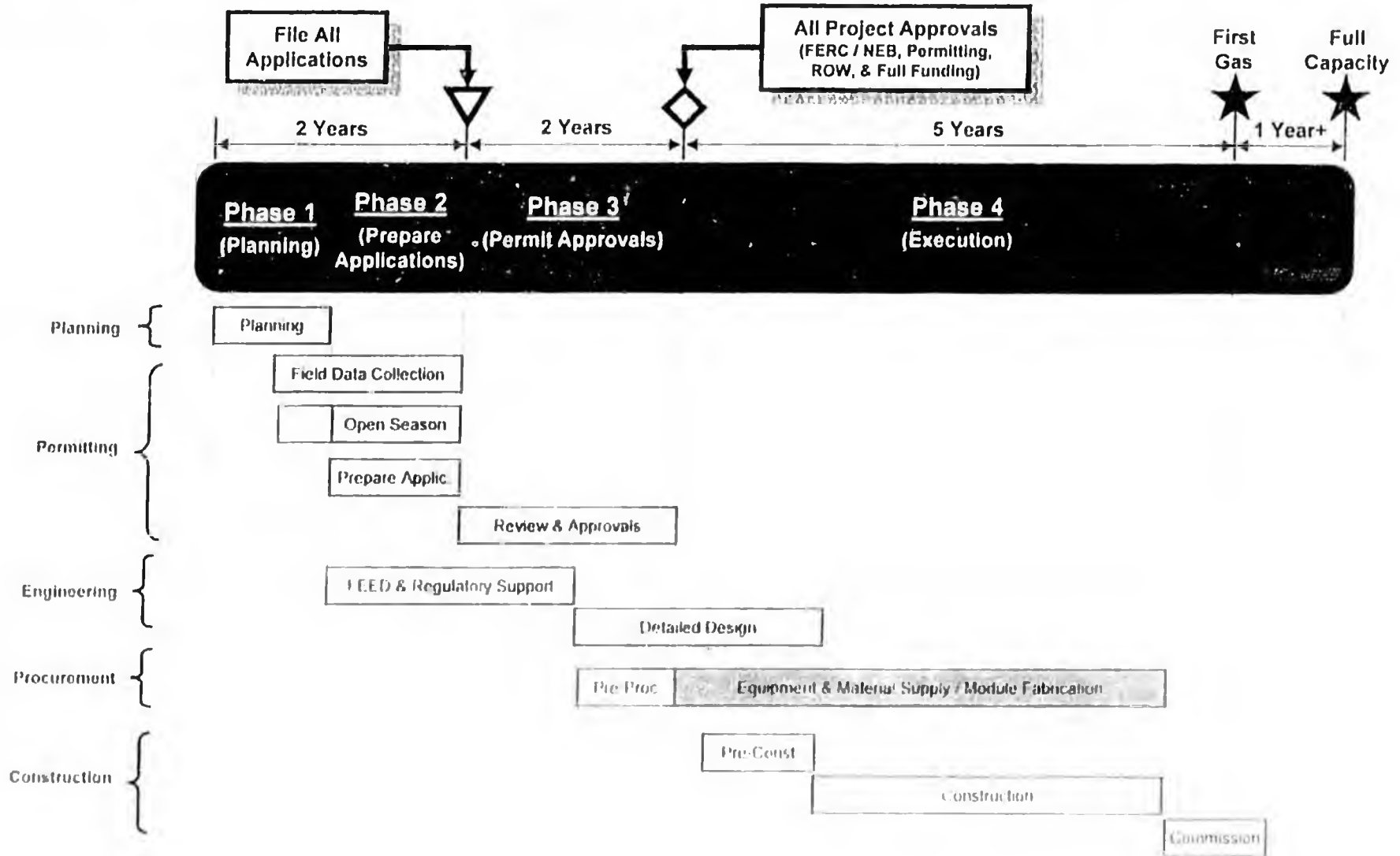
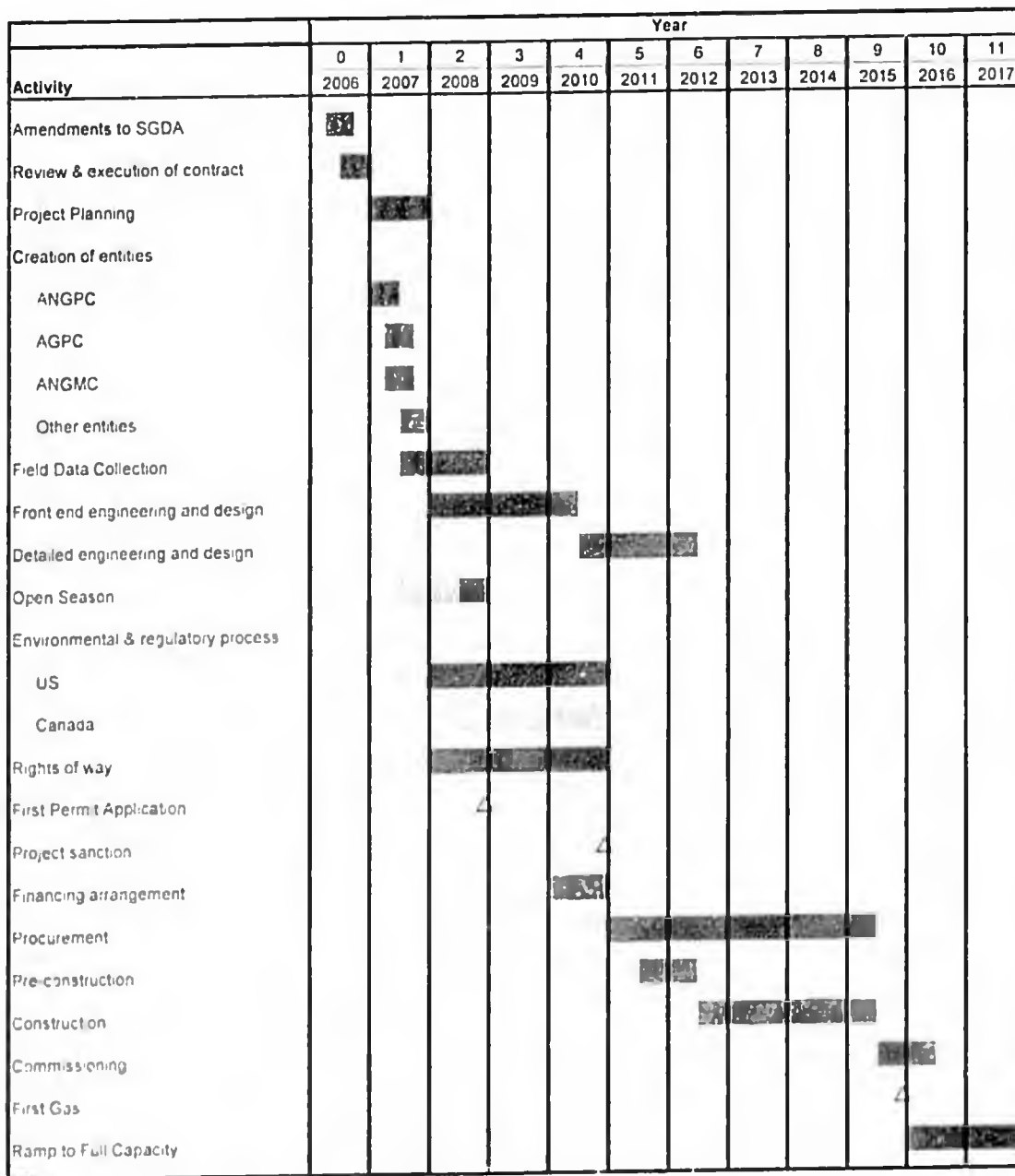


Figure ES-4. Conceptual Project Timeline



Source: Adapted from the sponsor group's May 10, 2006 project summary.

AK
STRANDED
GAS ACT

Chapter 43.82. ALASKA STRANDED GAS DEVELOPMENT ACT

Article 01. CONTRACTS FOR PAYMENTS IN LIEU OF OTHER TAXES

Sec. 43.82.010. Purpose.

The purpose of this chapter is to

- (1) encourage new investment to develop the state's stranded gas resources by authorizing establishment of fiscal terms related to that new investment without significantly altering tax and royalty methodologies and rates on existing oil and gas infrastructure and production;
- (2) allow the fiscal terms applicable to a qualified sponsor or the members of a qualified sponsor group, with respect to a qualified project, 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.

Sec. 43.82.020. Contracts for payments in lieu of other taxes and for royalty adjustments.

The commissioner may, under this chapter, negotiate terms for inclusion in a proposed contract with a qualified sponsor or qualified sponsor group providing for

- (1) periodic payment in lieu of one or more taxes that otherwise would be imposed by the state or a municipality on the qualified sponsor or members of the qualified sponsor group as a consequence of the sponsor's or group's participation in an approved qualified project under this chapter; and
- (2) certain adjustments regarding royalty under AS 43.82.220.

Article 02. QUALIFICATION AND APPLICATION PROCEDURES

Sec. 43.82.100. Qualified project.

Based on information available to the commissioner, the commissioner may determine that a proposal for new investment is a qualified project under this chapter if the project

- (1) principally involves
 - (A) the transportation of natural gas by pipeline to one or more markets, together with any associated processing or treatment;
 - (B) the export of liquefied natural gas from the state to one or more other states or countries;or

(C) any other technology that commercializes the shipment of natural gas within the state or from the state to one or more other states or countries;

(2) would produce at least 500,000,000,000 cubic feet of stranded gas within 20 years from the commencement of commercial operations; and

(3) is capable, subject to applicable commercial regulation and technical and economic considerations, of making gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project.

Sec. 43.82.110. Qualified sponsor or qualified sponsor group.

The commissioner may determine that a person or group is a qualified sponsor or qualified sponsor group if the person or a member of the group

(1) intends to own an equity interest in a qualified project, intends to commit gas that it owns to a qualified project, or holds the permits that the department determines are essential to construct and operate a qualified project; and

(2) meets one or more of the following criteria:

(A) owns a working interest in at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(B) has the right to purchase at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(C) has the right to acquire, control, or market at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(D) has a net worth equal to at least 10 percent of the estimated cost of constructing a qualified project;

(E) has an unused line of credit equal to at least 15 percent of the estimated cost of constructing a qualified project.

Sec. 43.82.120. Applications.

(a) A qualified sponsor or qualified sponsor group may submit to the department an application for development of a contract under AS 43.82.020 evidencing that the requirements of AS 43.82.100 and 43.82.110 are met. The application must be submitted in the manner and form and contain the information required by the department.

(b) Along with an application submitted under (a) of this section, an applicant shall submit a proposed project plan for a qualified project that contains the following information based on the information known to the applicant at the time of application:

(1) a description of the work accomplished as of the date of the application to further the project;

(2) a schedule of proposed development activity leading to the projected commencement of commercial operations of the project;

(3) a description of the development activity proposed to be accomplished under the proposed project plan;

(4) a description of each lease or property that the applicant believes to contain the stranded gas that would be developed if the project was built;

(5) a description of the methods and terms under which the applicant is prepared to make gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project during the term of the proposed contract, including proposed pipeline transportation and expansion rules if pipeline transportation is a part of the proposed project;

(6) a detailed description of options to mitigate the increased demand for public services and other negative effects caused by the project;

(7) a detailed description of options for the safe management and operation of the project once it is constructed;

(8) other information that the commissioner of revenue, in consultation with the commissioner of natural resources, considers necessary to make a determination that

(A) the work accomplished as of the date of application, the schedule of proposed development activity, and the development activity proposed to be accomplished under the proposed project plan reflect a proposal for diligent development on the part of the applicant;

(B) the proposed project plan does not materially conflict with the obligations of a lessee to the state under a lease or under a pool, unit, or other agreement with the state; and

(C) the proposed project plan describes satisfactory methods and terms for accommodating reasonably foreseeable demand for gas in this state within the economic proximity of the project during the term of the proposed contract.

(c) The requirements of (b) of this section do not diminish the obligations of a qualified sponsor or member of a qualified sponsor group to the state or restrict the authority of the commissioner of revenue or the commissioner of natural resources under any other law or agreement relating to a plan of development for a lease, pool, or unit.

Sec. 43.82.130. Qualified project plan.

A proposed project plan submitted under AS 43.82.120 may be approved as a qualified project plan under AS 43.82.140 if the proposed project plan

- (1) reflects a proposal for diligent development of the project on the part of the applicant;
- (2) does not materially conflict with the obligations of a lessee to the state under a lease or under a pool, unit, or other agreement with the state; and
- (3) describes satisfactory methods and terms for making gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project during the term of the proposed contract.

Sec. 43.82.140. Review of applications and determination of qualifications.

(a) The commissioner shall review an application submitted under AS 43.82.120 to determine whether the provisions of AS 43.82.100 concerning a qualified project and AS 43.82.110 concerning a qualified sponsor or qualified sponsor group have been met. The commissioner may approve an application only if those provisions have been met.

(b) If the commissioner approves an application under (a) of this section, the commissioner and the commissioner of natural resources shall review the proposed project plan submitted with the application to determine whether the provisions of AS 43.82.130 have been met. The commissioner may approve the proposed project plan as a qualified project plan only if the commissioner of natural resources concurs in the approval.

(c) The commissioner shall send to the applicant written notice of and the reasons for the determinations made under (a) and (b) of this section.

Sec. 43.82.150. Actions challenging determinations on applications.

(a) Only an applicant under AS 43.82.120 who is aggrieved by a determination of the commissioner of revenue or the commissioner of natural resources under AS 43.82.140 may seek judicial review of the determination.

(b) The only grounds for judicial review of a determination made under AS 43.82.140 are

- (1) failure to follow the qualification and application procedures set out in AS 43.82.100 - 43.82.180; or
- (2) abuse of discretion that is so capricious, arbitrary, or confiscatory as to constitute a denial of due process.

Sec. 43.82.160. Multiple applications for similar or competing qualified projects.

Nothing in this chapter prohibits different qualified sponsors or different qualified sponsor groups from submitting applications under AS 43.82.120 relating to similar or competing

qualified projects or prohibits the commissioner of revenue or the commissioner of natural resources from reviewing and approving applications and proposed project plans under AS 43.82.140 relating to similar or competing qualified projects.

Sec. 43.82.170. Application deadline.

The commissioner of revenue or the commissioner of natural resources may not act on an application for a contract submitted under AS 43.82.120 unless the application is received by the Department of Revenue no later than March 31, 2005.

Sec. 43.82.180. Withdrawal of applications.

Subject to the terms of a reimbursement agreement under AS 43.82.240 or other agreement with the Department of Revenue, the Department of Natural Resources, the commissioner of revenue, or the commissioner of natural resources affecting the withdrawal of an application, a qualified sponsor or qualified sponsor group may withdraw an application submitted under AS 43.82.120 at any time before the date that the commissioner of revenue submits a contract to the governor under AS 43.82.430 without further obligation under this chapter.

Article 03. CONTRACT DEVELOPMENT

Sec. 43.82.200. Contract development.

If the commissioner approves an application and proposed project plan under AS 43.82.140, the commissioner may develop a contract that may include

(1) terms concerning periodic payment in lieu of one or more taxes as provided in AS 43.82.210;

(2) terms developed under AS 43.82.220 relating to

(A) timing and notice of the state's right to take royalty in kind or in value; and

(B) royalty value;

(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 or conditions that are

(A) necessary to further the purposes of this chapter; or

(B) in the best interests of the state.

Sec. 43.82.210. Contract terms relating to payment in lieu of one or more taxes.

(a) If the commissioner approves an application and proposed project plan under AS 43.82.140, the commissioner may develop proposed terms for inclusion in a contract under AS 43.82.020 for periodic payment in lieu of one or more of the following taxes that otherwise would be imposed by the state or a municipality on the qualified sponsor or member of a qualified sponsor group as a consequence of participating in an approved qualified project:

(1) oil and gas production taxes and oil surcharges under AS 43.55;

(2) oil and gas exploration, production, and pipeline transportation property taxes under AS 43.56;

(3) *[Repealed, Sec. 6 ch 34 SLA 1999]*.

(4) Alaska net income tax under AS 43.20;

(5) municipal sales and use tax under AS 29.45.650 - 29.45.710;

(6) municipal property tax under AS 29.45.010 - 29.45.250 or 29.45.550 - 29.45.600;

(7) municipal special assessments under AS 29.46;

(8) a comparable tax or levy imposed by the state or a municipality after June 18, 1998;

(9) other state or municipal taxes or categories of taxes identified by the commissioner.

(b) If the commissioner chooses to develop proposed terms under (a) of this section, the commissioner shall, if practicable and consistent with the long-term fiscal interests of the state, develop the terms in a manner that attempts to balance the following principles:

(1) the terms should, in conjunction with other factors such as cost reduction of the project, cost overrun risk reduction of the project, increased fiscal certainty, and successful marketing, improve the competitiveness of the approved qualified project in relation to other development efforts aimed at supplying the same market;

(2) the terms should accommodate the interests of the state, affected municipalities, and the project sponsors under a wide range of economic conditions, potential project structures, and marketing arrangements;

(3) the state's and affected municipalities' combined share of the economic rent of the approved qualified project under the contract should be relatively progressive; that is, the state's and affected municipalities' combined annual share of the economic rent of the approved qualified project generally should not increase when there are decreases in project profitability, or decrease when there are increases in project profitability;

(4) the state's and affected municipalities' combined share of the economic rent of the approved qualified project under the contract should be relatively lower in the earlier years than in the later years of the approved qualified project;

(5) the terms should allow the project sponsors to retain a share of the economic rent of the approved qualified project that is sufficient to compensate the sponsors for risks under a range of economic circumstances;

(6) the terms should provide the state and affected municipalities with a significant share of the economic rent of the approved qualified project, when discounted to present value, under favorable price and cost conditions;

(7) the method for calculating the periodic payment in lieu of certain taxes under the contract should be clear and unambiguous; and

(8) while cost calculations for the approved qualified project under the contract should be based on amounts that closely approximate actual costs, agreed-upon formulas reflecting reasonable economic assumptions should be used if possible to promote administrative certainty and efficiency.

(c) Except as provided in (b) of this section, the commissioner's discretion under this section in developing proposed terms for a contract under AS 43.82.020 is not limited to consideration of the economic rent of the approved qualified project.

Sec. 43.82.220. Contract terms relating to royalty.

(a) Notwithstanding any contrary provisions of AS 38, the commissioner of natural resources, with the concurrence of the commissioner of revenue and the affected parties holding a state lease or unit agreement, may develop proposed terms for inclusion in a contract under AS 43.82.020 that modify the timing and notice provisions of the applicable oil and gas leases and unit agreements pertaining to the state's rights to receive its royalty on gas in kind or in value if

(1) the viability of the approved qualified project depends on long-term gas purchase and sale agreements;

(2) certainty over time regarding the quantity of royalty gas that the state may be taking in kind is needed to secure the long-term purchase and sale agreements;

(3) the specified period of the state's commitment to take its royalty share in value or in kind does not exceed the term of the purchase and sale agreements; and

(4) the modification does not impair the ability of the approved qualified project or the state to meet the reasonably foreseeable demand in this state for gas within economic proximity of the project during the term of the contract developed under AS 43.82.020.

(b) Notwithstanding any contrary provisions of AS 38, the commissioner of natural resources, with the concurrence of the commissioner of revenue and the affected parties holding a state lease or unit agreement, may develop proposed terms for inclusion in a contract under AS 43.82.020 that establish a valuation method for the state's royalty share of the gas production from an approved qualified project.

(c) The commissioner of revenue shall include any proposed terms relating to royalty developed in accordance with this section in the proposed contract under AS 43.82.400.

(d) Nothing in this chapter permits modification of the state's rights that relate to timing, notice, and rights to receive oil royalty in kind or in value under oil and gas leases or unit agreements.

Sec. 43.82.230. Contract terms relating to hiring of Alaska residents and contracting with Alaska businesses.

(a) The commissioner shall include in a contract under AS 43.82.020 a term requiring the qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or qualified sponsor group to comply with all valid federal, state, and municipal laws relating to hiring Alaska residents and contracting with Alaska businesses to work in the state on the approved qualified project and not to discriminate against Alaska residents or Alaska businesses. Within the constraints of law, the commissioner shall also include in a contract under AS 43.82.020 a term that requires the qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or qualified sponsor group to employ Alaska residents and to contract with Alaska businesses to work in the state on the approved qualified project to the extent the residents and businesses are available, competitively priced, and qualified.

(b) The commissioner shall include in a contract under AS 43.82.020 a term requiring the qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or qualified sponsor group to

(1) advertise for available positions in newspapers in the location where the work is to be performed and in other publications distributed throughout the state, including in rural areas; and

(2) use Alaska job service organizations located throughout the state and not just in the location where the work is to be performed in order to notify Alaskans of work opportunities on the approved qualified project.

(c) Subject to the voluntary agreement of the qualified sponsor, the commissioner may include a term in the contract providing for incentives to encourage training and hiring of Alaska residents.

(d) This section does not create or abridge individual rights and does not create a private right of action for any person.

(e) For purposes of this section,

(1) "Alaska business" means a firm or contractor that

(A) has held an Alaska business license for the preceding 12 months;

(B) maintains, and has maintained for the preceding 12 months, a place of business in the state that competently and professionally deals in supplies, services, or construction of the nature required for the approved qualified project; and

(C) is

(i) a sole proprietorship and the proprietor is an Alaska resident;

(ii) a partnership and more than 50 percent of the partnership interest is held by Alaska residents;

(iii) a limited liability company and more than 50 percent of the membership interest is held by Alaska residents;

(iv) a corporation that has been incorporated in the state or is authorized to do business in the state; or

(v) a joint venture and a majority of the venturers qualify as Alaska businesses under this paragraph;

(2) "Alaska job service organizations" means those offices maintained by the state and recommended by the Department of Labor and Workforce Development whose functions are to aid the unemployed or underemployed in finding employment;

(3) "Alaska resident" means a natural person who

(A) receives a permanent fund dividend under AS 43.23; or

(B) is registered to vote under AS 15 and qualifies for a resident fishing, hunting, or trapping license under AS 16;

(4) "available," as applied to an Alaska resident or Alaska business, means that the resident or business is available for employment at the time required and is located anywhere in the state, not just in the area of the state where the work is to be performed;

(5) "qualified," as applied to an Alaska resident or Alaska business, means that the resident or business possesses the requisite education, training, skills, certification, or experience to perform the work necessary for a particular position or to perform a particular service.

Sec. 43.82.240. Use of an independent contractor.

(a) The commissioner may use independent contractors to assist in the evaluation of an application or in the development of contract terms under AS 43.82.200. The commissioner may condition the development of a contract under AS 43.82.020 on an agreement by the applicant to reimburse the state for the reasonable expenses of independent contractors under this section. A reimbursement of expenses that is required in an agreement authorized by this subsection may not exceed \$1,500,000 for each application.

(b) An independent contractor selected under this section must sign an agreement regarding confidentiality and disclosures consistent with the determinations made under AS 43.82.310 before the contractor may review information that is determined confidential under AS 43.82.310.

(c) Selection of an independent contractor under this section is not subject to AS 36.30 (State Procurement Code).

Sec. 43.82.250. Term of contract; effective date.

The term of a contract developed under AS 43.82.020 may be for no longer than is necessary to develop the stranded gas that is subject to the contract; however, the term of the contract may not exceed 35 years from the commencement of commercial operations of the approved qualified project.

Sec. 43.82.260. Change of parties to an application or a contract; assignment of interests.

(a) A qualified sponsor or member of a qualified sponsor group may assign an interest in or add or withdraw a party to an application under AS 43.82.120 only if the commissioner has

(1) made a finding that the assignment, addition, or withdrawal is consistent with the requirements of AS 43.82.110; and

(2) given prior written approval for the assignment, addition, or withdrawal.

(b) A contract developed under this chapter may provide for the assignment to or withdrawal of a qualified sponsor or member of a qualified sponsor group.

(c) Upon being added to an application under this section, a party becomes a qualified sponsor or a member of a qualified sponsor group, as appropriate, for the relevant project.

(d) The commissioner may not unreasonably withhold approval under (a) of this section, but may condition the approval in any way reasonably necessary to protect the fiscal interests of the state and to further the purposes of this chapter.

(e) For purposes of this section, an assignment includes a transfer of stock or a partnership interest in a manner that changes control of a qualified sponsor or member of a qualified sponsor group.

Sec. 43.82.270. Project plans and work commitments.

A contract under AS 43.82.020 must include the qualified project plan approved under AS 43.82.140 and provisions for updating the plan at reasonable intervals until the commencement of commercial operations of the approved qualified project. The commissioner of revenue, in consultation with the commissioner of natural resources, may, as a term in a contract under AS 43.82.020, include work commitments or other obligations in the contract to be accomplished before the commencement of commercial operations of the approved qualified project.

Article 04. REQUESTS FOR INFORMATION; CONFIDENTIALITY; DISCLOSURE OF INFORMATION

Sec. 43.82.300. Requests for information.

The commissioner of revenue or the commissioner of natural resources may request from an applicant information that the respective commissioner determines is necessary to perform the respective commissioner's responsibilities under AS 43.82.140. If the application is approved under AS 43.82.140, the respective commissioner shall require the successful applicant to provide financial, technical, and market information regarding the qualified project that the respective commissioner determines is necessary for the purpose of developing contract terms for the qualified project under AS 43.82.200. If requested information is not provided, the commissioner of revenue may not continue to review the application under AS 43.82.140 or develop the contract under AS 43.82.200 - 43.82.270, as applicable.

Sec. 43.82.310. Disclosure of information; confidentiality.

(a) An applicant may request confidential treatment of information that the applicant provides under AS 43.82.300 by clearly identifying the information and the reasons supporting the request for confidential treatment. The commissioner of revenue or the commissioner of natural resources, as appropriate, shall keep the information confidential until the commissioner determines whether the requirements of (b) of this section are met. If the commissioner of revenue or the commissioner of natural resources has not made a determination under (b) of this section within 14 days after receiving a request for

confidential treatment, the request is considered denied. If the appropriate commissioner determines that the information does not meet the requirements of (b) of this section or if the commissioner fails to make a determination within 14 days, the commissioner shall return the information and any copies of it at the request of the applicant. If the commissioner of revenue or the commissioner of natural resources, as appropriate, returns information under this subsection, the commissioner shall cease review of the application or cease contract development under AS 43.82.200 - 43.82.270, as appropriate, unless the commissioner determines that the returned information is unnecessary to make a determination on the application or to develop contract terms under AS 43.82.200 - 43.82.270.

(b) If requested by the applicant, information provided to the commissioner of revenue or the commissioner of natural resources under AS 43.82.300 shall be kept confidential if the commissioner receiving the information determines, upon an adequate showing by the applicant, that the information

(1) is a trade secret or other proprietary research, development, or commercial information that the applicant treats as confidential;

(2) affects the applicant's competitive position; and

(3) has commercial value that may be significantly diminished by public disclosure or that public disclosure is not in the long-term fiscal interests of the state.

(c) Information determined to be confidential under (b) of this section is confidential under that subsection only so long as is necessary to protect the competitive position of the applicant, to prevent the significant diminution of the commercial value of the information, or to protect the long-term fiscal interests of the state. The commissioner of revenue or the commissioner of natural resources, as appropriate, may not release information that the commissioner has previously determined to be confidential under (b) of this section without providing the applicant notice and an opportunity to be heard.

(d) Notwithstanding the limitation in (c) of this section, the Department of Revenue and the Department of Natural Resources may provide to one another, to the Department of Law, to the legislature, and to the Office of the Governor any information provided under AS 43.82.300 relevant to the implementation of this chapter or to the enforcement of state or federal laws. Information that is exchanged under this subsection that was determined to be confidential under (b) of this section remains confidential except as provided in (c) of this section. The portions of the records and files of the Department of Revenue, the Department of Natural Resources, the Department of Law, the legislature, and the Office of the Governor that reflect, incorporate, or analyze information that is determined to be confidential under (b) of this section are not public records except as provided in (c) of this section.

(e) Notwithstanding the limitation in (c) of this section, information that is determined to be confidential under (b) of this section shall be disclosed on request by the commissioner of revenue, the commissioner of natural resources, or the attorney general to a legislator; to the legislative auditor; and, as directed by the chair or vice-chair of the Legislative Budget and

Audit Committee, to the director of legislative finance, to the permanent employees of those divisions who are responsible for evaluating a contract under AS 43.82.020, and to agents or contractors of the legislative auditor or the director of legislative finance who are engaged to evaluate a contract under AS 43.82.020. Information that is determined to be confidential under (b) of this section may also be disclosed by the commissioner of revenue or the commissioner of natural resources to an independent contractor under AS 43.82.240 or to a municipal advisory group established under AS 43.82.510. Before confidential information is disclosed under this subsection, the person receiving the information must sign an appropriate confidentiality agreement.

(f) If the commissioner of revenue chooses to develop a contract under AS 43.82.020, the portions of the records and files of the Department of Revenue, the Department of Natural Resources, the Department of Law, and a municipal advisory group established under AS 43.82.510 that reflect, incorporate, or analyze information that is relevant to the development of the position or strategy of the commissioner of revenue, the commissioner of natural resources, or the attorney general with respect to a particular provision that may be incorporated into the contract are not public records until the commissioner of revenue gives public notice under AS 43.82.410 of the commissioner's preliminary findings and determination under AS 43.82.400. Nothing in this subsection

(1) makes a record or file of the Department of Revenue, the Department of Natural Resources, or the Department of Law a public record that otherwise would not be a public record under AS 40.25.100 - 40.25.220;

(2) affects the confidentiality provisions of (a) - (e) of this section; or

(3) abridges a privilege recognized under the laws of this state, whether at common law or by statute or by court rule.

Article 05. CONTRACT REVIEW, APPROVAL, AND TERMINATION

Sec. 43.82.400. Preliminary findings and determination regarding the contract.

(a) If the commissioner develops a proposed contract under AS 43.82.200 - 43.82.270, the commissioner shall

(1) make preliminary findings and a determination that the proposed contract terms are in the long-term fiscal interests of the state and further the purposes of this chapter; and

(2) prepare a proposed contract that includes those terms and shall submit the contract to the governor.

(b) To make the preliminary findings and determination required by (a)(1) of this section, the commissioner shall compare the projected public revenue anticipated from the approved qualified project with the estimated operating and capital costs of the additional state and municipal services anticipated to arise from the construction and operation of the approved

qualified project. The commissioner shall address the reasonably foreseeable effects of the proposed contract on the public revenue.

(c) In conjunction with the making of preliminary findings and determination required by (a)(1) of this section, the commissioner shall describe the principal factors, including the projected price of gas, projected production rate or volume of gas, and projected recovery, development, construction, and operating costs, upon which the determination made under (a)(1) of this section is based. If the commissioner has previously submitted a proposed contract to the governor, the commissioner shall describe any material differences between the terms of the currently proposed contract and the previously proposed contract.

Sec. 43.82.410. Notice and comment regarding the contract.

The commissioner shall

(1) give reasonable public notice of the preliminary findings and determination made under AS 43.82.400 :

(2) make copies of the proposed contract, the commissioner's preliminary findings and determination, and, to the extent the information is not required to be kept confidential under AS 43.82.310, the supporting financial, technical, and market data, including the work papers, analyses, and recommendations of any independent contractors used under AS 43.82.240 available to the public and to

(A) the presiding officer of each house of the legislature;

(B) the chairs of the finance and resources committees of the legislature; and

(C) the chairs of the special committees on oil and gas, if any, of the legislature;

(3) offer to appear before the Legislative Budget and Audit Committee to provide the committee a review of the commissioner's preliminary findings and determination, the proposed contract, and the supporting financial, technical, and market data; if the Legislative Budget and Audit Committee accepts the commissioner's offer, the committee shall give notice of the committee's meeting to the public and all members of the legislature; if the financial, technical, and market data that is to be provided must be kept confidential under AS 43.82.310, the commissioner may not release the confidential information during a public portion of a committee meeting; and

(4) establish a period of at least 30 days for the public and members of the legislature to comment on the proposed contract and the preliminary findings and determination made under AS 43.82.400.

Sec. 43.82.420. Coordination of public and legislative review.

To the extent practicable, the commissioner shall coordinate the public comment opportunity provided under AS 43.82.410 (4) with a review by the Legislative Budget and Audit Committee under AS 43.82.410 (3).

Sec. 43.82.430. Final findings, determination, and proposed amendments; execution of the contract.

(a) Within 30 days after the close of the public comment period under AS 43.82.410 (4), the commissioner of revenue shall

(1) prepare a summary of the public comments received in response to the proposed contract and the preliminary findings and determination;

(2) after consultation with the commissioner of natural resources, if appropriate, and with the pertinent municipal advisory group established under AS 43.82.510, prepare a list of proposed amendments, if any, to the proposed contract that the commissioner of revenue determines are necessary to respond to public comments;

(3) make final findings and a determination as to whether the proposed contract and any proposed amendments prepared under (2) of this subsection meet the requirements and purposes of this chapter.

(b) After considering the material described in (a) of this section and securing the agreement of the other parties to the proposed contract regarding any proposed amendments prepared under (a) of this section, if the commissioner determines that the contract is in the long-term fiscal interests of the state the commissioner shall submit the contract to the governor.

(c) The commissioner's final findings and determination under (a) of this section are final agency decisions under this chapter.

Sec. 43.82.435. Legislative authorization.

The governor may transmit a contract developed under this chapter to the legislature together with a request for authorization to execute the contract. A contract developed under this chapter is not binding upon or enforceable against the state or other parties to the contract unless the governor is authorized to execute the contract by law. The state and the other parties to the contract may execute the contract within 60 days after the effective date of the law authorizing the contract.

Sec. 43.82.440. Judicial review.

A person may not bring an action challenging the constitutionality of a law authorizing a contract enacted under AS 43.82.435 or the enforceability of a contract executed under a law authorizing a contract enacted under AS 43.82.435 unless the action is commenced within 120 days after the date that the contract was executed by the state and the other parties to the contract.

Sec. 43.82.445. Administrative termination of a contract.

(a) The commissioner shall include terms in a contract developed under AS 43.82.020 that provide for administrative termination of a party's rights under the procedures and conditions set out in this section if the party has

(1) ceased to meet the requirements of AS 43.82.110 as a qualified sponsor or qualified sponsor group;

(2) intentionally or fraudulently misrepresented, in whole or in part, material facts or circumstances upon which the contract was made;

(3) failed to comply with a condition or material term of the contract or a provision of this chapter; or

(4) failed to comply with the approved qualified project plan or any updated project plan.

(b) Before administrative termination of a contract under this section, the commissioner shall give notice to the parties of the commissioner's intent to terminate the contract and an opportunity to be heard. The commissioner may also provide the parties an opportunity to cure any deficiency that is the basis for the termination if the commissioner determines that curing the deficiency is appropriate under the circumstances.

(c) Notwithstanding (a) and (b) of this section, the commissioner may not administratively terminate a contract after the party has committed full project funding except as provided in (e) of this section.

(d) A party to a contract who is affected by the commissioner's action to terminate under (a) of this section may file an appeal with the superior court under the Alaska Rules of Appellate Procedure.

(e) The commissioner may provide terms and conditions in a contract developed under AS 43.82.020 upon which a party's rights under the contract may be administratively terminated after the party commits full project funding.

Article 06. MUNICIPAL PARTICIPATION

Sec. 43.82.500. Obligation to share payments with municipalities.

If the commissioner develops a contract under AS 43.82.020 that includes terms that exempt a party to the contract, and the property, gas, products, and activities associated with the approved qualified project that is subject to the contract, from a municipal tax or assessment in accordance with AS 29.45.810 or AS 29.46.010 (b), or AS 43.82.200 and 43.82.210, the commissioner shall include a term in the contract that the party pay a portion of the periodic payments due under the contract to the revenue-affected municipality.

Sec. 43.82.505. Payments to economically affected municipalities.

If the commissioner executes a contract under AS 43.82.020 that will produce one or more economically affected municipalities, the commissioner shall include a term in the contract that provides for a portion of the periodic payments to the economically affected municipalities under the principles in AS 43.82.520.

Sec. 43.82.510. Municipal advisory group.

(a) If the commissioner approves an application and proposed project plan under AS 43.82.140 and decides to develop a contract under AS 43.82.020 and 43.82.200, the commissioner shall notify each revenue-affected municipality and economically affected municipality

(b) The mayor of a municipality notified by the commissioner under (a) of this section may appoint one representative to a municipal advisory group in relation to the application.

(c) Each municipal advisory group serves until a final action is taken on the application for which the group was appointed.

(d) Each municipal advisory group shall elect a chair.

Sec. 43.82.520. Duties of the commissioner of revenue in relation to municipal participation.

(a) The commissioner shall meet with each municipal advisory group periodically to report on the development of the contract provisions that affect the municipalities.

(b) In developing a contract under AS 43.82.200 - 43.82.270, the commissioner shall ensure that each revenue-affected municipality and economically affected municipality receives a fair and reasonable share of the payments provided under AS 43.82.210 in accordance with the following principles:

(1) the share of the payments to revenue-affected municipalities should be given priority over payments to economically affected municipalities with due regard to the anticipated size of the tax base that the contract would exempt from municipal taxation by revenue-affected municipalities;

(2) the share of the payments to municipalities should be determined with due regard to the anticipated economic and social burdens that would be imposed on the municipality by construction and operation of the project;

(3) the respective shares of the total payments to the state and to municipalities should be fixed in a manner to ensure that their respective interests are aligned;

(4) to the extent practicable, the periodic amounts paid to each of the municipalities should be stable and predictable; and

(5) to the extent practicable, the provisions for sharing payments with municipalities should be consistent with the principles established in AS 43.82.210 (b).

(c) In establishing the municipal shares under (b) of this section, the commissioner shall consult with the pertinent municipal advisory group.

Sec. 43.82.600. Governing law.

If a provision of this chapter conflicts with another provision of state or municipal law, the provision of this chapter governs.

Sec. 43.82.610. Regulations.

The commissioner of revenue, the commissioner of natural resources, and the commissioner of labor and workforce development may adopt regulations to carry out their respective duties under this chapter.

Sec. 43.82.620. Procedures for collection of amounts due; security.

(a) The commissioner may adopt procedures for the collection of amounts due the state under a contract developed under AS 43.82.020, including the collection of interest and penalties.

(b) The commissioner may require a party to a contract developed under AS 43.82.020 to provide security sufficient to guarantee amounts due under the contract.

Sec. 43.82.630. Reports and audits.

The commissioner may require periodic reports from and may at reasonable intervals conduct audits and inspect the books of a party that has entered into a contract developed under AS 43.82.020 to ensure compliance with the provisions of this chapter and the regulations adopted under this chapter and of the terms of the contract.

Sec. 43.82.640. Annual report of the commissioner of labor and workforce development.

On an annual basis, the commissioner of labor and workforce development shall prepare and present to the legislature a comprehensive report on each party to a contract with the state developed under AS 43.82.020, and its contractors, regarding the state residency of the employees working in this state on the approved qualified project that is subject to the contract. The commissioner of labor and workforce development shall use state data bases, including data from the quarterly reports by a party to the contract developed under AS 43.82.020 and its contractors for unemployment insurance purposes, to determine state residency of employees regarding compliance with AS 43.82.230.

Article 08. GENERAL PROVISIONS

Sec. 43.82.900. Definitions.

In this chapter, unless the context requires otherwise,

- (1) "affected municipality" means an economically affected municipality or a revenue-affected municipality;
- (2) "commencement of commercial operations" means the start of regular deliveries of marketable products from an approved qualified project;
- (3) "cubic foot of gas" means the quantity of gas contained in a volume of one cubic foot at a standard temperature of 60 degrees Fahrenheit and a standard absolute pressure of 14.65 pounds per square inch;
- (4) "economically affected municipality" means a municipality the commissioner of revenue determines will be reasonably required to provide additional public services under the terms proposed in an application approved under AS 43.82.140 (a); the commissioner may consider historical data from construction of the Trans Alaska Pipeline System, and information submitted by a municipality in making the determination;
- (5) "economic proximity" means the distance within which a person may be willing to design, construct, and operate a gas line to provide service to a local consumer;
- (6) "economic rent" means the estimated total gross revenue less estimated total costs for a qualified project over the term of a contract under AS 43.82.020, measured in undiscounted nominal dollars; for purposes of this paragraph, total costs do not include a rate of return on capital, financing costs, or any payments to governments;
- (7) "full project funding" means full approval by a party to a contract under AS 43.82.020 for the expenditure of the capital necessary for construction and operation of the approved qualified project that is subject to the contract;
- (8) "gas" has the meaning given in AS 43.55.900;
- (9) "group" means two or more persons;
- (10) "lease or property" has the meaning given in AS 43.55.900;
- (11) "periodic payment" means payment made in lieu of one or more other taxes under a contract under AS 43.82.020;
- (12) "revenue-affected municipality" means a municipality that the commissioner of revenue reliably expects will be restricted from imposing a tax, or a portion of a tax, as a result of implementation of a contract developed under this chapter;

(13) "stranded gas" means gas that is not being marketed due to prevailing costs or price conditions as determined by an economic analysis by the commissioner for a particular project.

Sec. 43.82.990. Short title.

This chapter may be cited as the Alaska »Stranded« »Gas« »Development« »Act«.

15 USCS

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*** CURRENT THROUGH P.L. 110-17, APPROVED 4/9/2007 ***

TITLE 15. COMMERCE AND TRADE
CHAPTER 15D. ALASKA NATURAL GAS PIPELINE

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15 USCS § 720d

§ 720d Federal Coordinator

(a) Establishment. There is established, as an independent office in the executive branch, the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects.

(b) Federal Coordinator.

(1) Appointment. The Office shall be headed by a Federal Coordinator for Alaska Natural Gas Transportation Projects, who shall be appointed by the President, by and with the advice and consent of the Senate, to serve a term to last until 1 year following the completion of the project referred to in section 103 [15 USCS § 720a].

(2) Compensation. The Federal Coordinator shall be compensated at the rate prescribed for level III of the Executive Schedule (5 U.S.C. 5314).

(c) Duties. The Federal Coordinator shall be responsible for--

(1) coordinating the expeditious discharge of all activities by Federal agencies with respect to an Alaska natural gas transportation project; and

(2) ensuring the compliance of Federal agencies with the provisions of this division [15 USCS §§ 720 et seq.].

(d) Reviews and actions of other Federal agencies.

(1) Expedited reviews and actions. All reviews conducted and actions taken by any Federal agency relating to an Alaska natural gas transportation project authorized under this section shall be expedited, in a manner consistent with completion of the necessary reviews and approvals by the deadlines under this division [15 USCS §§ 720 et seq.].

(2) Prohibition of certain terms and conditions. No Federal agency may include in any certificate, right-of-way, permit, lease, or other authorization issued to an Alaska natural gas transportation project any term or condition that may be permitted, but is not required, by any applicable law if the Federal Coordinator determines that the term or condition would prevent or impair in any significant respect the expeditious construction and operation, or an expansion, of the Alaska natural gas transportation project.

(3) Prohibition of certain actions. Unless required by law, no Federal agency shall add to, amend, or abrogate any certificate, right-of-way, permit, lease, or other authorization issued to an Alaska natural gas transportation project if the Federal Coordinator determines that the action would prevent or impair in any significant respect the expeditious construction and operation, or an expansion, of the Alaska natural gas transportation project.

(4) Limitation. The Federal Coordinator shall not have authority to--

(A) override--

(i) the implementation or enforcement of regulations issued by the Commission under section 103 [15 USCS § 720a]; or

(ii) an order by the Commission to expand the project under section 105 [15 USCS § 720c]; or

(B) impose any terms, conditions, or requirements in addition to those imposed by the Commission or any agency with respect to construction and operation, or an expansion of, the project.

(c) State coordination.

(1) In general. The Federal Coordinator and the State shall enter into a joint surveillance and monitoring agreement similar to the agreement in effect during construction of the Trans-Alaska Pipeline, to be approved by the President and the Governor of the State, for the purpose of monitoring the construction of the Alaska natural gas transportation project.

(2) Primary responsibility. With respect to an Alaska natural gas transportation project--

(A) the Federal Government shall have primary surveillance and monitoring responsibility in areas where the Alaska natural gas transportation project crosses Federal land or private land; and

(B) the State government shall have primary surveillance and monitoring responsibility in areas where the Alaska natural gas transportation project crosses State land.

(f) Transfer of Federal Inspector functions and authority. On appointment of the Federal Coordinator by the President, all of the functions and authority of the Office of Federal Inspector of Construction for the Alaska Natural Gas Transportation System vested in the Secretary under section 3012(b) of the Energy Policy Act of 1992 (*15 U.S.C. 719e* note; Public Law 102-486), including all functions and authority described and enumerated in the Reorganization Plan No. 1 of 1979 (*44 Fed. Reg. 33663*) [*5 USCS § 903* note], Executive Order No. 12142 of June 21, 1979 (*44 Fed. Reg. 36927*) [*15 USCS § 719e* note], and section 5 of the President's decision, shall be transferred to the Federal Coordinator.

(g) Temporary authority. The functions, authorities, duties, and responsibilities of the Federal Coordinator shall be vested in the Secretary until the earlier of the appointment of the Federal Coordinator by the President, or 18 months after the date of enactment of this Act [enacted Oct. 13, 2004].

HISTORY:

(Oct. 13, 2004, P.L. 108-324, Div C, § 106, 118 Stat. 1259; Dec. 30, 2005, P.L. 109-148, Div A, Title VIII, § 8128, 119 Stat. 2731.)

HISTORY; ANCILLARY LAWS AND DIRECTIVES

Amendments:

2005, Act Dec. 30, 2005, in subsec. (g), substituted "earlier" for "later".

SEC. 116

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House Report 108-773 - MAKING APPROPRIATIONS FOR MILITARY CONSTRUCTION, FAMILY HOUSING, AND BASE REALIGNMENT AND CLOSURE FOR THE DEPARTMENT OF DEFENSE FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2005, AND FOR OTHER PURPOSES

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SEC. 116. LOAN GUARANTEES.

(a) AUTHORITY- (1) The Secretary may enter into agreements with 1 or more holders of a certificate of public convenience and necessity issued under section 103(b) of this division or section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) to issue Federal guarantee instruments with respect to loans and other debt obligations for a qualified infrastructure project.

(2) Subject to the requirements of this section, the Secretary may also enter into agreements with 1 or more owners of the Canadian portion of a qualified infrastructure project to issue Federal guarantee instruments with respect to loans and other debt obligations for a qualified infrastructure project as though such owner were a holder described in paragraph (1).

(3) The authority of the Secretary to issue Federal guarantee instruments under this section for a qualified infrastructure project shall expire on the date that is 2 years after the date on which the final certificate of public convenience and necessity (including any Canadian certificates of public convenience and necessity) is issued for the project. A final certificate shall be considered to have been issued when all certificates of public convenience and necessity have been issued that are required for the initial transportation of commercially economic quantities of natural gas from Alaska to the continental United States.

(b) CONDITIONS- (1) The Secretary may issue a Federal guarantee instrument for a qualified infrastructure project only after a certificate of public convenience and necessity under section 103(b) of this division or an amended certificate under section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) has been issued for the project.

(2) *The Secretary may issue a Federal guarantee instrument under this section for a qualified infrastructure project only if the loan or other debt obligation guaranteed by the instrument has been issued by an eligible lender.*

(3) *The Secretary shall not require as a condition of issuing a Federal guarantee instrument under this section any contractual commitment or other form of credit support of the sponsors (other than equity contribution commitments and completion guarantees), or any throughput or other guarantee from prospective shippers greater than such guarantees as shall be required by the project owners.*

(c) **LIMITATIONS ON AMOUNTS-** (1) *The amount of loans and other debt obligations guaranteed under this section for a qualified infrastructure project shall not exceed 80 percent of the total capital costs of the project, including interest during construction.*

(2) *The principal amount of loans and other debt obligations guaranteed under this section shall not exceed, in the aggregate, \$18,000,000,000, which amount shall be indexed for United States dollar inflation from the date of enactment of this Act, as measured by the Consumer Price Index.*

(d) **LOAN TERMS AND FEES-** (1) *The Secretary may issue Federal guarantee instruments under this section that take into account repayment profiles and grace periods justified by project cash flows and project-specific considerations. The term of any loan guaranteed under this section shall not exceed 30 years.*

(2) *An eligible lender may assess and collect from the borrower such other fees and costs associated with the application and origination of the loan or other debt obligation as are reasonable and customary for a project finance transaction in the oil and gas sector.*

(e) **REGULATIONS-** *The Secretary may issue regulations to carry out this section.*

(f) **AUTHORIZATION OF APPROPRIATIONS-** *There are authorized to be appropriated such sums as may be necessary to cover the cost of loan guarantees under this section, as defined by section 502(5) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661a(5)). Such sums shall remain available until expended.*

(g) **DEFINITIONS-** *In this section:*

(1) **CONSUMER PRICE INDEX-** *The term 'Consumer Price Index' means the Consumer Price Index for all-urban consumers, United States city average, as published by the Bureau of Labor Statistics, or if such index shall cease to be published, any successor index or reasonable substitute thereof.*

(2) **ELIGIBLE LENDER-** *The term 'eligible lender' means any non-Federal qualified institutional buyer (as defined by section 230.144A(a) of title 17, Code of Federal Regulations (or any successor regulation), known as Rule 144A(a) of the Securities and Exchange Commission and issued under the Securities Act of 1933), including--*

(A) *a qualified retirement plan (as defined in section 4974(c) of the*

Internal Revenue Code of 1986 (26 U.S.C. 4974(c)) that is a qualified institutional buyer; and

(B) a governmental plan (as defined in section 414(d) of the Internal Revenue Code of 1986 (26 U.S.C. 414(d)) that is a qualified institutional buyer.

(3) FEDERAL GUARANTEE INSTRUMENT- The term 'Federal guarantee instrument' means any guarantee or other pledge by the Secretary to pledge the full faith and credit of the United States to pay all of the principal and interest on any loan or other debt obligation entered into by a holder of a certificate of public convenience and necessity.

(4) QUALIFIED INFRASTRUCTURE PROJECT- The term 'qualified infrastructure project' means an Alaskan natural gas transportation project consisting of the design, engineering, finance, construction, and completion of pipelines and related transportation and production systems (including gas treatment plants), and appurtenances thereto, that are used to transport natural gas from the Alaska North Slope to the continental United States.

And the Senate agree to the same.

Joe Knollenberg,
James T. Walsh,
Robert B. Aderholt,
Kay Granger,
Virgil Goode,
David Vitter,
Jack Kingston,
Ander Crenshaw,
Bill Young,
Chet Edwards,
Sam Farr,
Allen Boyd,
Sanford D. Bishop, Jr.,
Norman D. Dicks,

Managers on the Part of the House.

Kay Bailey Hutchison,
Conrad Burns,
Larry E. Craig,
Mike DeWine,
Sam Brownback,
Ted Stevens,
Dianne Feinstein,
Daniel K. Inouye,
Tim Johnson,
Mary L. Landrieu,
Robert C. Byrd,

Managers on the Part of the Senate.

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SPRING 2007

EXEC. SUMMARY

2. Executive Summary

Figure 2-1. FY 2006 Total Revenue \$10.5 billion

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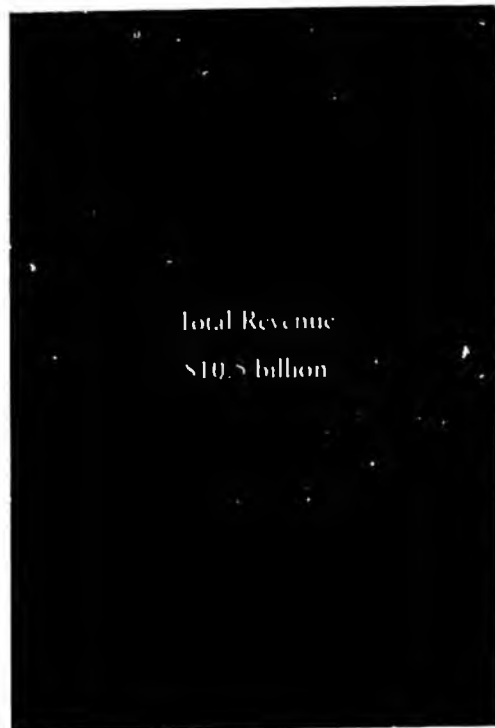


Figure 2-2. Total Governmental Revenue by Major Component, FY 2006 and Forecasted FY 2007-2008
(\$ million)

Oil Revenue	History		Forecast	
	FY 2006	FY 2007	FY 2008	
Unrestricted				
Property Tax	54.5	52.0	53.2	
Corporate Petroleum Tax	661.1	565.1	512.1	
Production Tax	1,199.5	2,124.6	995.4 ⁽¹⁾	
Royalties (including Bonuses, Rents, & Interest)	1,784.1	1,583.0	1,406.4	
Subtotal	3,699.2	4,324.7	2,967.2	
Restricted				
Royalties to Perm Fund & School Fund (includes Bonuses & Rents)	611.5	539.1	480.9	
Tax Settlements to CBRF	43.7	90.0	20.0	
NPR-A Royalties, Rents & Bonuses	4.5	6.4	7.6	
Subtotal	659.7	635.5	508.5	
Subtotal Oil Revenue	4,358.9	4,960.2	3,475.6	
Other Revenue (Except Federal & Investment)				
Unrestricted	FY 2006	FY 2007	FY 2008	
Taxes	328.5	424.7	381.4	
Charges for Services	21.8	21.8	21.8	
Fines and Forfeitures	8.5	8.5	8.5	
Licenses and Permits	41.0	43.2	44.0	
Rents and Royalties	8.8	14.3	11.0	
Other	39.3	19.1	17.6	
Subtotal	447.9	531.6	484.3	
Restricted				
Taxes	86.3	86.6	131.7	
Charges for Services	225.0	237.9	277.4	
Fines and Forfeitures	21.0	22.0	31.2	
Licenses and Permits	30.6	37.1	37.5	
Rents and Royalties	5.9	5.9	5.9	
Other	167.7	103.1	120.4	
Subtotal	536.5	492.6	604.1	
Subtotal Other Revenue	984.4	1,024.2	1,088.4	

Figure 2-2. Continued

Federal Revenue	History	Forecast	
	FY 2006	FY 2007	FY 2008
Restricted	1,966.2	3,106.1	2,476.0
Subtotal Federal Revenue	1,966.2	3,106.1	2,476.0
Investment Revenue			
Unrestricted			
Investments	51.9	122.4	94.6
Interest Paid by Others	1.4	1.5	1.5
Subtotal	53.3	123.9	96.1
Restricted			
Investments	14.4	45.6	33.8
Constitutional Budget Reserve Fund	73.3	189.7	147.7
Other Treasury Managed Funds	13.4	22.3	23.0
Alaska Permanent Fund (GASB) ⁽²⁾	3,072.3	2,512.9	2,675.7
Subtotal	3,173.3	2,770.5	2,880.2
Subtotal Investment	3,226.7	2,894.4	2,976.3
Grand Total	10,536.2	11,984.9	10,016.3

⁽¹⁾ FY 2008 has \$86.7 million production tax credit outstanding.

⁽²⁾ both realized and unrealized gains and losses are included per GASB 34 as interpreted by the Finance Division of the Department of Administration in its Comprehensive Annual Financial Report.

Figure 2-3. Total Government by Major Component, FY 2006

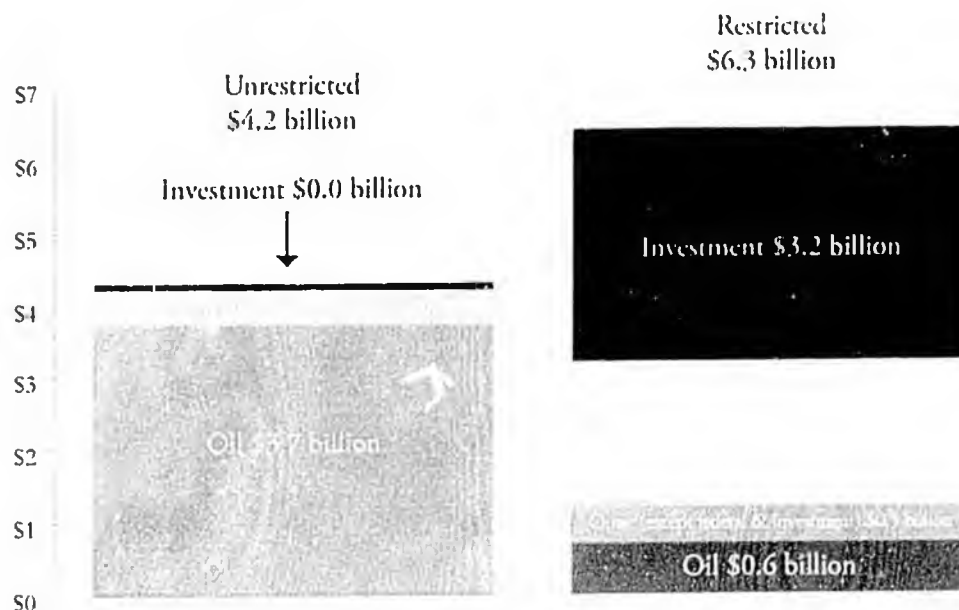


Figure 2-4. Total Governmental State Revenue, FY 2006 and Forecasted FY 2007-2008 (\$ million)

Revenue Source	History	Forecast	
	FY 2006	FY 2007	FY 2008
Unrestricted			
Oil Revenue	3,699.2	4,324.7	2,967.2 ⁽¹⁾
Other Revenue (except Federal & Investment)	447.9	536.1	484.3
Investment earnings	53.3	123.9	96.1
Subtotal	4,200.4	4,980.2	3,547.6
Restricted			
Oil Revenue	659.7	635.5	508.5
Other Revenue (except Federal & Investment)	536.5	492.6	604.1
Investment Earnings	3,173.3	2,770.5	2,880.2
Federal Revenue	1,966.2	3,106.1	2,476.0
Subtotal	6,335.7	7,004.7	6,468.8
Grand Total	10,536.2	11,984.9	10,016.3

⁽¹⁾ FY 2008 has \$86.7 million production tax credit outstanding.

Figure 2-5. Unrestricted General Purpose Revenue, FY 2006 and Forecasted FY 2007-2008 (\$ million)

Oil Revenue	History	Forecast	
	FY 2006	FY 2007	FY 2008
Property Tax	54.5	52.0	53.2
Corporate Income Tax	661.1	565.1	512.1
Production Tax			
Oil & Gas Production	1,191.7	2,114.2	983.1
Oil & Gas Hazardous Release	7.8	10.4	12.3
Subtotal Production Tax	1,199.5	2,124.6	995.4
Royalties (including Bonuses, Rents, & Interest)			
Mineral Bonuses & Rents	11.6	33.1	14.8
Oil & Gas Royalties	1,772.2	1,542.0	1,390.3
Interest	0.3	8.0	1.4
Subtotal Royalties	1,784.1	1,583.0	1,406.4
Total Oil Revenue	3,669.2	4,324.7	2,967.2
Other Revenue (except Federal & Investment)			
Sales & Use			
Alcoholic Beverages	17.6	17.8	18.2
Tobacco Products – Cigarettes	27.8	31.2	36.0
Tobacco Products – Other	7.6	8.1	8.4
Insurance Premium	44.3	45.4	45.9
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel Tax	42.0	41.1	41.7
Vehicle Rental	7.7	7.8	7.9
Tire Fee	1.6	1.6	1.6
Subtotal Sales & Use	148.8	153.2	159.9
Corporate Income Tax	138.0	190.0	139.4
Fish			
Fisheries Business	15.4	15.9	16.5
Fishery Resource Landing	4.7	4.5	4.8
Subtotal Fish	20.1	20.4	21.3
Other			
Mining	18.6	58.7	58.4
Estate	0.6	0.0	0.0
Gaming	2.4	2.4	2.4
Subtotal Other	21.6	61.1	60.8
Subtotal Other Taxes	328.5	424.7	381.4

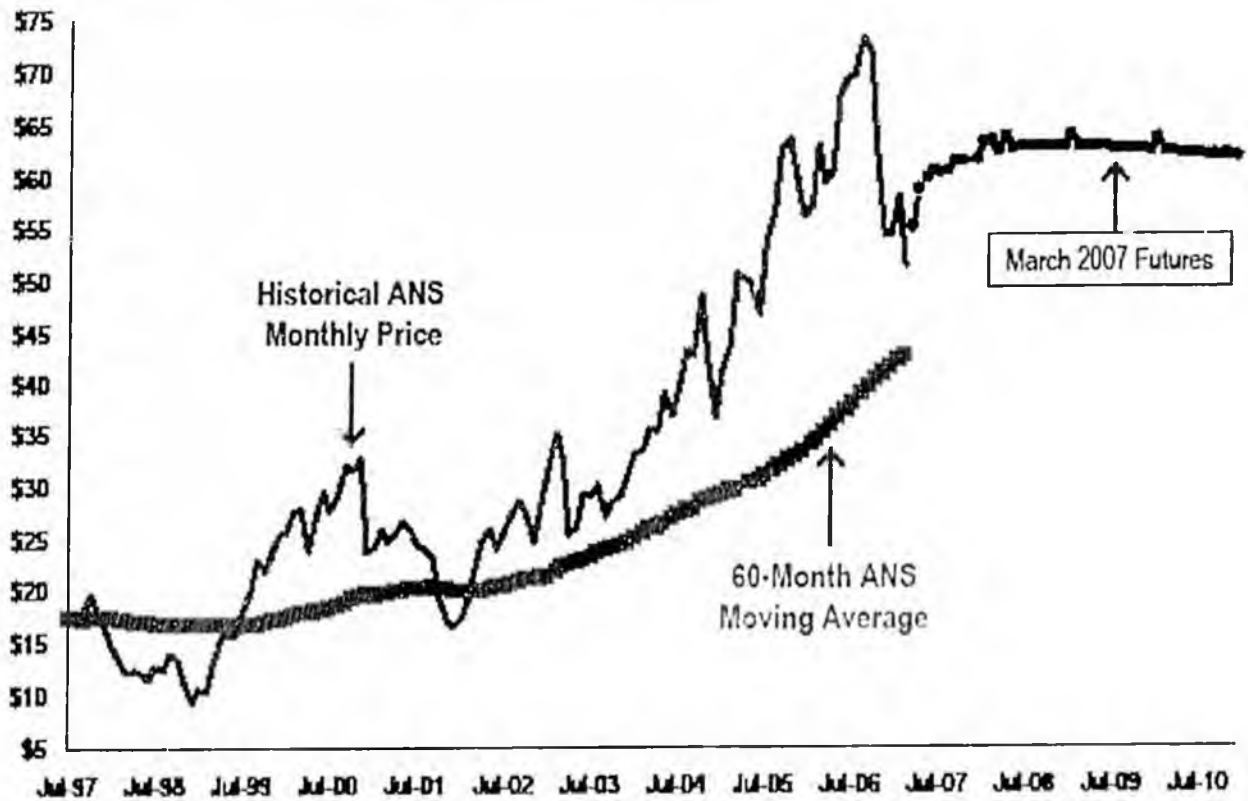
Figure 2-5. Continued

Other Revenue (except Federal & Investment)	History	Forecast	
	FY 2006	FY 2007	FY 2008
Charges for Services			
General Government	19.7	19.7	19.7
Natural Resources	1.9	1.9	1.9
Other	0.2	0.2	0.2
Subtotal Charges for Services	21.8	21.8	21.8
Fines & Forfeitures	8.5	8.5	8.5
Licenses & Permits			
Alcoholic Beverage	0.1	0.1	0.1
Motor Vehicle	37.7	39.8	40.6
Other	2.3	2.3	2.3
Subtotal Licenses & Permits	41.0	43.2	44.0
Rents & Royalties			
Land Leasing, Rental & Sales	7.4	12.8	9.4
Coals Royalties	1.1	1.2	1.3
Cabin Rentals	0.3	0.3	0.3
Subtotal Rents & Royalties	8.8	14.3	11.0
Other			
Miscellaneous	29.8	13.6	13.6
Unclaimed Property	9.5	5.5	4.0
Subtotal Other	39.3	19.1	17.6
Total Other (except Federal & Investment)	447.9	531.6	484.3
Investment Revenue			
Investments	51.9	122.4	94.6
Interest Paid by Others	1.4	1.5	1.5
Subtotal Investment Revenue	53.3	123.9	96.1
Total Unrestricted revenue	4,200.4	4,980.2	3,547.6

Figure 2-6. WTI, ANS West Coast and ANS Wellhead, FY 2006 and Forecasted FY 2007-2017 (Nominal \$ per barrel)

Fiscal Year	WTI	ANS West Coast	ANS Wellhead
2006	63.01	60.80	55.33
2007	62.42	59.81	53.97
2008	57.22	54.72	47.50
2009	56.36	53.86	47.79
2010	56.62	54.12	49.06
2011	57.80	55.30	50.18
2012	58.52	56.02	50.68
2013	59.40	56.90	51.36
2014	43.53	41.03	35.23
2015	44.73	42.23	36.18
2016	45.96	43.46	37.23
2017	47.22	44.72	38.40

Figure 2-7. ANS West Coast and Futures Market Oil Prices (\$ per barrel)



(2) According to the department's price forecasting protocol, long-run crude oil price projections can only be changed every two years if price Delphi forecasting participants agree to a change over the prior two consecutive fall forecasting sessions.

Figure 2-8. Alaska Crude Oil and NGL Production, FY 2006 and Forecast 2007-2008 (million barrels per day)

	History	Forecast	
	FY 2006	FY 2007	FY 2008
Alaska North Slope			
Prudhoe Bay (1)	0.340	0.276	0.297
Aurora	0.009	0.011	0.011
Borealis	0.017	0.016	0.015
Midnight Sun	0.006	0.004	0.004
Orion	0.007	0.009	0.012
Polaris	0.003	0.003	0.005
Lisburne	0.009	0.011	0.012
Niakuk (2)	0.006	0.005	0.004
Point McIntyre	0.033	0.018	0.029
Raven	0.001	0.003	0.003
Kuparuk	0.134	0.124	0.116
Meltwater	0.005	0.003	0.002
Tabasco	0.004	0.004	0.004
Earn	0.020	0.019	0.015
West Sak	0.013	0.019	0.028
Milne Point	0.025	0.022	0.024
Schrader Bluff	0.016	0.010	0.013
Endicott	0.019	0.015	0.016
Badami	0.001	0.001	0.001
Alpine (3)	0.123	0.105	0.085
Fiord (4)	0.000	0.008	0.014
Nanuk (5)	0.000	0.009	0.016
Oooguruk	0.000	0.000	0.003
Northstar	0.056	0.047	0.037
Total Alaska North Slope	0.845	0.740	0.764
increase/decrease from prior period	(0.072)	(0.105)	0.024
% change from prior period	-7.9%	-12.4%	3.3%
Cool. Inlet	0.018	0.016	0.014
increase/decrease from prior period	(0.002)	(0.003)	(0.001)
% change from prior period	-9.3%	-15.9%	-9.0%
Total Alaska	0.863	0.756	0.778
increase/decrease from prior period	(0.074)	(0.108)	0.023
% change from prior period	-7.9%	-12.5%	3.0%

(1) Includes NGLs

(2) Includes West Niakuk

(3) Includes Qannik

(4) Includes Fiord-Kuparuk

(5) Includes Nanuk-Kuparuk

Figure 2-11. Estimated Cumulative Production Tax, FY 2008-2012 Under ELF-Based Production Tax and PPT Production Tax

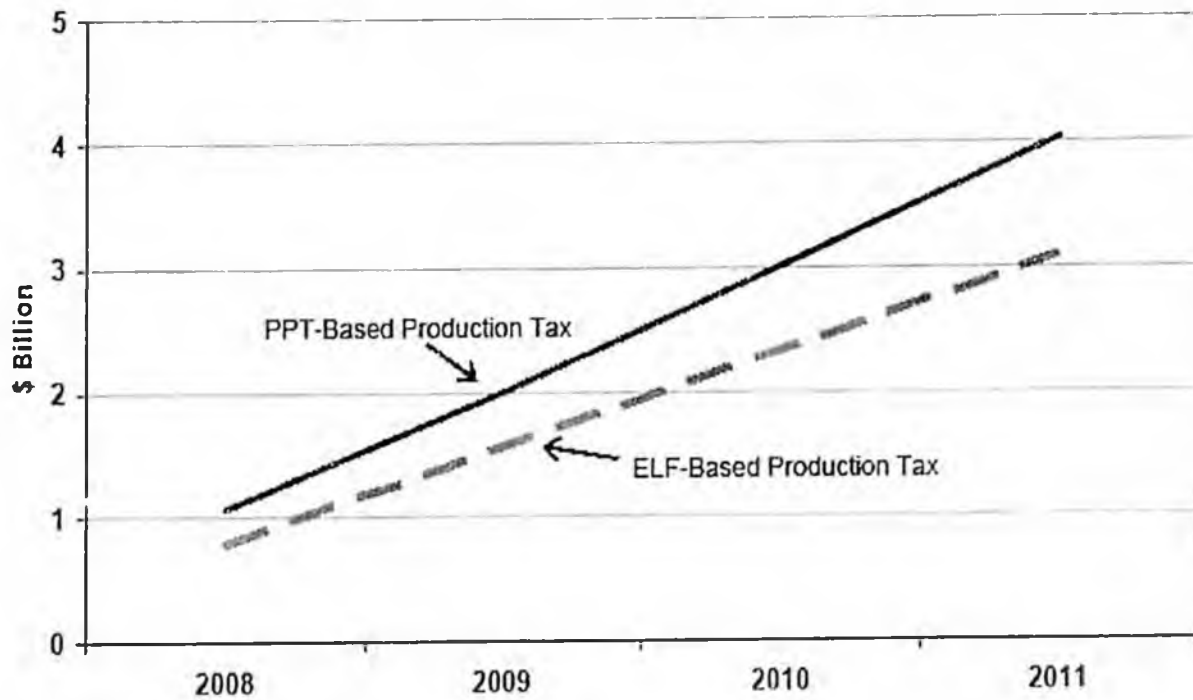


Figure 2-12. PPT Credits Claimed and Used in 2006 (\$ million)

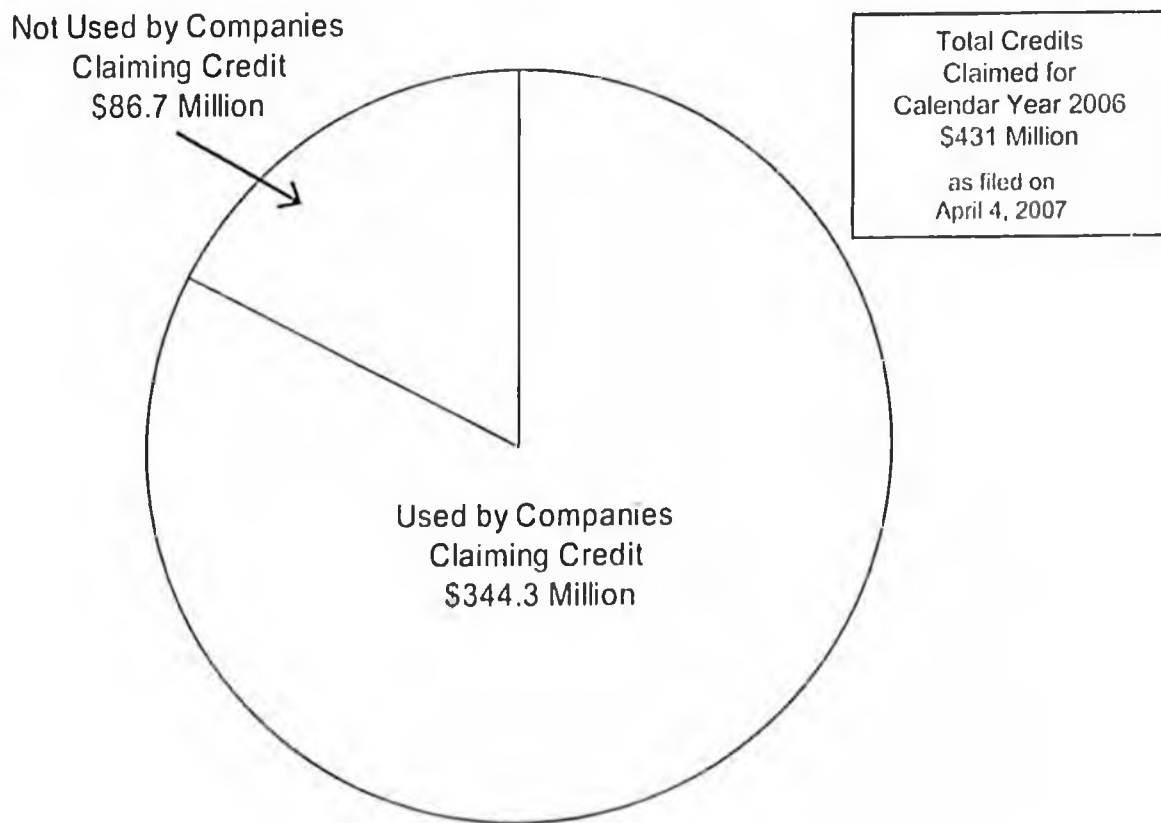


Figure 2-13. Total Unrestricted General Purpose Revenue, FY 2006 and Forecasted FY 2007-2017
(\$ million)

Fiscal Year	Unrestricted Oil Revenue	Unrestricted Other Revenue (except Federal & Investment)	Unrestricted Investment Revenue	Total Unrestricted Revenue	Percent From Oil
2006	3,699.2	447.9	53.3	4,200.4	88%
2007	4,324.7	531.6	123.9	4,980.2	87%
2008	2,967.2	484.3	96.1	3,547.6	84%
2009	2,893.3	476.7	96.1	3,466.1	83%
2010	2,982.7	475.7	96.1	3,554.5	84%
2011	3,015.7	486.1	96.1	3,597.9	84%
2012	3,191.7	491.5	96.1	3,779.3	84%
2013	3,061.4	501.3	96.1	3,658.8	84%
2014	1,528.5	492.1	96.1	2,116.7	72%
2015	1,446.0	502.3	96.1	2,044.4	71%
2016	1,455.7	513.3	96.1	2,065.1	70%
2017	1,615.1	520.6	96.1	2,231.8	72%

Figure 2-14 (A). CBRF Run-Out Date With Excess Revenue Deposited into CBRF⁽¹⁾

Annual State Budget After FY 08 (\$ billion)	Spring 2007 Oil Price Forecast ⁽²⁾	\$25	\$35	\$45	\$55	\$65
\$2.3	N/A	Aug 2014	Jul 2019	N/A	N/A	N/A
\$2.7	N/A	Jun 2012	Aug 2014	N/A	N/A	N/A
\$3.0	N/A	Jul 2011	Dec 2012	Aug 2019	N/A	N/A
\$3.3	N/A	Jan 2011	Nov 2011	Feb 2016	N/A	N/A
\$3.7	Oct 2016	Jul 2010	Jan 2011	Jul 2013	N/A	N/A
\$3.9	May 2015	Apr 2010	Sep 2010	Jun 2012	Aug 2017	N/A
\$4.0	Mar 2015	Mar 2010	Aug 2010	Mar 2012	Jan 2017	N/A
\$4.3	Feb 2014	Jan 2010	May 2010	May 2011	Oct 2014	N/A
\$4.6	Feb 2013	Nov 2009	Feb 2010	Nov 2010	Feb 2013	Jun 2019

Figure 2-14 (B). CBRF Run-Out Date Without Excess Revenue Deposited into CBRF⁽¹⁾

Annual State Budget After FY 07 (\$ billion)	Spring 2007 Oil Price Forecast ⁽²⁾	\$25	\$35	\$45	\$55	\$65
\$2.3	N/A	Oct 2013	Aug 2016	N/A	N/A	N/A
\$2.7	N/A	Feb 2012	Nov 2013	N/A	N/A	N/A
\$3.0	Apr 2018	Apr 2011	Aug 2012	Oct 2017	N/A	N/A
\$3.3	Nov 2016	Oct 2010	Jul 2011	Jan 2015	N/A	N/A
\$3.7	Sep 2015	Apr 2010	Oct 2010	Jan 2013	Nov 2018	N/A
\$3.9	Oct 2014	Feb 2010	Jun 2010	Jan 2012	Feb 2016	N/A
\$4.0	Aug 2014	Feb 2010	Jun 2010	Nov 2011	Oct 2015	N/A
\$4.3	Nov 2013	Nov 2009	Mar 2010	Feb 2011	Jan 2014	May 2020
\$4.6	Sep 2012	Oct 2009	Dec 2009	Sep 2010	Sep 2012	Nov 2017

⁽¹⁾ Matrix allows reader to select specific fiscal year price (from FY 2009-beyond) to determine CBRF exhaustion date. Spring 2007 forecasted production volumes are used. N/A in the matrix indicates that the CBRF does not run out during matrix timeframe.

⁽²⁾ Spring 2007 forecast ANS prices projections are \$54.72 per barrel in FY 2008, \$53.86 per barrel in FY 2009, \$54.12 per barrel in FY 2010, \$55.30 per barrel in FY 2011, \$56.02 per barrel in FY 2012 and \$56.90 per barrel in FY 2013. For FY 2014-beyond, ANS prices are estimate to grow at 2.75%.

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UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suede G. Kelly.

Regulations Governing the Conduct of Open
Season for Alaska Natural Gas Transportation
Projects

Docket No. RM05-1-000

ORDER NO. 2005

FINAL RULE

(Issued February 9, 2005)

1. The Federal Energy Regulatory Commission is amending its regulations to establish requirements governing the conduct of open seasons for capacity on proposals to construct Alaska natural gas transportation projects. This Final Rule fulfills the Commission's responsibilities to issue open season regulations under section 103 of the Alaska Natural Gas Pipeline Act (the Act), enacted on October 13, 2004.¹ Section 103(e)(1) of the Act directs the Commission, within 120 days from enactment of the Act, to promulgate regulations governing the conduct of open seasons for Alaska natural gas transportation projects, including procedures for allocation of capacity. As required by section 103(e)(2) of the Act, these regulations (1) include the criteria for and timing of any open season, (2) promote competition in the exploration, development, and production of Alaska natural gas, and (3) for any open seasons for capacity exceeding the initial capacity, provide for the opportunity for the transportation of natural gas other than from the Prudhoe Bay and Point Thomson units.

¹ Public Law 108-324, October 13, 2004, 118 Stat. 1220.

G. Rate Treatment for Expansions

111. As noted above, one of the issues that received substantial attention in the pre-NOPR comments is whether the Commission should require rolled-in rate treatment for Alaska pipeline expansions. Although the NOPR's proposed regulations are silent on this subject, the NOPR requested comment on whether, in the event the Commission issues regulations with respect to the Commission's authority to require expansion of any Alaska natural gas transportation project, those regulations should address the rate treatment (rolled-in or incremental) of any such expansion.

112. Other than the North Slope Producers and Alliance, there is much support for rolling-in the costs of both voluntary and involuntary expansions, although there is disagreement about when the issue should be resolved. ChevronTexaco states that the subject of appropriate rate treatment for expansions is a subject deserving of substantial, detailed consideration that should be addressed after dealing with the more pressing task of issuing the open season rules. Northwest Industrial Gas Users also believes that the issue can be addressed later. Alaska agrees that expansion pricing is a complex subject that should be examined thoroughly, and asserts that instead of addressing the issue in this rulemaking, the Commission should issue a notice regarding expansion rate treatment for Alaska natural gas transportation projects in early 2005. Alaska observes that the arguments in support of rolled-in pricing are strong, but suggests that rolled-in pricing might not be appropriate in all circumstances. Alliance believes that because the appropriateness of rolled-in or incremental rate treatment for any expansion should be made on a fact-specific basis, and not by rule that predetermines, before the circumstances of a given expansion are even known, how that expansion should be priced.

113. Pacific Star and Alaska Venture Capital state that the Commission should give an early indication that it will support rolled-in rates for expansions of any Alaska natural gas transportation project. Pacific Star states that it agrees with the statement at the technical conference by TransCanada, ANGDA, Anadarko, BLM, and MMS that rate uncertainty will discourage exploration and development and that expansions of the pipeline could present widely varying rate consequences. Pacific Star also states that concerns over existing shippers' subsidizing rolled-in expansions should be weighed against the facts that initial shippers are benefiting from substantial subsidies through the \$18 billion loan guarantee and a 7-year accelerated depreciation. Alaska Venture Capital/Brook Range similarly believes that the Commission should give an early indication that it will support rolled-in pricing under scenarios outside the Commission's existing policy, under which the Commission approves rolled-in rates only where the rolled-in rate is equal to or less than the existing recourse rate. According to Alaska Venture Capital/Brook Range, a policy calling for different rates for similar services

would place explorers and smaller producers at a competitive disadvantage. This would, in turn, discourage exploration and development of Alaska natural gas, contrary to the mandate of the Act.

114. TransCanada, MidAmerican/AGTA, and DOI encourage the Commission to adopt a rebuttable presumption favoring rolled-in rates. TransCanada states that any shippers concerned about the effect of such treatment can seek to avoid it through negotiated rates. MidAmerican/AGTA qualifies its support for this presumption by stating that the presumption should apply only to reasonably-engineered increments of mainline expansions supported by long-term contracts similar to those supporting the initial project. DOI states that rolled-in rate treatment is more equitable to future shippers, and that, because Canada has adopted rolled-in rates for expansions, it would provide rate consistency for the entire system.

115. Alaska Legislators, Anadarko, Shell, Calpine, Arctic Slope, and Doyon all contend that rolled-in pricing should be required for pipeline expansions. Alaska Legislators contend that incremental treatment for expansions would discriminate against expansion shippers who, merely because of the timing of their capacity needs, may pay higher rates than initial shippers. This, according to the Alaska Legislators, ignores the fact that the need for expansion is the consequence of the demands of all shippers. Alaska Legislators state that the Commission must balance the interests of the existing customers against interests of other stakeholders in determining whether or not pre-existing shippers should get the benefit of rate decreases for expansions that lower the average per unit cost of transportation, but face the possibility of rate increases that increase the average per unit cost of transportation. Alaska Legislators also note that the current Commission policy on expansion pricing was developed to address pipeline to pipeline competition, which will not arise in Alaska.

116. In addition to arguing that incremental rates operate to discriminate against expansion shippers, Alaska Legislators argue that the prospect of incremental rates will also act to reduce competition and impede the development of Alaska natural gas. Alaska Legislators state that exploration and development of Alaska reserves requires a long lead-time due to seasonal restrictions and the remoteness of the resource.³⁷ Alaska

³⁷ Alaska Legislators refers to a statement made at the technical conference by Jeff Walker, of DOI's Mineral Management Service that it takes at least nine years for an exploration project to mature into production.

Legislators contend that this long lead time makes it difficult for an explorer to judge when it is feasible to commit to capacity on the pipeline. The result, state Alaska Legislators, is that the explorers and developers may be deterred from investing the large sums required to drill for Alaska natural gas, when they are unsure whether their future capacity needs will be met at a time when inexpensive expansion through increased compression will be available, or whether the expansion they require would involve costly looping. The Alaska Legislators also argue that Canada has a long-standing policy of requiring rolled-in rates for expansions which could make exploration in Canada much more attractive to exploration and production companies.

117. Anadarko, also convinced that expansions under section 103 of the Act must be priced on a rolled-in basis, argues that this is critical to avoid a rate structure or policy that discriminates on the basis of time of entry onto the pipeline. Anadarko maintains that it is important to establish this requirement in the initial open season process in order to inform those prospective shippers that their rates might increase as expansions are rolled-in. Alaska Legislators provide a history of the Commission's expansion rate policy, varying over time in order to address different goals as deemed necessary to address changing market dynamics. In short, Alaska Legislators assert that the current Commission policy favoring incremental expansion rates seeks to address issues of competing pipelines, competitive markets, optimal construction, and protecting captive customers, all valid considerations of the market setting in the lower 48 states, but wholly inapplicable to an Alaska natural gas transportation project or the Alaska market. According to Alaska Legislators, the Act instructs the Commission, through its open season regulations, to focus on reducing barriers, not to competitive markets, but rather, to entry in exploration and development of Alaska natural gas. Alaska Legislators conclude that to achieve this mandated goal, the open season regulations must be revised to include rolled-in pricing as one of the criteria for open seasons for pipeline expansions

118. Shell and Calpine also argue that Commission's 1999 pricing policy for expansions has no application to the circumstances of an Alaska natural gas transportation project where there is no element of pipeline competition or preventing overbuilding. Shell is concerned that companies might not invest hundreds of millions in exploration and development costs if they may have to pay for expansions on an incremental basis, while competitors benefited from earlier, inexpensive expansion. Calpine stresses that since an Alaska natural gas transportation project will be called to transport all Alaska gas, not just gas from Prudhoe Bay and Point Thomson reserves, a larger picture is required in assessing any policy against subsidization. Calpine maintains that an Alaska pipeline should be viewed as a 10 Bcf/d pipeline that will be built, in phases, over time, as opposed to a 4.5 Bcf pipeline that might be expanded from time to time. Under this picture, shippers on the first phase facilities will benefit from lower initial rates due to the Act's loan guarantees, however the Act was not only concerned

with facilitating the development of a project that carries Prudhoe Bay and Point Thomson production to market, but also the development and transportation of Alaska's unproven reserves.

119. Arctic Slope is also concerned that unless rolled-in rates are mandated, there may never be an expansion of the pipeline beyond capacity created through infill compression and added compression horsepower. Arctic Slope estimates that rolled-in rates for expansions would probably be only a little higher than the initial rates since expansion costs would be borne by the entire pipeline throughput. However, the impact of incrementally-priced expansions on the incremental shippers, which would be based entirely on the incremental throughput quantities, would be very severe.

120. Alliance and the North Slope Producers assert that rates for expansion should be determined on a fact-specific, case-by-case basis, not on a pre-determined, rolled-in basis under the open season rules. The North Slope Producers stress that absent information regarding design, timing, and other project attributes, it would be inappropriate either to require or to favor rolled-in rates. In addition, the North Slope Producers point to section 105(b)(1) of the Act wherein, they state, Congress identified either rolled-in or incremental rates as appropriate for mandatory expansions. They add that if rolled-in rates were made applicable to voluntary expansions in the final open season rule, the result would be that such expansions would become involuntary and they would be discouraged.

121. Additionally, the North Slope Producers state that the Commission's existing, fact-specific policy recognizes the risks inherent in major infrastructure projects and seeks to prevent uneconomic pipeline expansions, as well as subsidization by existing customers, and should not be lightly discarded. Responding to the assertion that the NEB requires rolled-in rates for Canadian expansions, the North Slope Producers state that although NEB has adopted rolled-in rates in expansion cases, NEB addresses the issue on a case-by-case basis.

122. Finally, the North Slope Producers claim that explorers do not require absolute rate certainty in order to decide whether to participate in open seasons; an anticipated range that supports future economics is sufficient. On the other hand, the North Slope Producers state that initial shippers who fear that they may be called on to subsidize future shippers may not bid for initial capacity. In this connection, the North Slope

Producers contend that one of the Commission's goals is to protect captive customers from rate increases arising from costs unrelated to their service, resulting in rate uncertainty and increased contractual risk.³⁸

123. In this rule, the Commission does not adopt a firm pricing policy for future expansions of an Alaska natural gas transportation project, but we do take this opportunity to provide guidance on this important issue, as it will assist participants in the initial open season. We conclude that there should be a rebuttable presumption in favor of rolled-in pricing for project expansions. Our existing lower-48 states policy favoring incremental rates for expansions does not apply in the case of an Alaska natural gas transportation project. There is likely to be only one Alaska pipeline, so there will be little or no opportunity for competition between pipelines. Incremental pricing of expansion could put expansion shippers at a significant rate disadvantage compared with initial shippers, and accordingly could discourage exploration, development and production of Alaska natural gas. Having markedly different rates for similar service could be in conflict with one of the chief objectives of the statute, which is to encourage further exploration and development of Alaska natural gas. On the other hand, consistent with the arguments of a number of commenters, a presumption in favor of rolled-in pricing may spur investment in and development of Alaska reserves, and the ultimate delivery of that gas to the lower 48 states.

124. We cannot at this point, without a specific project proposal or the facts surrounding a proposed expansion before us, define exactly what will be required to overcome the presumption. As a general matter, we have historically not favored requiring existing shippers to subsidize the rates of new shippers. We do not intend to discard this principle, but rather to indicate that we will not lightly authorize expansion rates that would have an unduly negative impact on the exploration and development of Alaska reserves. Witnesses at the technical conference acknowledged that defining subsidization is difficult without specific facts to review, and that fact was restated in several of the comments filed. We agree. But a basic observation may be useful here. For example, a rolled-in expansion rate that is less than or equal to the rate paid by the initial shippers would not be considered a subsidy. Whether a rolled-in expansion rate that is higher than original rates is a "subsidy" is a question that necessarily would have to be reviewed in the context of a future NGA section 7 filing. At that time, Pacific

³⁸ See, e.g., *Transcontinental Gas Pipe Line Corp.* 106 FERC ¶ 61,299 (2004).

Star's arguments relating to whether the federal government's loan guarantees and accelerated depreciation amount to a "subsidy" of initial shippers' rates may be raised.

125. In conclusion, to provide guidance to potential shippers in advance of the initial open season that is the subject of this rule, the Commission intends to harmonize both objectives (rate predictability for initial shippers and reduction of barriers to future exploration and production) in designing rates for future expansions of any Alaska natural gas transportation project. It is consistent with our guiding principle that competition favors all of the Commission's customers, as well as with the objectives of the Act, to adopt rolled-in rate treatment up to the point that would cause there to be a subsidy of expansion shippers by initial shippers, if any subsidy were to be found.

126. Anadarko states that the open season regulations must prohibit pipelines from bundling ancillary services with transportation. In particular, Anadarko is concerned that sponsors might include in a tariff and an open season the bundled cost of a gas conditioning plant that would extract CO₂ despite the fact that such extraction would not be required of gas from many new Alaska gas fields which likely will be of pipeline quality. MidAmerican/AGTA and Enbridge agree that the open season process should preclude applicants from tying receipt of capacity to taking ancillary services, such as gas conditioning, treating, or processing. TransCanada simply states that it has no objection to proscription of tying.

127. DOI and MidAmerican/AGTA agree that rates for ancillary services should not be bundled with transportation rates. However, DOI contends that the State of Alaska should address the need for rules concerning non-discriminatory access to gathering and other production-related facilities, whereas MidAmerican/AGTA claims that the Commission should assert jurisdiction over gas treatment plants and require separate open seasons and cost-based tariff structures for gas processing. On the other hand, the North Slope Producers contend issues of tying or bundling of services can be dealt with through established Commission processes and policies at the appropriate time, and need not be addressed in the open season. Alliance views the tying issue in the context of requiring designated downstream capacity, and suggests that as a practical matter, that should not be prohibited.

128. The Commission is stating in the final rule at section 157.34(c)(6) that the open season notice must contain an unbundled transportation rate. Moreover, section 157.34(c)(10) prohibits a prospective applicant from requiring prospective shippers to process or treat their gas at any designated facility. The Commission is satisfied that it can address any other discriminatory conduct in connection with gas quality requirements or other ancillary services through the provisions of section 157.35 in conjunction with existing Commission policies and procedures.

111 FERC 61.332

111 FERC ¶ 61,332
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

18 CFR Part 157

(Docket No. RM05-1-001; Order No. 2005-A)

Regulations Governing the Conduct of Open Seasons for Alaska Natural Gas
Transportation Projects

(Issued June 1, 2005)

AGENCY: Federal Energy Regulatory Commission.

ACTION: Final Rule; Order on Rehearing.

SUMMARY: The Federal Energy Regulatory Commission (Commission) generally reaffirms its determinations in Order No. 2005. Order No. 2005 establishes requirements governing the conduct of open seasons for proposals to construct Alaska natural gas transportation projects, including procedures for allocation of capacity. Pursuant to the directive of section 103(e)(2) of the Alaska Natural Gas Pipeline Act, enacted on October 13, 2004, the regulations promulgated in Order No. 2005 (1) include the criteria for and timing of any open season, (2) promote competition in the exploration, development, and production of Alaska natural gas, and (3) for any open seasons for capacity exceeding the initial capacity, provide for the opportunity for the transportation of natural gas other than from the Prudhoe Bay and Point Thomson units.

In this order, the Commission addresses the requests for rehearing and/or clarification of Order No. 2005. Here, we grant rehearing in part, deny rehearing in part, and provide clarification of Order No. 2005. In specific, we: (1) clarify that the

Section 157.36 is intended to provide that the Commission may require design changes necessary to ensure that some portion of a proposed voluntary expansion will be allocated to new shippers or shippers seeking to transport gas from areas other than Prudhoe Bay or Point Thomson, provided such shippers are willing to sign qualifying long-term firm transportation agreements. To ensure clarity, we will revise section 157.36 to read as follows:

“In considering a proposed voluntary expansion of an Alaska natural gas transportation project, the Commission will consider the extent to which the expansion will be utilized by shippers other than those who are the initial shippers on the project and, in order to promote competition and open access to the project, may require design changes to ensure that some portion of the expansion capacity will be allocated to new shippers willing to sign qualifying long-term firm transportation contracts, including shippers seeking to transport natural gas from areas other than Prudhoe Bay or Point Thomson.”

II. Presumption of Rolled-in Rates for Expansions

A. Final Rule - § 157.39

39. Section 157.39 states that “[t]here shall be a rebuttable presumption that rates for any expansion of an Alaska natural gas transportation project shall be determined on a rolled-in basis.” The Commission stated in Order No. 2005 that by providing for this presumption, the Commission is advising potential shippers, in advance of any initial Alaska natural gas transportation project open season, of its intention to harmonize the objective of rate predictability for initial shippers with the objective of reducing barriers to future exploration and production in designing rates for future expansions of any Alaska natural gas transportation project. The Commission concluded in Order No. 2005 that section 157.39 is consistent with “our guiding principle that competition favors all of the Commission’s customers, as well as with the objectives of the Act, to adopt rolled-in rate treatment up to the point that would cause there to be a subsidy of expansion shippers by initial shippers, if any subsidy were to be found.”

B. Rehearing/Clarification Requests

40. The North Slope Producers, Enbridge, and ChevronTexaco assert that the presumption in favor of rolled-in rates for voluntary expansions established in section 157.39 creates uncertainty for shippers and project sponsors, and, therefore, section 157.39 should be eliminated from the regulations or substantially revised. The

North Slope Producers and Enbridge claim that prospective initial shippers, fearing that in the future their rates may be increased to subsidize the cost of expansion facilities, will be less willing to make the long-term commitments necessary to support an Alaska project. This uncertainty, they predict, will discourage rather than advance the development of an Alaska pipeline or any voluntary expansion thereof – a result clearly inconsistent with ANGPA's primary goal. Moreover, the North Slope Producers and Enbridge suggest that mandatory expansions pursuant to ANGPA section 105 will become more attractive than voluntary expansions because of the explicit rate protection for existing shippers in section 105.

41. The North Slope Producers contend that section 157.39 is unjustifiably inconsistent with the Commission's current policy regarding rate treatment of expansions, which is to discourage uneconomic expansions and assure that expansions will not be subsidized by existing shippers. They assert that even if, as claimed by the Commission, only one pipeline will be built in Alaska, that distinction does not justify deviating from the Commission's current policy.

42. The North Slope Producers charge that the Commission acted arbitrarily and capriciously in relying on ANGPA section 103(e) to justify its conclusion to provide for a presumption of rolled-in rates for expansions. Although the North Slope Producers concede that the Commission clearly has the authority under ANGPA and the NGA to approve rates for Alaska natural gas transportation projects, they claim that ANGPA section 103(e) has nothing to do with rate regulation. Furthermore, state the North Slope Producers, even if section 103 could be read to give the Commission authority to include rate regulations in its open season rules, the proper course would be to remove section 157.39 from the open season rules and instead address rate policy issues only after the parties have the opportunity of developing a complete factual record. Failing this, the North Slope Producers state that the Commission should revise section 157.39 to provide that the Commission's current rate policies will apply to Alaska projects.

43. Enbridge also argues that the Commission acted arbitrarily and capriciously by imposing a rebuttable rolled-in presumption, even where rolled-in pricing would increase existing shippers' rates. According to Enbridge, Order No. 2005 identifies two considerations, namely the Commission's disfavor of existing shippers subsidizing the rates of new shippers, and the Commission's reluctance to authorize an expansion rate that would have an unduly negative impact on the exploration and development of Alaska reserves. Enbridge contends that the presumption should be "scaled back" to apply only to cases where expansion rates are no higher than pre-existing rates. Enbridge points to the Commission's acknowledgement in Order No. 2005 that it "cannot at this point, without a specific project proposal or the facts surrounding a proposed expansion before

us, define exactly what will be required to overcome the presumption." Enbridge contends that the Commission's inability to explain how the presumption can be rebutted renders rolled-in pricing mandatory, leaving the question of whether a rolled-in expansion rate that is higher than original rates is a subsidy to be resolved in a future NGA section 7 filing.

44. ChevronTexaco stresses that because the text of Order No. 2005 recognizes that "without a specific project proposal or the facts surrounding a proposed expansion" the Commission cannot determine what is needed to overcome the presumption favoring rolled-in rates, the Commission should defer any determination of rate treatment for expansions until a record can be developed after a specific proposal is made. According to ChevronTexaco, this inability to articulate when the presumption will be applied creates uncertainty that inhibits the development of any Alaska project.

45. ChevronTexaco states that inconsistency between the text of order and the text of the regulations creates further uncertainty. ChevronTexaco states that while the regulations state that the presumption applies to "any expansion," Order No. 2005's text, at paragraphs 124 and 125, suggests that rolled-in rates are appropriate only if there is no increase in rates for existing shippers. ChevronTexaco urges the Commission to clarify section 157.39 to state that no cross-subsidy is intended. Otherwise, the Commission should consider issuing, in lieu of a regulation, a policy statement which outlines the general direction that the Commission intends to take.

46. The Alaska Legislators and Anadarko contend that rolled-in pricing is essential and justified. Anadarko asserts that the Commission clearly has the statutory authority to establish a presumption of rolled-in pricing for future expansions in the open season regulations. Both Anadarko and the Alaska Legislators contend that the significant differences identified in the record between an Alaskan pipeline project and a pipeline in the lower 48 states provide ample justification for departing from the current pricing policy. The Alaska Legislators contend that even if there were some factual reason for applying the current policy, that policy cannot be reconciled with the policy considerations stated in ANGPA. Both Anadarko and the Alaska Legislators state that incremental pricing of expansions cannot be reconciled with ANGPA's goals of promoting competition in the exploration, development, and production of Alaska natural gas, and providing for the transportation of natural gas other than from the Prudhoe Bay and Point Thomson units in any expansions of the Alaska pipeline facilities. The Alaska Legislators estimate that expanding a pipeline, through looping, to a capacity of 7 billion cubic feet (Bcf), would result in an expansion rate 50 percent higher than existing rates if incrementally priced. Anadarko predicts that incremental pricing of expansions of an Alaskan pipeline beyond 6 Bcf would cause the pipeline to be capped at 6 Bcf.

C. Commission Response

47. ANGPA section 103(i) gives the Commission broad authority to establish "such regulations as are necessary" for the conduct of open seasons. In this regard, the Commission believes that it is appropriate to establish rate criteria that will assist potential shippers to make informed open season bids, and will promote competition, as required by ANGPA. As discussed in detail in Order No. 2005, these criteria include projected rates for in-state deliveries of gas, as well as a presumption for rolled-in rate treatment for future pipeline expansions.

48. In adopting the presumption for rolled-in rate treatment, the Commission balanced rate predictability for initial shippers with the objective of reducing barriers to future exploration, development and production of Alaska natural gas. The Commission was concerned that the prospect of high incremental transportation rates might increase risks to Alaskan producers and serve as a disincentive to future exploration and development of potentially valuable natural gas resources. On the other hand, the Commission does not wish to discourage voluntary capacity expansions.

49. The rolled-in rate presumption was not an abandonment of our current policy of not favoring rate subsidization by existing customers of capacity expansions as suggested in the requests for rehearing. The Commission did, however, suggest that because of the likelihood of a single Alaskan pipeline project, it would consider alternatives to our current policy on how to define or quantify subsidization by current customers. Current policy primarily considers whether the expansion project will result in a rate higher than the existing transportation rate for existing customers. An alternative consideration or definition of subsidization could be whether the expansion rate is no higher than the actual initial rate or of an initial rate without built-in subsidies. The Commission believed and continues to believe that the appropriate place to review this issue is in the context of a future NGA section 7 filing. In such a proceeding, if the pipeline owners can show that the initial pipeline was sized appropriately, *i.e.*, it was uneconomic or inefficient to build a larger capacity pipeline, the Commission would consider this in overcoming the rolled-in rate presumption.

50. The text of Order No. 2005 referred to by ChevronTexaco does not simply state that rolled-in rates are appropriate only if there is no increase in rates for existing shippers; it suggests that a rolled-in expansion rate that is higher than the original rate is not necessarily a subsidy. As noted above, we will determine whether a particular rate amounts to a subsidy when the issue is presented to us.

51. Nothing in the requests for rehearing causes us to question our conclusion that a rebuttal presumption of rolled-in treatment for the expansion of an Alaska Project is a reasonable approach to the difficult issues we, and prospective pipeline proponents and shippers, may face on the future. We think that the signal we are sending is a positive one that will help spur natural gas exploration and development in Alaska. At the same time, we have not prejudged how we will resolve future proceedings, and all parties will have the opportunity to convince us of appropriate rate treatment if and when expansion proposals for an Alaska project are developed. We therefore will not change the rule on this matter.

III. Late Bids

A. The Final Rule - § 157.34(d)(2)

52. Order No. 2005 added a new provision in the Final Rule, section 157.34(d)(2), that a project sponsor must 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, in which case the project sponsor must provide a detailed explanation for the rejection. The Commission explained that this requirement is designed to allow reasonable access to those shippers who may not be ready to participate during the established open season period, and at the same time provide the sponsor with flexibility in the timing of its open season.

B. Rehearing/Clarification Requests

53. The North Slope Producers and Enbridge contend that it is important for the timely development of any project that the project sponsors be able to rely on an open season that has a definite term. They state that the open season results are needed to permit the project sponsor to gauge demand and in turn finalize pipeline design. They assert that the late bid provisions of section 157.34(d)(2) will result in unreasonable risks and costs to the project sponsor by creating a never-ending, open-ended open season in which the project sponsor will be required, for each and every late bid received, to divert resources and incur additional costs to evaluate whether bid can be accommodated. In addition, they state that there is tremendous potential for delay at each step of the development of the project, if the project sponsor must stop and make design changes at every stage to accommodate a late bid. Thus, they state, section 157.34(d)(2) would frustrate the Commission's stated goal of adopting open season regulations that ensure sufficient economic certainty to support the construction of a pipeline.

CONTRACTUAL COMMITMENTS

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Contractual Commitments

The following table summarizes the Group's principal contractual obligations at December 31, 2003. Further information on borrowings and capital leases is given in Item 18 — Financial Statements — Note 29 on page F-47 and further information on operating leases is given in Item 18 — Financial Statements — Note 17 on page F-29.

Expected payments by period under contractual obligations and commercial commitments	Payments due by period						2009 and thereafter
	Total	2004	2005	2006	2007	2008	
	(\$ million)						
Borrowings (a)	20,143	9,366	2,674	2,786	1,299	945	3,073
Finance lease obligations	4,634	127	243	248	240	248	3,528
Operating leases	8,115	1,275	1,066	895	799	728	3,352
Decommissioning liabilities	7,504	86	156	173	154	156	6,779
Environmental liabilities	2,430	465	441	402	276	186	660
Pensions (b)	26,682	633	649	652	659	666	23,423
Other post-employment benefits (c)	11,768	242	252	259	263	264	10,488
Unconditional purchase obligations (d)	67,828	45,491	7,076	3,133	1,888	1,655	8,585

- (a) Expected payments exclude interest payments on borrowings.
- (b) Represents the expected future contributions to funded pension plans and payments by unfunded pension plans.
- (c) Represents the expected future payments for postretirement benefits.
- (d) Represents any agreement to purchase goods or services that is enforceable and legally binding and that specifies all significant terms. The amounts shown include arrangements to secure long-term access to supplies of crude oil, natural gas, feedstocks and pipeline systems. In addition, the amounts shown for 2004 include purchase commitments existing at December 31, 2003 entered into principally to meet the Group's short term manufacturing and marketing requirements. The price risk associated with these crude oil, natural gas and power contracts is discussed in Item 11 — Quantitative and Qualitative Disclosures about Market Risk on page 170.

The following table summarizes the nature of the Group's unconditional purchase obligations.

Unconditional purchase obligations payments due by period	Payments due by period						2009 and thereafter
	Total	2004	2005	2006	2007	2008	
	(\$ million)						
Crude oil and oil products	22,043	19,350	844	452	422	374	601
Natural gas	19,439	13,189	2,575	1,141	489	398	1,647
Chemicals and other refinery feedstocks	10,049	2,277	1,666	753	563	545	4,235
Utilities	11,612	9,622	1,231	289	62	54	354
Transportation	2,814	738	510	365	247	204	750
Use of facilities and services	1,871	315	250	133	105	80	988
Total	67,828	45,491	7,076	3,133	1,888	1,655	8,585

for BP 20(A) on-line total

CDP 243768

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On December 31, 2003, we had guarantees of approximately \$340 million outstanding for our portion of the joint venture debt obligations, which have terms of up to 22 years. Included in these outstanding guarantees are \$118 million associated with the Polar Lights Company joint venture in Russia. Payment will be required if a joint venture default on its debt obligation.

Capital Expenditures

For information on our capital expenditures and investments, see "Capital Spending" below.

The balance sheet data in December 31, 2003, was \$17.8 billion. The debt-to-capitalization ratio was 31% during 2003, including accounting changes that for certain balance sheet debt approximately \$2.8 billion as a result of the adoption of FDIAS. See Note 2—Liabilities to Accounting Principles and Note 16—Debt, in the Notes to Consolidated Financial Statements, for additional information.

During 2003, we entered into commercial paper advance agreements from \$1.1 billion in December 31, 2002, to \$100 million in December 31, 2003. In 2003, we paid off the following notes and debt for years as they were called or matured and funded the payments with cash from operations and proceeds from asset dispositions:

- \$150 million 8.49% Note due 2023, at 104.245 percent;
- \$150 million 8.25% Mortgage Bonds due May 15, 2004;
- \$250 million 7.92% Note due in 2013, at 101.96 percent;
- \$250 million 7.20% Note due 2021, at 103.60 percent;
- \$100 million 6.45% Note that matured on May 1, 2003;
- \$100 million GSW Corporation Limited Partnership note;
- \$100 million Floating Rate Note due April 15, 2004;
- \$100 million Term Note 2000-C 8.75% Senior Secured Note due 2010;
- \$205 million Term Note 2000-B 8.5% Senior Secured Note due 2010;
- \$100 million Air Pro Funding, Limited Partnership 8.25% Senior Secured Note due 2011;
- \$100 million of financing for various equipment lease obligations having a final maturity in 2004;
- \$400 million of fixed and floating rate senior lease obligations having final maturities from 2004 to 2005; and
- \$1,130 million of floating rate revolving lease obligations having maturities from 2003 to 2006.

In October and November 2003, we acquired certain interest rate swaps that had the effect of increasing \$1.5 billion of debt from fixed to floating rate. These swaps qualify for hedge accounting under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities."

Also during 2003, we issued \$77.5 million of tax-advantaged bonds and assumed an additional amount of \$28 million.

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Contractual Obligations

The following table summarizes our aggregate contractual fixed and variable obligations as of December 31, 2003:

At December 31, 2003	Millions of Dollars				
	Total	Up to 1 Year	1-3 Years	3-5 Years	After 5 Years
Debt obligations*	\$ 17,720	1,934	3,110	1,202	11,474
Capital lease obligations	60	4	12	16	4
Total debt	17,780	1,938	3,122	1,218	11,478
Operating lease obligations**	471	471	—	—	—
Purchase obligations***	16,231	19,972	4,869	1,915	29,171
Contractual obligations****	2,835	41	342	354	2,018
Accrued contractual costs	1,118	140	356	138	537
Total	\$ 28,388	22,084	9,347	4,274	45,181

* Total debt including capital lease obligations. Includes net unamortized premiums and discounts.

** Represents any agreement to purchase goods or services that is enforceable and is partly funded and that specifies all significant terms. The majority of the purchase obligations are market-based contracts. Includes: (1) our commercial contracts of \$22.0 billion, of which \$11.3 billion are primarily related to the supply of crude oil to our refineries and the optimization of the supply chain. \$5.6 billion is primarily related to the supply of unrefined NGLs to Petrobrás, optimization of NGL storage, and for resale to customers. \$4.6 billion is primarily related to natural gas for resale to customers. \$1.7 billion of interest, and \$217 million related to the purchase price of exchange agreements; (2) \$23.3 billion of purchase commitments for products, mainly natural gas and natural gas liquids, from CPEC over the remaining term of 97 years; and (3) purchase commitments for jointly owned fields and facilities where we are the operator, of which some of the obligations will be reimbursed by our co-venturers in the agreement; (4) our agreement to purchase up to 250,000 barrels per day of Petrobrás crude oil for a market-based formula price over the term of the Petrobrás joint venture (about 15 years) in the event that Petrobrás is unable to sell the production for a higher price; and (5) an agreement to purchase up to 165,000 barrels per day of Venezuelan heavy oil, or equivalent, crude oil for a market price over a remaining 16-year term if a variety of conditions are met.

*** Does not include: (1) Taxes—the company's consolidated balance sheet reflects liabilities related to income, excise, property, production, payroll and environmental taxes. We anticipate the current liability of \$2.676 million for accrued income and other taxes will be paid in the next year. We have other accrued tax liabilities whose resolution may not occur for several years. As it is not possible to determine the exact timing or amount of future payments, deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes; (2) Pensions—for the 2004 through 2008 time period, we expect to contribute an average of \$400 million per year to our qualified and non-qualified pension and postretirement benefit plans in the United States and an average of \$100 million per year to our non-UK plans, which are expected to be in excess of required minimums in many cases. Our required minimum funding in 2004 is expected to be \$95 million in the United States and \$71 million outside the United States; (3) Investment tax credit amortization payments of \$100 million in 2004 and \$3 million in 2005; and (4) future tax-advantaged payments of \$1,046 million in 2004, \$1,017 million for the period 2005 through 2006, \$1,700 million for the period 2007 through 2008, and \$8,955 million for the remaining years in 2008 through 2018.

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Capital Spending

Capital Expenditures and Investments

	Millions of Dollars			
	2003 Budget	2003	2002	2001
R&P				
United States - Alaska	\$ 654	770	796	661
United States - Lower 48	793	840	499	109
International	1,934	2,240	2,871	1,712
	3,381	3,250	2,176	1,582
Acquisitions	18	38	1	—
R&M				
United States	1,019	848	678	625
International	244	318	184	5
	1,263	1,166	862	630
Capital SW				
Energy Services	—	—	63	8
Corporate Services*	107	104	122	—
	107	104	185	8
	\$ 4,752	\$ 4,518	\$ 3,199	\$ 1,714
Free cash flow				
Operating	\$ 7,349	\$ 693	\$ 1,267	\$ 1,164
Investing	(4,113)	(4,276)	(3,365)	(1,117)
	\$ 3,236	\$ 267	\$ 902	\$ 47
Free cash flow to equity	\$ —	\$ 216	\$ 17	\$ 18

*** Excludes discontinued operations**

Our capital spending for continuing operations for the three-year period ending December 31, 2003, totaled \$17.8 billion. Spending was primarily focused on the growth of our R&P operations, with 76 percent of total spending for continuing operations in the US in 2003. The capital program of 2003, our gas gathering, processing and marketing joint venture program, and 100% owned, onshore oil and natural gas operations, will be self-funding, and will be a driver of the program shown.

The following table shows the expected cash flow and debt service that will be funded by our operating activities in the Polar Lights joint venture project. Based on a 10% discount rate, the total project cost is \$1.1 billion and our total investment is \$1.0 billion. The project is expected to be self-funding of \$1.0 billion. The plan to fund 10 percent of our total capital budget to R&P and 10 percent to R&M. The remaining budget will be used to fund other high-potential, lower-potential projects, or general corporate purposes, with a heavy focus on global exploration of reserves. They will be part of our budget for our 2004 project in the United States.

Capital spending for continuing operations for R&P during the three-year period ending December 31, 2003, totaled \$17.8 billion. The expenditures over the three-year period to provide a total of \$1.1 billion in capital spending for the project are being

- Funded by Polar Lights Revenue (Alaska O&G - A) and other total projects in Alaska's North Slope;

from *ConocoPhillips*
2003 10(K)

from Exxon Mobil 2003 10(K)

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Index to Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

company benefit plans and programs and to reduce the number of shares outstanding. Shares outstanding were reduced from 6,700 million at the end of 2002 to 6,568 million at the end of 2003. Purchases were made in both the open market and through negotiated transactions. Purchases may be increased, decreased or discontinued at any time without prior notice.

2002

Cash used in financing activities was \$11.4 billion, down \$3.7 billion, reflecting lower debt reductions. Dividend payments on common shares increased to \$0.92 per share from \$0.91 per share and totaled \$6.2 billion, a payout of 54 percent. Total consolidated short-term and long-term debt was comparable at \$10.7 billion. Shareholders' equity increased by \$1.4 billion to \$74.6 billion.

During 2002, Exxon Mobil Corporation purchased 127 million shares of its common stock for the treasury at a gross cost of \$4.8 billion. These purchases were to offset shares issued in conjunction with company benefit plans and programs and to reduce the number of shares outstanding. Shares outstanding were reduced from 6,809 million at the end of 2001 to 6,700 million at the end of 2002. Purchases were made in both the open market and through negotiated transactions.

Commitments

Set forth below is information about the corporation's commitments outstanding at December 31, 2003. It provides data for easy reference from the consolidated balance sheet and from individual notes to the consolidated financial statements.

Payments Due by Period

Commitments	Note Reference Number	Payments Due by Period				2002 Total Amount
		2004	2005-2008	2009 and Beyond	2003 Total Amount	
<i>(millions of dollars)</i>						
Long-term debt ⁽¹⁾	15	\$ —	\$ 877	\$3,879	\$4,756	\$6,655
- Due in one year ⁽²⁾		1,903	—	—	1,903	884
Asset retirement obligations ⁽³⁾	10	125	461	2,854	3,440	3,454
Pension obligations ⁽⁴⁾	18	1,180	1,720	4,937	7,837	9,385
Operating leases ⁽⁵⁾	11	1,299	2,730	2,160	6,189	6,945
Unconditional purchase obligations ⁽⁶⁾	17	520	1,703	2,563	4,786	3,649
Take-or-pay obligations ⁽⁷⁾		833	1,874	1,340	4,047	3,175
* Firm capital commitments ⁽⁸⁾		4,251	2,173	595	7,019	8,449

This table excludes commodity purchase obligations for which an active, highly-liquid market exists and which are expected to be re-sold shortly after purchase. Inclusion of such amounts would not be meaningful in assessing liquidity and cash flow, since such purchases will be offset in the same periods by cash received from sales.

Notes:

- (1) Includes capitalized lease obligations of \$370 million. Long-term debt amounts exclude the corporation's share of equity company debt, which is included in the calculation of return on average capital employed as shown on page 27.
- (2) The amount due in one year is included in notes and loans payable of \$4,789 million (note 7).
- (3) The discounted present value of upstream asset retirement obligations, primarily asset removal costs at the completion of field life.
- (4) The amount by which accumulated benefit obligations (ABO) exceeded the fair value of fund assets for certain U.S. and non-U.S. plans at year end (note 18 on page 65). For funded pension plans, this difference was \$3.0 billion at December 31, 2003 (U.S. \$0.5 billion, non-U.S. \$2.5 billion). For unfunded plans, this was the ABO amount of \$4.9 billion (U.S. \$1.0 billion, non-U.S. \$3.9 billion). The payments by period include expected contributions to funded pension plans in 2004 and estimated benefit payments for unfunded plans in all years.

- (3) Minimum commitments for operating leases, shown on an undiscounted basis, cover drilling equipment, tankers, service stations and other properties.
- (6) Unconditional purchase obligations (UPOs) are those long-term commitments that are noncancelable and that third parties have used to secure financing for the facilities that will provide the contracted goods or services. The undiscounted obligations of \$4,786 million mainly pertain to pipeline throughput agreements and include \$1,887 million of obligations to equity companies. The present value of the total commitments, excluding imputed interest of \$1,543 million, was \$3,243 million.
- (7) Take-or-pay obligations are noncancelable, long-term commitments for goods and services other than unconditional purchase obligations. The undiscounted obligations of \$4,047 million mainly pertain to transportation, refining and natural gas purchases and include \$622 million of obligations to equity companies. The present value of the total commitments, excluding imputed interest of \$663 million, totaled \$3,384 million.
- (8) Firm commitments related to capital projects, shown on an undiscounted basis, totaled approximately \$7.0 billion at the end of 2003, compared with \$8.4 billion at the end of 2002. These commitments were predominantly associated with upstream projects outside the U.S., of which the largest single commitment outstanding at the end of 2003 was \$1.6 billion associated with the development of crude oil and natural gas resources in Malaysia. The corporation expects to fund the majority of these commitments through internal cash flow.

Guarantees

	Equity Company Obligations	Other Third Party Obligations	Total
		<i>(millions of dollars)</i>	
Guarantees of excise taxes/customs duties under reciprocal arrangements	\$ —	\$ 983	\$ 983
Other guarantees	1,872	424	2,296
Total	\$ 1,872	\$ 1,407	\$3,279

The corporation and certain of its consolidated subsidiaries were contingently liable at December 31, 2003 for \$3,279 million, primarily relating to guarantees for notes, loans and performance under contracts (note 17). This included \$983 million representing guarantees of non-U.S. excise taxes and customs duties of other companies, entered into as a normal business practice, under reciprocal arrangements. Also included in this amount were guarantees by consolidated affiliates of \$1,872 million, representing ExxonMobil's share of obligations of

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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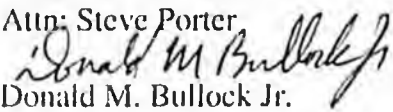
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

May 9, 2007

SUBJECT: CSSB 104(FIN), Draft Version "N"
(Work Order No. 25-GS1060N)

TO: Senator Bert Stedman
Attn: Steve Porter

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

Enclosed is a draft finance committee substitute of the governor's AGIA bill. Please review this draft carefully to ensure that it is consistent with the committee's intent.

There are several issues which the committee may wish to address.

Please look at AS 43.90.150(b) on page 11. You may wish to consider whether the information that may be returned by the commissioners under the subsection is limited to what the applicant claimed was a proprietary or a trade secret. Also, does this subsection apply to all information submitted by the applicant if the applicant claims all information is proprietary? Is this subsection intended to apply only to unsuccessful applicants? If the information is returned under this section, but relates to a requirement in AS 43.90.130, should the application also be rejected?

Also, on page 11, look at lines 20 - 22. What does the following sentence refer to in AS 43.90.150:

However, information that the commissioners have determined is proprietary or a trade secret under AS 43.90.150 may not be made public even after the notice is published under (a) of this section, except as otherwise provided in AS 43.90.150.

Do you know what is otherwise provided in AS 43.90.150?

Please look at AS 43.90.310(b), which contains two paragraphs. Under that subsection, may the inducement recipient pick both (1) and (2), or pick only one of the two paragraphs? This issue also affects the use of the term "subsection" in AS 43.90.310(b)(1)(B): if a person may elect to exercise the options under paragraphs (1) and (2), then "subsection" is appropriate, though perhaps should be relocated so it is clear the provision applies to both (1) and (2). However, if the election is between (1) or (2),

Senator Bern Stedman

May 9, 2007

Page 2

then "paragraph" may be more appropriate. My impression is that the inducement recipient may elect between the options in AS 43.90.310(b) or the existing lease terms. So, if the lease terms are displaced by the election, then the recipient is subject to both paragraphs within AS 43.90.310(b). It may be that this whole subsection should be restructured.

Please look at the definition of "amended certificate" in AS 43.90.900(3). The definition is limited to a certificate issued by the Federal Energy Regulatory Commission. Is there an occasion where an amended certificate may be issued by the Regulatory Commission of Alaska or a Canadian regulatory agency that would affect the license terms? Throughout the bill, the terms "certificate" and "amended certificate" appear in tandem; is this correct, even when not limited to FERC certificates?

DMB:lmb
07-119.lmb

Enclosure

PUBLIC
TESTIMONY

Thank you for this opportunity to testify on Senate Bill 104. My name is Matthew Fagnani; I am president of WorkSafe, Inc. a subsidiary of NANA Development Corporation. I am also a past President of the Support Industry Alliance.

As I monitor the activity in Juneau, read the Petroleum News, and listen at the water cooler, I am concerned that we will not get a pipeline. As a company whose employees earn a living on a healthy oil and gas industry, I am concerned that AGIA in its current form will not get us there. I understand the purpose and method of dictating terms & soliciting applications rather than negotiating, etc. when the current leaseholders are not enthusiastic about the bill - I would listen their concerns. Amendments to this Bill may be needed. However, what I hear the state implying is if you do not bid or provide gas during the open season then your leases may be at risk. I am paraphrasing. What I really hear is project delays and many years of lawsuits.

The bottom line is we need a gas line and we need one as soon as practicable. If AGIA fails, it will do more to damage the State and the economy of the State than any other single event. I for one want to see a gas pipeline project. I am very concerned that the state will not be able to meet its financial commitments beyond 2010. Each year's delay adds to the overall cost for the project, and that in the end will affect the marketability of Alaskan gas. It is time to sit down and really negotiate a bill that will work for the leaseholders and potential bidders, the proverbial win-win. The future of Alaska rests with this Bill. Do right by the Alaskan economy and its people by fixing this Bill so it can provide for a strong healthy Alaskan future.

Thank you,
Matthew Fagnani
WorkSafe, Inc.
300 West 36th Ave, Suite A
Anchorage, Alaska 99503

Testimony by Wes Nason on AGIA to Senate Finance Committee
April 30, 2007

My name is Wes Nason. I am Vice President of VECO Alaska, Inc. responsible for pipeline construction projects.

There are four major owners of North Slope natural gas who should have common objectives to achieve by construction of an Alaska Gas Pipeline Project:

1. The State of Alaska *through its royalties*
2. BP Exploration (Alaska) Inc.
3. ConocoPhillips Alaska Inc.
4. ExxonMobil Production Company

The common objectives are:

1. Least cost pipeline project costs to ensure maximum value of gas at the wellhead and therefore maximum revenues. *to the State and maximum profits to the producers*
2. Control of project costs to protect value of gas at the wellhead

The objectives of AGIA, in its current form, do not acknowledge the common interests of the four largest owners of the future gas sales.

While the honorable leaders of the Palin Administration believe in AGIA in its current form, the preponderance of testimony from reliable industry sources refutes this notion. The two major Canadian gas transmission companies with an interest in participating have both testified that the gas producers must be part of the pipeline development team.

AGIA as currently written seems a transparent attempt to exclude the major producers and to place Alaska's fiscal future in the hands of a gas transmission company which may have no northern or permafrost experience, and no history of managing a project of this scope.

For a successful project, the State and the major producing companies must be in alignment. AGIA in its current form will not accomplish this alignment. Please make those changes recommended by the major producers which will allow them to have their proposals considered under AGIA.

Wes Nason

BEACON

OCCUPATIONAL HEALTH
AND SAFETY SERVICES

800 Cordova Street - Anchorage, Alaska 99501 | Phone: 907-222-7612 - Fax: 907-222-6976

www.beaconohss.com

Senate Finance Testimony on SB 104 April 30, 2007

Mr. Chairmen and members of the Senate Finance Committee, thank you for this opportunity to comment on SB104. My name is Mark Hylan and I am a lifelong Alaskan. My wife and I own and operate Beacon Occupational Health and Safety Services. Beacon's clientele embrace Alaska's remote industries, as well as, federal, state and municipal governments. This includes many of the contractors, producers and explorers that encompass the oil and gas industry in Alaska.

I have grown increasingly concerned in following the gas pipeline saga over the last couple of years that we are on the verge of losing a great opportunity for our state. This gas pipeline is critical to the continued economic growth that we have seen over the last decade. Unemployment is low and state revenues are in surplus, BUT let us not forget that it was only a few years ago that we were considering a state sales and income tax. We need to get this pipeline moving forward and it is my opinion that the bill being considered is not going to do this. I have been invited and have listened to the producers, pipeline companies, explorers and the state and it seems clear that it is unlikely we will receive the competitive bids the state hopes for.

AGIA does not do enough to generate interest in the Request For Application (RFA) process. First of all, none of the potential applicants I have been able to hear speak regarding AGIA (with the exception of the Port Authority) have said that the \$500 million is necessary. If someone can afford a \$30-45 billion project they certainly don't need our token incentive, which in my opinion can be used for many more productive things for the citizens of Alaska.

I also am concerned that AGIA is too prescriptive and will not generate the bid response that is intended. Let's pass a bill that will encourage competition in the applicant process..... not limit it.

We need the producers and the producers need our state and AGIA needs modifications to get a licensee that has a legitimate chance of building a pipeline.

The oil and gas industry is critical to our state's success. Let's give ourselves the opportunity to see this gas pipeline become a reality. I ask that you please consider removing the \$500 million incentive and putting less prescriptive terms in the bill.

Alaskans deserve the economic opportunity and security this pipeline would bring to the state.

Thank you for your time.
Best regards,
Mark Hylan

www.beaconohss.com



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Anchorage, AK 99507
Phone (907) 562-5818
Fax (907) 562-5816
Reed@DowlandBach.com

www.dowlandbach.com

My name is Reed Christensen, I am the General Manager for Dowland-Bach Corporation – a local manufacturing company that makes industrial control panels, chemical injection systems, and well head safety systems.

Thank you for this opportunity to testify on Senate Bill 104.

I would like to echo many of the thoughts already mentioned – namely my concern that we need a gas line and we need it now. The oldest of my four children is a Freshman at East High School. With the current rate of decline of oil running through the trans Alaska pipeline, I am concerned of how the state will be even in the few short years that will have passed by the time he graduates.

If it were not for the high prices of oil due to circumstances around the world beyond our control, we would not be arguing over what to do with the state surplus this year. This "windfall" will not last forever, and even if these windfall prices were to last indefinitely, the production is going down.

In a kind of bizarre way, these sustained high oil prices seem to have cast a layer of complacency across the state. The prices have partially off-set the decline as well as partially off-set the sense of urgency for our State's financial future. Meanwhile these same prices seem to have provided a catalyst for anti-big oil rhetoric and posturing by people and industries who are jealous of these "wind fall" profits.

Please do what needs to be done to Senate Bill 104 to make it a realistic opportunity to facilitate this gas line project. We do want commend this "open and transparent process;" however, the current lease holders and producers are not transparent and need to be included. ConocoPhillips, BP, and Exxon seem to be the elephant in the room that AGIA chooses not to see. I am not saying we should cater to every whim of the "elephant" I am saying we should not behave as if the elephant is not here and does not play a crucial role in the gas line concept.

Maybe the previous administration spent too much time focusing only on the producers, but this does not mean the current administration should fix that mistake by refusing to focus on the producers at all.

We need this Gas line for the whole State, please do what it takes to help make it happen. – Thank You

Good Evening,

I appreciate the opportunity to testify before you this evening. My Name is Denette Justus Romano and I am a Financial Advisor with Wachovia Securities, LLC.

I have been in the investment business in Anchorage, Alaska 21 years and have earned the trust of .ny clients through recommendations and information pertaining to their specific goals and objectives. As an Advisor to my clients assets, I make recommendations based on risk, liquidity, investment quality and tax ramifications – without this information, the investments I make for my clients would be inappropriate and I would, therefore, be held accountable.

So what does this matter to you? EVERYTHING! I am YOUR client, as are all Alaskans, and you are OUR advisors and I feel that you may not be putting our Alaskan needs before your own.

Why do I say this?

I have asked the State of Alaska and several Representatives repeatedly as to why the State felt a \$500 million incentive would be needed to secure a “competitive” bid – Obviously the State felt the bids would NOT be competitive otherwise? Is the State attempting to “Buy” competition? What does a measley \$500 million to a potentially \$30 Billion, probably \$40 Billion, Project offer? Here in lies the quality of the bidder and the risk of the project. If the State has to offer \$500 million to a “bidder” on a project of this size in order to get them interested, I am *now* extremely worried about the project ever being completed.

What is the application evaluation process in selecting a potential Bidder? What are their risks, quality, liquidity and can they afford a tax rate that cannot be determined prior to investment?

If there is anyone in this room who makes investment decisions without understanding their tax Ramifications, I strongly suggest they contact a Financial Advisor immediately. How can any person or company properly prepare ANY Bids without knowing what their tax liability is..

What is the State of Alaska REALLY trying to do? Why does the State feel compelled to assume this risk without understanding the quality, liquidity and tax issues and how can you expect others to make that same investment without necessary changes?

I want this gas line and I want it now – But I want a successful project, with perks for the State of Alaska for our resources, not by our doling out \$500 million dollars. I want companies to bid on this project with full knowledge of what their tax liability will be.

Without this, me and all Alaskans assume greater risk – a risk we cannot afford.



NORTHWEST TECHNICAL SERVICES

Testimony regarding Senate Bill 104

April 30, 2007

By

Mary E. Shields, General Manager
Northwest Technical Services

Chairmen Stedman and Hoffman, members of the Senate Finance Committee:

Good afternoon. My name is Mary Shields and I am the General Manager of Northwest Technical Services.

As a long time Alaskan (since 1972) and an active participant in many areas of Alaskan life, I appreciate your scrutiny and close examination of the bill as posited by the Governor.

As we are all aware, certainly you more than anyone else, it is the responsibility of the Legislature to foster an investment and development climate that will add value to our state resources and encourage participation in this enormous project. I am concerned that in the Governor's desire to be fair to all, we now have a bid process which does not contain the clear and objective criteria for the evaluation of applications which I would anticipate in any bid process. I am also concerned that providing a \$500 million incentive would encourage those without the financial strength to carry through with a project of this size. Most RFPs (or, in this case an RFA) to which I have responded require that Northwest Technical Services show proof that we have the financial wherewithal to pay our employees and are very specific that any expenses incurred during the course of the bid are not reimbursable. As a prudent business person, I would expect the State of Alaska to make the same requirement – we shouldn't pay any company to bid.

I also have to concur with previous testimony that points out that the State of Alaska has a disastrous record of selecting project winners. The selection of this Licensee needs to follow a formalized, logical objective course. Any subjectivity in selection needs to be eliminated.


We all talk about making sure that we have jobs for our children and grandchildren in the future. They are the ones who will continue to make Alaska prosperous. With the continual decrease in oil production to keep TAPS filled, with the sure loss of positions

Testimony: Senate Bill 104
April 30, 2007
Page Two

and dollars to the state's coffers as this happens, it is imperative that we do not fail in getting an acceptable bid process in place – preferably prior to the end of the first half of this legislative session. We've all seen the charts.

I thank you for your time. I know that you want to do what is best for the state of Alaska and for its future generations. I ask that you make certain that SB 104 accomplishes that mission.

Kind regards,



Mary E. Shields
General Manager

- Position on the Alaska Gasline Inducement Act -
Senate Bill 104

My name is Maynard Tapp and I worked in Alaska since 1972, I am a citizen of Alaska since 1990 and Alaskan in spirit since 1954 when my dad worked for the U.S. Coast Guard in Barrow.

DO THE DEAL NOW

At Thursday's (26Apr07) spot price for natural gas at \$7.510 per MMBTU the states share @12.5% would be \$0.94 per MMBTU.

If 1MMBTU is approximately 1,000 Cubic feet then, at a production of 4.5 Billion Cubic feet per day, the state of Alaska revenues loss is \$4,224,375 per day.

I worked on the Gasline Study from Jan 2001 until March 2002 (15 months) this study spent approximately \$125MM to get near the end of Conceptual Design. We accomplished a lot during that timeframe. Everyone worked hard and fast. The results of that effort indicated that the producer's wanted to move forward with the pipeline project.

It will take any new player at least 15 months say 450 days to get to the point where the producers study ended. At \$4.2MM per day that totals \$1.9 billion dollars loss in state revenues just to get to the place we are today, close to the end of Conceptual Design.

At the same time Prudhoe Bay production is declining at 6% per year and therefore the related state revenues from the oil production is declining at the same rate. And at the same time competing projects and technologies are moving forward.

The chart I am including in my testimony is one that I attained when working with a world class engineering company. It is used to help them determine the amount of contingency used at any point during the lifecycle of a project. It is, therefore, a measure of confidence that a project has regarding known and unknown costs. These milestones cannot be compressed.

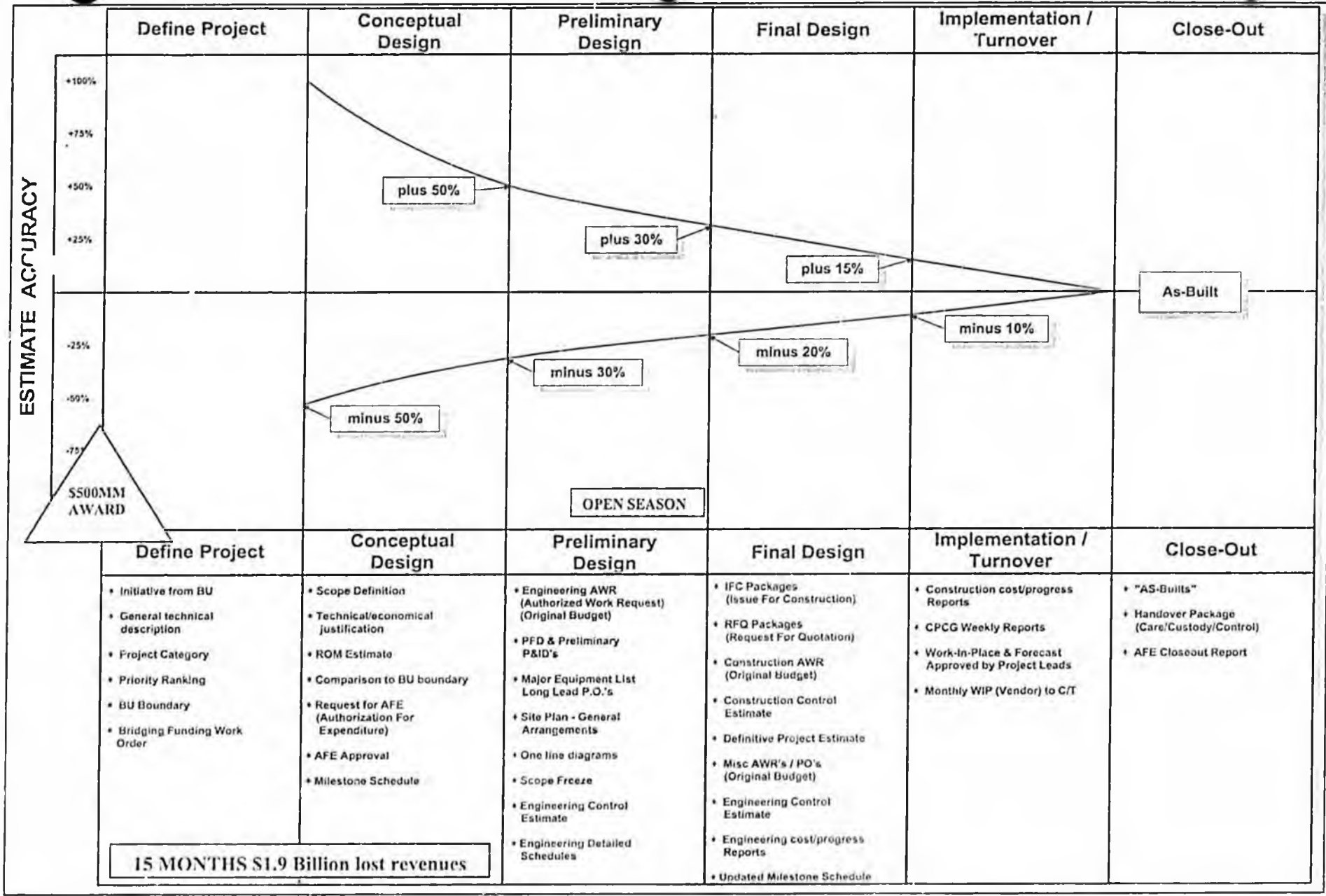
You already have two to three years of testimony. Take the good stuff from the last three years, incorporate it in AGIA and send it to the Governor for her approval. Begin negotiations.

Will you learn anything more in the next 15 months and \$1.9 billion in lost revenues?



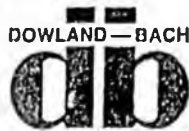
**BE LEADERS
PLEASE
DO THE DEAL NOW**

Take the good stuff from the last three years, incorporate it in AGIA and send it to the Governor for her approval.
Begin negotiations.



15 MONTHS \$1.9 Billion lost revenues

EST. WHERE PRODUCERS ARE NOW



LYNN C. JOHNSON
PRESIDENT



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RE: Senate Finance Committee Testimony (SB # 104) April 30, 2007

Good afternoon Chairmen Hoffman and Stedman and Co-Chair Huggins and other esteemed and distinguished members of the Senate Finance Committee. My name is Lynn Johnson and as most of you know, I am the President and co-founder of Dowland-Bach Corporation and a past President of the Alaska Support Industry Alliance. First of all, I would like to thank you all for all of your diligent and thoughtful work to date on AGIA and SB # 104. I suspect that you all have had numerous visits, e-mails and phone calls recently on this subject. The reason for all of this fuss is that Alaska needs to get going on a gas project now, not later. It appears to me that we are now farther away than ever from passing any legislation enabling construction of our natural gas pipeline to the lower 48. One of the major players now says they are not even going to bother to submit a bid and apply for a state license to build the North Slope gas pipeline and I honestly suspect that the other majors are thinking in the same vein. We were much closer to a pipeline twelve months ago and it seems to be getting worse by the day.

As a businessman doing business with the producers, I obviously have empathy for their position, but this anti-big oil rhetoric has got to stop. Taxes on the oil portion of their current business provide 88% of our current state revenue and have done so for years, and this is how we treat them?? We need to make key changes to this bill prior to passage, including ones that include eliminating exclusivity and replacing prescriptive mandates with objectives.

In summary, if businesses such as mine are going survive, we all need to encourage the building of a gas pipeline in the near term by those capable of doing it. AGIA may well be the last chance at having this construction actually take place, and if we fiddle around for another five or six years, some other gas from another basin is going to fill the need in the Mid-West and Alaska gas will no longer be in such high demand. Let's fix AGIA and then pass it by ensuring that it addresses the needs of Alaskans, of the developer and transporter and of North Slope producers and shippers. It's Time. Thanks



UDELHOVEN

Oilfield System Services Incorporated

184 East 53rd Avenue
Anchorage, Alaska 99518-1222
(907) 344-1577 Fax (907) 522-2541

Thank you for this opportunity to testify on the AGIA Bill, the Alaska Gasline Inducement Act. My name is Jim Gilbert, and I'm President and testifying on behalf of my company, Udelhoven Oilfield System Services.

Our 400-plus employees provide technical expertise to the oil and gas industry in Alaska, the Gulf of Mexico, Tbilisi, Georgia and Bohai Bay, China.

First and foremost, we want a gas project ... sooner rather than later, and with the greatest long-term benefits for the State of Alaska, Alaskan workers, Alaskan businesses and all Alaskans. North Slope gas commercialization holds the key to Alaska's future.

We understand the importance and urgency of transforming our gas potential into a gas project. The opportunity to market our gas won't last indefinitely, and there's a very real risk of losing it altogether if we don't act quickly. Project costs are escalating, prospective utility customers are making long-term commitments for other fuel sources (such as coal), the threat of being displaced from key markets by LNG imports is growing, and North Slope oil production continues to decline. Given the long lead time for a gas project and gas revenues flowing into state coffers, this puts Alaska's fiscal future in further peril.

As currently stated, the bid requirements will limit competition in the bidding process, as well as creativity in satisfying the state's needs. There may be more than one way to reach mutually beneficial outcomes, and the prescriptive nature of the current bill guarantees they'll never be explored. It also likely will preclude some prospective applicants from participating.

- The financial strength of gas producers making long-term shipping commitments outweighs the creditworthiness of a third-party pipeline builder in determining whether financial markets will underwrite a North Slope gas project. That was the message of an international megaproject financing expert when he addressed members of the legislature Thursday.
- Frederick Rich of Sullivan & Cromwell contradicted administration claims that pipeline companies can give sufficient financial guarantees to secure funding for the multibillion-dollar project based on their own creditworthiness. Speaking to the Senate and House Finance committees in separate presentations, he said prospective lenders will focus on the creditworthiness of shippers signing long-term capacity agreements rather than that of an independent pipeline company building a pipeline.

As more than one pipeline company has testified during the legislative process, "no producers, no project." The bill offers shippers little more than a non-binding "trust me" commitment for fiscal stability lasting a fraction of the project life, and does nothing to fix gas severance tax rates that even the administration admits are too high (22.5%).

The \$500 million incentive is unnecessary and imprudent. The legislature's decision to make it a bid variable rather than a bid requirement was a step in the right direction. With one exception, companies that have testified have said the handout isn't needed, and we don't believe it's the best use of state funds, either. We're concerned about any provision that turns pretenders into contenders for a state



UDELHOVEN

Oilfield System Services, Incorporated

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license, and we're skeptical about placing Alaska's future into the hands of an entity that requires a \$500 million contribution in order to pursue a \$30 billion project. Applicants that need to be "bought" with the \$500 million may not be worth acquiring.

The process promotes a monopoly, and the state has an abysmal record of picking "winners." Alpetco. Healy clean coal. Delta barley. Alaska Seafood International. Alaska's history is strewn with the remnants of projects for which the state picked "winners," and the gas line legislation is based on the same dubious premise. The state should be doing whatever it can to promote any viable gas project, but the Alaska Gasline Inducement Act virtually guarantees that the licensee picked by a pair of commissioners will be the only game in town. Provisions like treble damages for granting streamlined permitting, state-funded training and the services of a pipeline coordinator to a competing project need to be amended to eliminate "exclusivity."

The bill attempts to pre-empt the authority of the Federal Energy Regulatory Commission (FERC) to administer access, expansion and tariff issues by dictating rolled-in tariff rates for expansions that would increase rates as much as 15%. Let FERC do its job. If the state believes an expansion is in Alaska's best interest and is eager to contribute public funds to the project without securing equity, it could underwrite pipeline expansions in order to maintain tariff rates. There may be instances – for example, gas production from federal OCS acreage – when rolled-in rates aren't in the state's interest, either.

Recent legislative amendments dictating that proposals be judged on the basis of net present value to the state and the applicant's ability to deliver on its promises enhanced the bill, and further specificity is needed.

Both the state and shippers need to be involved in and have oversight of a project execution plan that provides the greatest netbacks at the wellhead. A third-party pipeline builder with no production interests will have no incentive to reduce costs and no ability to "guarantee" the tariff in advance.

The Alaska Gasline Inducement Act may be our last and best chance to make a North Slope gas project a reality, but only if it's fixed before it's passed. In order to succeed, the bill must acknowledge the interests of Alaskans, of the developer and transporter and of North Slope producers and shippers.

Thank you.

James Gilbert
President

jjgilbert@udelhoven.com
<http://www.udelhoven.com>

Testimony to the Alaska State Legislature April 30, 2007

Thank you for allowing me to testify on SB 104. My name is Hillary McIntosh and I am the communications and development manager for the Alaska Support Industry Alliance, but I am testifying on my own behalf this evening.

I am concerned that the current version of AGIA does not adequately address the risks of the administration choosing a licensee, a failed open season and cost overruns.

Taking into account previous instances in which the state selected "winners" that weren't, such as Alpetco, Alaska Seafood International, Delta barley and Healy clean coal, I have little confidence that the Administration choosing a licensee to build the gas line will be a success. I am an economist by education and firmly believe the market should dictate who should build the gas line.

There are many arrows pointing towards a failed open season. The gas tax and fiscal issues aren't resolved. There are no clear and objective criteria for evaluating proposals. North Slope producers that will be expected to finance the project through their firm transportation commitments say they won't apply. Even pipeline companies have said, "no producers, no gas line." It is imperative AGIA be amended to ensure a successful open season.

When it comes to cost overruns, I am not convinced that a 3rd party holds cost control as a high priority. If the builder is guaranteed to recoup all expenses, whatever they total, where is the incentive to keep costs down?

Bottom line...I look at construction of the gas line the same way I would look at construction of a new home. If I don't have enough faith in who is going to build it, what it is going to look like and how much it is going to cost me...I simply would not make the investment.

There is still time to make these much-needed amendments to the bill. I want AGIA to work...the State of Alaska needs AGIA to work. The final outcome of AGIA will dictate Alaska's future. Thank you.

Hillary McIntosh
(907) 350-6247



THE ALLIANCE

...for responsible development of Alaska's Oil, Gas & Mineral Resources

360 West Benson Blvd., Suite 200 * Anchorage, AK 99503 * Phone (907) 563-2226 * Fax (907) 561-8870

SENATE FINANCE TESTIMONY

On SB 104
April 30, 2007

Thank you for this opportunity to testify on Senate Bill 104. My name is Paul Laird, and I'm general manager of the Alaska Support Industry Alliance.

Our 400-plus member companies provide the goods and services that make Alaska's oil, gas and mining industries possible, and provide more than 30,000 Alaskan jobs.

On behalf of the Alliance, I'd like to make three key points:

First and foremost, the Alliance wants a gas project.

Second, we want a gas project.

Third, we want a gas project ... and we don't believe this bill will get us one unless key changes are made prior to passage.

As currently drafted, it's too prescriptive and discourages competition and creativity in the application process. Bid requirements should be replaced with objectives.

It places too much emphasis on the short-term risks incurred by the pipeline builder and too little on the much longer-term and greater risks of gas shippers. Until those risks are resolved and the state offers real long-term fiscal predictability, our gas pipeline will continue to be as transparent as the process for getting it, because there won't be one.

The \$500 million "incentive" is unnecessary and could turn pretenders into contenders for the license. We're skeptical about placing Alaska's future into the hands of any entity requiring a \$500 million contribution from the state in order to pursue a \$30 billion project.

We also question the mandatory use of rolled-in tariff rates for pipeline expansions, establishing a virtual monopoly for the state's licensee at the possible expense of other more qualified projects and allowing a couple of commissioners too much leeway in how they select a licensee.

Chairmen Stedman and Hoffman, members of the Senate Finance Committee, the Alliance understands the urgency of getting a gas project sooner rather than later, and one that yields the greatest long-term benefits to the State of Alaska, Alaskan workers, Alaskan businesses and all Alaskans.

We believe the Alaska Gasline Inducement Act may be our last and best chance to make a North Slope gas project a reality. But we also believe that in its current form, it's broken. We urge you to fix it by ensuring it addresses the needs of Alaskans, of the developer and transporter and of North Slope producers and shippers, then pass it.

Because the Alliance ... and our 400-plus member companies ... and their 30,000-plus Alaskan employees ... want a gas project. And without changes, this bill won't get us one.

Thank you.

DRAFT

For the record my name is Jerry McCutcheon

I requested the same amount of time allocated to Mid-America but have never heard back from the committee. Thus, I again ask for equal time that the legislature has accorded to Mid-America. Mid -America could not even get the length of time 35 tcf would sustain the 4.5 bcf/d Alcan gasline correct.

I deserve to be heard and given time equal to that of Mid-America if I can correct Mid-America and correct the oil companies.

If I can correct the oil companies on the weight of gas pipe steel in the Alcan gasline in their \$125 million gasline study. Then I deserve to be heard by the legislature. Not one of you legislators can calculate it nor can any of your staff not even your contractors can calculate it. The much herald \$125 million engineering gasline study and the oil companies could not even get the amount gas pipe steel close to being correct; they were way, way off. Not only as to total amount of steel but also what a single piece weighted. They were not even the same errors.

I offered to proof read the oil companies \$125 gasline study but I think they were too embarrass to have some guy off the street just who looked at their gas pipe weights and knew they were incorrect because they were so far off; then took less than 15 minutes come up with the correct answers. The last I have seen the weights given by oil companies, the oil companies are still using my numbers and apparently did not recalculate their own numbers.

Governor Palin's gasline legislation is just charade, Palin and the legislature are scamming the public into believing there is going to be a gasline when in fact there is not going to be a gasline.

So it is perfectly clear to the audience --- There is not going to be a gasline and there is not even any hope of a gasline --- the oil companies do not have enough gas for a gasline, less than half enough gas for a gasline.

The Alcan gasline is not economic even if there were enough gas for the gasline.

Nor should there be a gasline! The Gas is needed for oil production. The oil companies could use more gas from somewhere else like Point Thompson to rebuild the gas pressure in Prudhoe Bay and increase the oil recovery rate and maximize the oil recovery as was done for Swanson River on the Kenai.

The premature withdrawal of gas from Prudhoe Bay will cost the State of Alaska and the Nation billions of barrels of otherwise recoverable oil just like the premature sale of gas from the Cook Inlet platforms left more once producible oil behind than was produced. Swanson River on the other hand, where the existing Swanson River gas was supplemented with gas from the Kenai Gas Field obtain three times percent of recovery as did the Cook Inlet platforms where the gas was prematurely sold off.

Neither the Legislature nor Governor Palin have told the public that a gasline can only come at the expense of billions of barrels of recoverable oil. And that waste of oil is unconstitutional. There is no way the State of Alaska can force the oil companies to give up the gas need for oil production; companies are protected by Alaska's Constitution.

Palin has already conceded that the first open season will be a failure and even the second "open season" will fail; Palin is planning to pursue a FERC license to get herself passed the next election.

A FERC license in the absence of successful open season is less than worthless; for a FERC license has the potential to becloud any potential future gasline with legal entanglements. Palin's \$0.5 billion would further those legal entanglements. What scares me the most about Palin's half a billion dollar give away is the fact that not only will Alaska will lose a half a billion dollars, which Alaska cannot afford and but also will have obtain nothing for the \$1/2 billion.

Palin will peddle to the public and the legislature that FERC license is worth \$0.5 billion even without a success full "open season". A FERC license in the absence of a successful "open season" is worthless for Trans Canada already possesses a defacto Alcan Gasline FERC license not only thru Alaska but also and NEB license for Canada. Trans Canada has made it clear to the legislature and the Palin administration that the holding of a FERC license in the absence of successful "open season" is not useful and that Trans Canada would not proceed with FERC licensing and not even another "open season" until it had lined up the sufficient gas shippers and gas buyers to guarantee a successful "open season".

The public does not understand that those who are chasing the gasline and have gas customers in South 48 and are charging off their costs plus profit to their South 48 gas customers thus there is no reason for them to proceed in a prudent manner. With Palin's \$0.5 billion give away to the anointed recipient who will not only write off their expenditures but also Palin's \$0.5 billion to their South 48 gas customers. They will get back their \$0.5 billion plus profit and the anointed one will get the States \$0.5 billion plus profit but the State will not get back Alaska's \$0.5 billion. The recipient will just keep Alaska's \$0.5 billion plus profit.

Palin's \$0.5 billion is just too good to pass up and it opens the bidding process to the screwing of the State of Alaska. Where without \$0.5 billion the State is out time and gets an education at somebody else expense unless they pursue a FERC license. If they pursue a FERC license, that license will be used to obstruct a later gasline builder when the actual time comes for a gasline. Palin's gasline plan is anything but a zero sum gain when it fails.

The \$0.5 billion just delays the State of Alaska, the legislature and most importantly the public coming grips with the fact that there will not be a gasline nor is a gasline in the best interest of Alaska in the short term nor in the long term needs

now or in next few decades. What gas there is should be used for oil production and after Prudhoe Bay oil recovery is complete, the gas should be use for oil recovery in other oil reservoirs. After the light oil reservoirs are complete then the recovery of the heavy oil, some 30 billion barrels. The legislature and Palin are trying to kill Alaska's oil and gas future to aggrandize themselves.

Prudhoe Bay is gas short and oil long; Prudhoe Bay like most other oil reservoirs on the North Slope needs gas supplemental gas injected into them; some of that supplemental gas injection is going on now on the North Slope. All of Point Thomson gas should be injected into Prudhoe Bay after the Point Thomson gas recycling to prevent retrograde condensation of the gas liquids is complete.

The production of the North Slope 30 billion barrels of heavy oil may well take not only all of the current gas but also most of future gas. Alaska should keep its gas for oil production until we see what the future holds.

Alaska has long profitable future ahead of Alaska. Alaska's financial is future is not falling regardless of what the doomsayers have been saying for the last thirty years. Alaska has enough potential oil and gas resources to take Alaska well into the next century provided we do not keep electing legislatures which try to give everything away including the Permanent Fund and chasing cockamamie investment schemes.

The Courts have held that the public has a right to be heard on issues before the legislature. I think the courts would or have already held the public has a right to be heard not only by the legislature but also by the public in the public hearings and this 3 minutes and submit the rest in writing and the legislature may or may not make it public long after the issue is closed just does not comply with what the court would considers a public hearing --- where only the invited guests can have reasonable time in which to be heard not only by the legislature but also most

importantly by other members of the public. Thus should this gasoline issue ever go to court, I will file a friend of the court brief and raised the question of the adequacy of the hearings.

While 99% percent of the public have little to say except that which is redundant and only general in nature, some of us do have serious challenges to this gasoline legislation. Some of those, who the legislature has invited, are so ignorant of the issues they cannot get even the basic facts correct. For example Mid-America said that the alleged 35 tcf would last 22 years at 4.5 bcfd. While Mid – America proved that it can do sixth grade arithmetic Mid – America should have taken a sixth grade general science where they would have learned that gas does not flow out rock like water out of tank. It is hard to believe that the 22 years came from someone in the gas business.

Then there is ECON ONE whom the legislature hired and paid over \$1.5 million; Econ One also proved they took six grade arithmetic and proudly asserted the non existent 35 tcf would last 4.5 bcfd Alcan gasoline 21.5 years. But in reality the alleged 35 tcf would only sustain the gasoline for a little over a decade. Next Econ One asked no one about the cost of the Alcan Gasline and Econ One but liked the number 21.5 so well that used \$21.5 as the cost of the Alcan gasoline as the bases of their gasoline profitability. Garbage in garbage out.

Even then the Murkowski gasoline team had stated the gasoline cost was \$30 billion and Pedro van Meurs even corrected Econ One before LBA stating the gasoline cost was \$30 with a higher costs to come, but Econ One never corrected the \$21.5 billion nor was Econ One ever instructed to correct their mistake and sadly those errors are still being used today will be used tomorrow. .

Now the Palin administration is using Econ One study to support Plain's quest for a gasoline knowing full well that Econ Ones work is garbage. And the

legislature is accepting Palin's offering as if they were real. Palin's gasline legislation is a scam on the citizens of Alaska.

There is only 29 tcf not 35 tcf, according to AOGCC, and since Point Thomson is in litigation there is only 20 tcf. When one subtracts field fuel requirements over the life of a propose gasline there is less than 15 tcf left, and at gas reserves requirement of 13 tcf per one bcfd of shippable gas, that leaves a gasline with 1.2 bcfd of gas at best. There is no gasline that can operate on only 1.2 bcfd not even the spur gaslines. Even that little amount of gas withdrawal from Prudhoe Bay will come at a sever reduction in oil recovery.

The legislature and Governor Palin have not been honest with the Public.

Palin press release, that she was not going lobby the legislature on her gasline legislation, outside of her staff's repeated cherry picking misleading information, was because it would not do her any good. I think she has finally come to the conclusion she cannot obtain any semblance of a successful 'open season' thus no hope of a gasline and she will take what ever the legislature gives her.

The outlook for her gasline is nil to nonexistent. The most da jaging presentation occurred when exasperated Sen. French said to/asked of, Cathy Foerster of the AOGCC, after he could not get any amount of gas or time the gas would be available from her. "Well, we still have the 2.7 bcfd ? She said somebody would have to apply to AOGCC for that 2.7 bcfd gas off take, (or some portion of it), and the AOGCC would have rehearing on the Rule 9 gas, 2.7 bcfd. After the rehearing there would be no gas available. Thus the once available gas for at least for last 20 years, Rule 9 gas off take of 2.7 bcfd, is now exists on paper only.

Having predicted the disappearance of the 2.7 bcfd ever since it was first allowed; I will predict that 2.7 bcfd disappear again; in 10 years, in 20 years. The

illusion of a gas off take for a gasline will always be like chasing a rainbow; it will always be just ahead and never be there when one gets to were they thought it was. The gasline off take is like a mirage, just over the next hill but never there. Every time it comes time to take the gas the reservoir will have to be reevaluated as if it were a new discovery, a new discovery with all of the production and gas recycling infrastructure in place.

Palin was cognizant of the need for rehearing of the 2.7 bcf/d gas off take, she was Chairman of the AOGCC, and she must have known what the outcome of a rehearing would be. Palin just tried to scam her way through in hopes that the legislature would not find out before they passed her gasline plan.

There is no reason to pass Palin's gasline legislation until the AOGCC can come back to the legislature with a time for the gas off take and the amount of gas that will be available when that time finally comes if ever. When Senate finance had Mr. John Norman before it, the finance committee never ask Norman what would happen to the Rule 9 2.7 bcf/d if someone were to apply for the 2.7 bcf/d. The committee did not want to know. The legislature cannot dummy its self down and make a gasline happen. The legislature will stumble over a thing called reality. Senator French chairman of the Judiciary committee did the same thing when it came to the power of the State of Alaska to take the producer's gas for a gasline. French asked all the way around the question but never asked Legislative Legal Services or any one else what the producers rights under Alaska's Constitution would be to continue using the gas for oil production. State does not have snow ball in hell chance, but French led the public and the members of his committee to believe it is possible to take the producers gas when the gas is being used for oil production. Senator French ran a scam.

2

Quite a few legislators have quietly changed their minds from support of the Alcan gasline to the All Alaska Gasline because of obstructive and obtuse attitude of Prudhoe Bay producers. The Oil companies hounded the legislature for tax breaks not only on gas but also oil and every other concession they could dream up. While knowing full well there was no gas for a gasline nor a time when gas would be available and they collectively withheld those facts from the legislature.

The oil companies have led the public to believe they want a gasline when in fact the oil companies have not wanted a gasline ever since the oil companies stalled the gas recycling infrastructure.

Ken Thompson, the former President of ARCO Alaska, told LBA in 2004 that when the oil companies were telling the legislature and the public in the 1990's they wanted a gasline the oil companies in fact did not want a gasline. I was amazed at the unwillingness of LBA to pursue the questing of Ken Thomson.

Representative Harry Crawford told the LBA 2004 that Exxon and BP each independently of the other stated to him they were not going to consider a gasline until the second or third decade. That was at the energy portion of a legislative conference in Utah. The operative word is consider not construct; the oil companies are not going to even give serious consideration to a gasline until 2020 or 2030 then they may study the question of a gasline. And will again conclude the gas is too valuable for oil production and gasline will again be in the distant future. BP's 50 year plan is not just a commercial. LBA did not want to know and did not question Representative Crawford.

Why is the legislature try to bamboozle the public into think a gasline is possible in the near future ? Why is it the legislature does not want to the public the truth? Why is it that the legislature does not even want to ask the questions will ferret out the facts? Jerry McCutcheon susitnahydronow@yahoo.com

Members of the Senate Finance Committee.

My name is Mike Littlefield. I am a Business Agent for Teamster Local 959. Teamsters Local 959 represents 5000 active and/or retired members throughout the state of Alaska. Many of our members worked untold hours some years ago, to construct the oil pipeline. We still have members working on the North Slope or in Slope-related jobs within the oil industry. At our general membership meeting in April we placed a 50 year pin on one of our members.

For over thirty years we have discussed construction of a gas pipeline here in Alaska. Many of our members planned on going from their oil construction jobs to gas-related jobs; however, to date, the majority have given up on that idea.

The previous administration negotiated a deal with the oil producers, which was brought to the legislative body last year. As all of you are aware, that effort failed.

Before you this afternoon is SB 104, the Alaska Gasline Inducement Act or AGIA, presented by Governor Palin and her new administration. Teamsters Local 959 would like to go on record thanking Governor Palin and her team for the hard work put in thus far on AGIA, which we believe may be the necessary framework for construction of a gas pipeline in Alaska.

Some say AGIA is a huge risk, destroying an opportunity for an Alaska gas line. Some say the bill favors the pipeline builders rather than the gas owners. Some even say the state should not tell bidders what to bid. Those of us representing workers believe that AGIA may well be the vehicle needed to move the gas pipeline project closer to reality.

In our view, AGIA is a tool for Governor Palin to use while doing

her job in leading our state, just as our members need tools to perform their jobs on day-to-day basis. The governor and her staff have presented a very aggressive schedule that contains quantifiable results.

Previous committees and the governor should be applauded for including a commitment to negotiate a project labor agreement in SB 104 as well. We do not believe any pipeline company would disagree that a project labor agreement (or PLA) is not justifiable on a construction project of such magnitude. With a PLA in place, we will be able to define the training needs of workers, legally require local hire through hiring halls, and define wages, hours and working conditions to assure stability during the construction of this project. We thank Governor Palin and her staff for their efforts in this area.

As you continue your committee work on the AGIA legislation, please remember the gas pipeline is vital to the future economic growth of this state. Here is a window of opportunity for us to move forward. Such opportunity will not last forever. Give Governor Palin the tools she needs to perform her job on behalf of all Alaskans. Support the passage of HB 177.

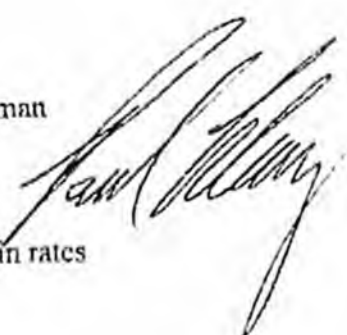
Paul L. Craig, Ph.D.
American Board of Professional Psychology
Board Certified in Clinical Neuropsychology
pcraig@pci.net

4048 Laurel Street, Suite 201
Anchorage, AK 99508

Phone (907) 274-8200
Fax (907) 274-8211

May 8, 2007

To: Senator Bert Stedman
From: Dr. Paul Craig
Re: AGIA and rolled-in rates
Via Fax



MAY 08 2007

On behalf of my fellow Alaskans, all of whom are interested in the economic well-being of Alaska, please support AGIA as proposed by Governor Palin. Please do not alter the terms of AGIA. Leave the provisions for:

Mandatory Gasline Expansion;

and

Rolled-in Rates

in the bill as proposed by Governor Palin.

Thank you for supporting AGIA and all of its terms as submitted by Governor Palin – the governor who was elected by a landslide in 2006 given her fresh, fair, and competitive approach to dealing with construction of a gasline as well as the future needs and economic well-being of Alaska.

I am aware that the big producers would like to go back to the Murkowski proposal, for which VECO lobbied, which would have given three companies an exclusive 45-year oligopoly allowing them to control North Slope gas production – essentially forever. But the voters spoke when Governor Palin was elected. Let's support her proposal, which will be good for one and all including the three large producers even though it won't provide them with the monopoly they were hoping for last year.

Thank you for supporting AGIA with rolled-in rates.



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MAY 07 2007

**THE GREATER FAIRBANKS BRANCH NATIONAL ASSOCIATION
FOR THE ADVANCEMENT OF COLORED PEOPLE**

P.O. BOX 84437 FAIRBANKS, ALASKA 99708

(907)-479-3977-456-2227 FAX (907) 479-3974

www.naacpfairbanks.org virgie@mosquitonet.com

Ms. Virgie M. Dunlap-King, President

**NAACP Resolution in Support of A Project Labor
Agreement in the Alaska Gasline Inducement Act
(AGIA)**

- Whereas,** The National Association for the Advancement of Colored People (NAACP) was first established in 1909 for the purpose of social, economic and racial equality for all citizens, and
- Whereas,** the Fairbanks Chapter of the NAACP was established in 1952 for those same purposes, and
- Whereas,** the Fairbanks Chapter of the NAACP has as its members, and represents, the fight for economic equality and employment interests of many underutilized men and women workers and potential workers of color and minority status in Alaska, and
- Whereas,** the NAACP has a positive history, both locally and statewide, of working with the construction craft trade unions for the inclusion of women and minority workers through apprenticeship and other training programs, and
- Whereas,** through such inclusion in the union apprenticeship programs, many women and minority workers have accrued pension, medical, legal and training benefits along with opportunities for lifetime careers in the construction industry, and
- Whereas,** the Fairbanks NAACP wishes to continue to build upon that history, and
- Whereas,** there is discussion and hope of a Alaska Gasline Project that could employ thousands of workers during its construction, and

Whereas, as a result of a Project Labor Agreement, Alaskan workers will be dispatched from local Alaskan hiring halls, and

Whereas, once a Project Labor Agreement is mandated through AGIA, the construction craft unions will have a definable goal to train Alaskan workers toward, and

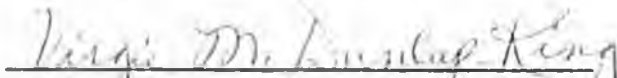
Whereas, this will create real opportunity for the underutilized minority workers advocated for by the NAACP, and

Whereas, a Project Labor Agreement will not completely eradicate the long history of out-of-state hire but will maximize Alaskan hire, and

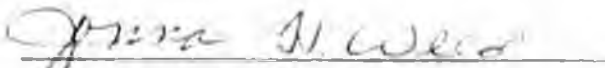
Whereas, the Fairbanks Chapter of the NAACP fully supports Alaska hire local hire, and opportunities for Alaskan minority workers in the Alaskan construction industry,

Therefore Be It Resolved: On this 21th Day of April, 2007, that the Fairbanks Chapter of the National Association for the Advancement of Colored People supports a Project Labor Agreement in Governor Sarah Palin's AGIA as long as there is enforceable language as part of said agreement to ensure minority and women's participation on the project in numbers and percentages that are generally reflective of the demographics of the State of Alaska at the time of the projects inception.

Approved by the Executive Board and
Signed This Day of April 21, 2007


Ms. Virgie M. Dunlap-King, President
Fairbanks Branch NAACP

Sworn before me on the 21st day of April, 2007


Johnna H. Weed, Notary
My Commission Expires: 4/20/09

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MAY 07 2007

To the Chair,

Members of the committee, thank you for this opportunity to testify on the Alaska Gasline Inducement Act. Alaska's natural gas has the potential to secure our economic future and I applaud the Governors' efforts to cause a pipeline to be constructed.

A project like this comes along once in a generation. We have one chance to get it right.

As Representative Samuels says the tariff the tariff the tariff. We need a low tariff to ensure that the state receives fair compensation for its resource and that independent companies can afford to ship their gas in the pipeline. How do we get a low tariff? One way is to ensure a steady, productive, and predictable cost and supply of labor. By including the requirement for a negotiated Project Labor Agreement in the bill we ensure labor stability through a no strike no lockout provision. We can be sure of a competent workforce that has been trained in standardized programs that include both classroom and extensive on the job training. The cost of labor will be known because the wages and benefits can be agreed to prior to the start of work and the use of in state hiring halls will give Alaskans the best opportunity to get the jobs associated with the gasline.

I urge members of the committee to include the requirement for a licensee to commit to negotiate a Project Labor Agreement for construction of the pipeline and all related infrastructure. Again thank you for the opportunity.

John Brown
Operating Engineers
Local 302

May 8, 2007

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MAY 09 2007

Senator Lyman Hoffman
Senator Bert Stedman
Co-Chairmen
Senate Finance Committee
State of Alaska
Alaska State Capitol
Juneau, AK 99801

As Alaskans with a vested interest in Alaska's future, the undersigned urge the Palin Administration and the Legislature to make one simple change to AGIA. We suggest that you amend AGIA to allow all interested parties including the Producers to submit their own proposal, without the specific requirement that it meet the exact terms of AGIA. In other words, "let's see what they have".

The stakes are too high and the risks are too great to not consider what could prove to be the most favorable gasoline option. Regardless of the outcome, Alaskan's should be assured that no options were ignored, regarding the economic future of the state.

The Administration and the Legislature should not be reluctant to allow all parties to submit their own gas line proposal even if it contains different proposed fiscal terms or variations of criteria currently proposed in AGIA. There is no downside to looking at this option. If the Administration doesn't believe it is in the State's best interest, it may be rejected.

For the sake of the economic future of Alaska, we urge you to broaden the process to consider any and all proposed options that meet the state's key objectives.

Respectfully,

Bob Hinkel
President
Hinkel Investment Company

Bill Adair
President
Bullwinkle's

Chad Moore
Uresco

Marc Langland
CEO
Northrim Bank

Sam Brice
President
Brice Inc.

Joe Ralston
General, USAF (Ret)

Rex Wilhelm
President
Alaska Commercial Company

Ken Williamson
President
Delta Alaska Wholesale

Irene Sparks Rowan
Director (Ret.)
Klukwan, Inc.

Ron Duncan
President
GCI

Helvi Sandvik
President
NANA Development Corp.

Pete Sorenson
President
World Wide Movers

Anthony Drabek
President & CEO
Natives of Kodiak, Inc.

Marvin Davis
President
Longass Business Center, Inc

Phil Smsarenko
Sr. Advisor
Nordic Calista Services

Larry S. Cash
President & CEO
RIM Architects

Randy Feero
General Manager Juneau
FSA

Randy Johnson
President
Tyler Rental Inc.

William Tatsuda
President
Tatsuda's Supermarket, Inc.

Roger L. Hames
President
Hames Corporation

Michael B. Salazar
Former Mayor KGB

Ben F. Williams
CEO
Williams Inc., DBA Alaskan & Proud
Markets

William E Brooks
President
Arctic Bee Construction

Robert W. Everts
President
Everts Air Cargo

Ronald A. Davis
CEO (Ret.)
Health Care Administration

Gary Baugh & Barbara Baugh

Frank Danmer
Secretary/Treasurer
IMEX, Ltd. DBA Dynamic Properties

David G. Wight
President & CEO (Ret.)
Alyeska Pipeline Service Co.

Arthur J. Hackney
Hackney & Hackney, Inc.
Corporate and Political
Communications

Carl Brady
Chairman
Brady & Company

Harvey D. Harms
Alaska Trophy Safaris, Inc.

Dan Laughlin & John Rodgers
Certified Public Accountants
Laughlin, Ogle and Rodgers PC

Wilson Hughes
Executive Vice President & General
Manager
GCI

Ed Rasmuson
Retired

Dave Cruz
President
Cruz Construction Inc.

Thomas Martin
President
Northland Services, Inc.

Jim Jansen
President & CEO
Lynden Inc.

Bob Gerondale
Operations Manager
Construction Machinery Ind.

Sherron Perry
President
Fairweather, Inc.

Chris Swalling
President
Swalling & Associates, P.C.

Warren Smith & Paul Quist
Co-Owners
Summit Logistics Inc.

Thomas B. Crowley, Jr.
Chairman & CEO
Crowley Maritime Corporation
Crowley Alaska, Inc.

Bruce E. Gagnon
Attorney

Shane Langland
President
Eagle Enterprises

Dean McKenzie
President
Alaska West Express

Ken Privratsky
Vice President
Horizon Lines

William Dix Fowler
President & CEO
Northern Air Cargo, Inc.

Doug Minert
President
Food Services of America

James St. George
President
STG Inc.

Joseph M. Beedle
Chairman, Chief Lending Officer
Northrim Bank

Ken Lambertsen
General Manager
Univar

Jeanne St. John
Vice President
Lynden Logistics

Bernie Karl
President
K&K Recycling Inc.

Daniel E. Brewster
Vice President
Bering Pacific Construction

Roger Aldrich
Co-Managing Member
Residential Mortgage LLC



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MAY 10 2007

May 4, 2007

Honorable Governor Sarah Palin
Office of the Governor
P.O.B. 110001
Juneau, Alaska 99811

Dear Governor Palin,

On behalf of Alaska's cities and boroughs, I would like to offer the Alaska Municipal League's support for the AGIA concept.

AML is a statewide private municipal advocacy organization with the mission to help bring success, viability and economic health to all of Alaska's municipalities through lobbying efforts, training and communication. AML's membership encompasses all sizes of municipalities from all areas of the state: Anchorage to Bettles, Barrow to Metlakatla. Our membership also includes affiliate groups such as the Alaska Conference of Mayors, Alaska Association of Municipal Clerks, Alaska Municipal Management Association, Alaska Municipal Attorneys Association, and the Alaska Government Finance Officers' Association, as well as associate businesses representing many of the industries across the state.

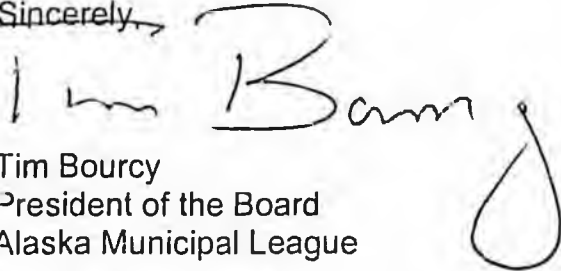
Our members will all be directly impacted by any legislation dealing with the gas line. We have discussed at length our position on the concepts currently under debate in the Legislature and we take this statement of our position quite seriously, as it will affect everyone in the State. All of AML's member communities support the near future development of an Alaska gas pipeline. This pipeline has the potential to provide billions of tax dollars to our state and our municipalities, as well as much-needed jobs and business opportunities.

We strongly support an Alaska gas pipeline and would like to commend you and your staff for the hard work and dedication which has led to a proposal that puts Alaska first.

We would hope that through the process, continued importance is given to transparency, flexibility of ideas, creativity and a clear set of objectives.

We would especially like to applaud Commissioner Tom Irwin and Commissioner Pat Galvin for the time, expertise and effort they have put into this process. We look forward to continue working with your administration and the Legislature.

Sincerely,

A handwritten signature in black ink that reads "Tim Bourcy". The signature is written in a cursive style with a large, looped "B" and a long, sweeping underline that extends to the left.

Tim Bourcy
President of the Board
Alaska Municipal League

cc: Commissioner Tom Irwin
Commissioner Pat Galvin
25th Alaska Legislature

May 10, 2007

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senate Finance Committee
State Capital Room 532
Juneau, AK 99811-0001

Dear Co-Chairs and Members of the Finance Committee,

The top legislative priority for the Alaska State Chamber of Commerce during the last two years has been "Build the Alaska gas pipeline to the contiguous U. S." The Alaska Gasline Inducement Act (AGIA) outlines a series of inducements that the administration believes are critical to getting a gasline project underway. The State Chamber commends the Legislature for its hard work and strong efforts to bring a successful gasline project to fruition.


The Alaska State Chamber of Commerce encourages the Legislature and the Administration, to make necessary adjustments to the Alaska Gasline Inducement Act to encourage the maximum number of parties to submit proposals. It is our perspective that there are only a limited number of companies capable of building the gasline and we believe that we must encourage the maximum number of bidders to submit proposals to the State for consideration.

We must establish a working process that includes all parties potentially involved in building a successful project. The producers, explorers, pipeline companies, and the State must find a way to come together to put together a project that will assure companies of the fiscal viability of the project and bring the state the assurances it needs to issue a license for the project to move forward.

The State should not reject non-conforming bids to the AGIA process, without the opportunity to measure those proposals against the potential for success. In the end, a successful gasline project is of importance, paramount to the State of Alaska.

We again reiterate our support of your efforts to get a gasline project under construction for Alaska. We look forward to continuing the dialog and providing support for your efforts to build a gasline for Alaska.

Yours in economic prosperity,



Wayne A. Stevens
President/CEO



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CHAMBER
OF COMMERCE

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The top legislative priority for the Alaska State Chamber of Commerce during the last two years has been "Build the Alaska gas pipeline to the contiguous U. S." The Alaska Gasline Inducement Act (AGIA) outlines a series of inducements that the administration believes are critical to getting a gasline project underway. The State Chamber commends the Administration for its hard work and strong efforts to bring a successful gasline project to fruition.

The Alaska State Chamber believes that a successful project should create benefits to the State consistent with the following State priorities:

- Alaskans deserve a fair share of revenues from a gas pipeline project
- Alaskans need the opportunity to access the gas
- Future explorers must have access to the gas pipeline
- The gas pipeline must be expandable
- Alaskans deserve Alaska Gas Pipeline jobs

The State Chamber believes that the State must insure there is a fair and inclusive process for all potential applicants interested in building the project. Flexibility in accepting and encouraging applications will bring greater participation in the process and will in the end, give the State the best possible set of options to review. The State Chamber encourages the Legislature and the Administration to find ways to encourage the maximum number of proposals.

While the list of "must haves" identified by the AGIA legislation are important concepts to measure a project against, they must not eliminate alternative concepts that lead to a successful project. Incentives appear to be necessary since no progress has been made to date, but the State Chamber seldom believes that incentives can make up for uneconomic projects. Critical to the process is the need and desire to maximize the number of applicants and proposals to build the much-needed project. The State should not reject non-conforming bids to the AGIA process without the opportunity to measure those proposals against the potential for success. In the end, a successful gasline project is of paramount importance to the State of Alaska.

The Alaska State Chamber of Commerce encourages the Legislature and the Administration to make necessary adjustments to the Alaska Gasline Inducement Act to encourage the maximum number of parties to submit proposals. We must establish a working process that includes all parties potentially involved in building a successful project. The producers, explorers, pipeline companies, and the State must find a way to come together to put together a project that will assure companies of the fiscal viability of the project and bring the state the assurances it needs to issue a license for the project to move forward.

MISC.

Alaska State Legislature

Senator Hollis French, Chair
State Capitol, Room 417
Juneau, Alaska 99801
Phone: (907) 465-3892
Fax: (907) 465-6595



Committee Members:
Senator Charlie Huggins
Senator Bill Wielechowski
Senator Lesil McGuire
Senator Gene Therriault

Senate Judiciary Committee

Changes Made in Senate Judiciary to CSSB104(RES) Natural Gas Pipeline Project

The bill order was changed to comport with the bill order of the House companion bill, at the request of legislative drafters.

Article 1.

Inducement to Construction of a Natural Gas Pipeline

Section 13.90.010 Purposes: No changes were made to this section.

Article 2.

Alaska Gasline Inducement Act License

Section 13.90.100 Gas Project: No changes were made to this section.

Section 13.90.110 Construction Inducement:

- Language was added to clarify that the \$500,000,000 inducement is subject to appropriation by the legislature.

Section 13.90.120 Request for Applications:

- Language requiring the administration to request applications within 90 days was changed to "as soon as practicable" and a conforming amendment was made in uncodified law stating the legislature's intent that it take place within 90 days.
- A provision for an appeals process for solicitation and appeals relating to applications was deleted as the committee added language to the application requirements that applicants waive their rights to appeal.

Section 13.90.130 Application Requirements:

- Language was added to (D) to require that applicants will describe their plans to implement practices for controlling carbon emissions from natural gas systems as established by the US EPA.
- The requirements that an applicant propose and support rolled-in rates were rewritten to require that the 15 percent will apply to negotiated rates rather than just the maximum recourse rate, and that rolled in rates will include fuel costs
- Language was added better defining the provisions for a project labor agreement, and requiring that an applicant utilize the Department of Labor's job centers and internet hiring program to the extent practicable.
- Two new requirements for applicants were added: (16) requires applicants to waive appeal rights, both to the determination that no applicant merits the issuance of a license, and to the determination to license a particular applicant. New requirement (19) requires the applicant provide a more detailed delineation of the parties to an application.

Section 13.90.140 Initial Application Review: No changes were made to this section.

Section 13.90.150 Proprietary Information and Trade Secrets:

- Language was added to clarify that only information submitted by the licensee and retained by the state is subject to disclosure

Section 13.90.160 Notice, Review and Comment:

- Language was deleted that stated that applications received are "not public documents" as this was a misstatement of fact.
- Language was added clarifying that the summary provided by the applicant is a summary of confidential information.
- A new subsection was added to require that the information determined by the commissioners to be confidential would nevertheless be available to legislators, legislative auditors and legislative finance staff and their contractors on request after the person making the request signs a confidentiality agreement.

Section 13.90.170 Application Evaluation and Ranking: No changes were made to this section.

Section 13.90.180 Notice to Legislature:

- One change was made to clarify that the project rather than the application is judged on its proposed benefits.

Section 13.90.190 Legislative Approval:

- This section was redrafted to require that the legislature approve the selection of a licensee through a bill to be introduced in both bodies. The legislature must act within 60 days (this provision is a change to the Uniform Rules and will require a 2/3rds vote). If the legislature fails to approve the issuance of a license, the commissioners may not issue the license the legislature failed to approve but may request new applications.

Section 13.90.200 Certification by Regulatory Authority: No changes were made to this section.

Section 13.90.210 Amendment or Modification of Project Plan:

- Language was added that allows a project to be modified if the modification improves the net present value of the project
- Language was added that allows a project to be modified if necessary of an order issued by the Alaska Oil and Gas Conservation Commission.

Section 13.90.220 Records, Report, Conditions, and Audit Requirements: no changes to this section.

Section 13.90.230 License Violations; Damages: No changes were made to this section

Section 13.90.240 Abandonment of Project:

- The term "uneconomic" was defined in the section, and references to arbitrating abandonment were deleted.
- Language was added to require that arbitration be conducted under the substantive and procedural laws of Alaska, that judgments must be entered in a superior court in this state, that the burden of proof for any appeal of an arbitration rested with the person making the appeal, and that all arbitrators must be selected from the National Roster of the American Arbitration Association.
- The bill was changed to state that is an arbitration panel makes a final determination that the project is uneconomic, the licensee shall assign studies, data etc. to the state regardless of which party requested the arbitration.

Section 13.90.250 Gasline Inducement Act Coordinator:

- Language was added to clarify that the position was in the office of the governor, would be supported by the office of the Governor, and that the coordinator was appointed by the Governor and can be removed at the discretion of the governor.
- Language requiring confirmation of the coordinator was deleted.

Section 13.260 Expedited Review and action by state agencies: No changes in this section.

Article 3.

Resource Inducement

Section 13.90.300 Qualification for Resource Inducement:

- Reference to the tax freeze was deleted from the provisions that can be made contractual.

Section 13.90.310 Royalty Inducement:

- Language regarding protest actions by shippers if FERC roll-in rate policies change were deleted.

Section 13.90.320 Gas Production Tax Exemption:

- Tax freeze provisions were changed so that tax rates are set at the start of the first binding open season rather than at the end of it.
- Conforming language was added to remove contractual provisions for the tax freeze vouchers received by gas producers.
- Language regarding protest actions by shippers if FERC roll-in rate policies change were deleted.

Section 13.90.330 Inducement Vouchers:

- A new section was added to provide for vouchers for persons committing to firm transportation for a certain amount of gas as agreed to in a binding sales contract with a gas producer; the vouchers may then be transferred to the gas producer for that volume for the period of the contract or the period of the inducement, whichever expires first.

Article 4.

Miscellaneous Provisions

Section 13.90.100 Gasline Inducement Matching Contribution Fund: No changes were made to this section.

Section 13.90.110 Regulations: No changes were made to this section.

Section 13.90.120 Statute of Limitations:

- This section was amended to clarify the provision applies to this chapter.

Section 13.90.130 Interest: No changes were made to this section.

Section 13.90.140 Licensed Project Assurances:

- The language was amended to clarify that funds must be appropriated by the legislature; that only qualified expenditures will be reimbursed, and that existing programs to settle royalty disputes, modify royalty rates, or provide the benefits of a large project permit coordinator under existing state law does not constitute preferential treatment.

Section 13.90.150 Assignments:

- A provision was added to require that public notice, legislative notice and a 30 day public comment period precede a license transfer.
- A conforming amendment was made to address the transfer of inducement vouchers.

Article 5.

General Provisions

- A section was added as a conforming amendment to state it was the legislature's intent that a request for applications be issues within 90 days after the effective date of this act.
- A section was added to uncodified law to state the legislature's intent that the Court expedite cases relating to a pipeline under this act by giving the case priority over all other civil cases to the extent permitted under the Alaska Rules of Court.

SENATE COMMITTEE REPORT

DATE: 4/2/07

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 4/20/07

Judiciary Committee considered SENATE BILL NO. 104

SB 104 NATURAL GAS PIPELINE PROJECT

"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with SCS or CS SB104 (SUD)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:

- Same Title
 New Title

HOUSE BILL:

- Same Title
 Technical Title Change
 New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	4/10	✓			6
LABOR	4/12	✓			7

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	3/1/07			✓	2
REV	2/28/07	✓			3
CEO	2/28/07			✓	4
ADM	3/2/07			✓	5

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Wiesluchowski	✓			
	McBride	✓			
	Theriault	✓			✓
CHAIR:	Frenck	✓			

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 3/5/07

FURTHER: Judiciary
 Finance

Date of 5-Day Notice: 3/8/07
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: 4/2/07

Resources Committee considered SENATE BILL NO. 104

SB 104 NATURAL GAS PIPELINE PROJECT

"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with SCS or CS SB 104 (RES)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:	
<input checked="" type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	2/28/07	✓			1
DNR	3/1/07			✓	2
REV	2/28/07	✓			3
DCED	4/28/07			✓	4
ADM	3/2/07			✓	5

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Green				✓
	STEVENS				✓
	STRAMAN				✓
	Wielechowski				✓
	Wagoner				✓
CHAIR:	Huggins				✗



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

corrected fax
FAX COVER SHEET

DATE: 10 May 2007 TIME: 7:45 pm

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 9

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
FAX: 465-2187

NOTES: Final Please
CS SB 104 (FIN) 25-GS1060\T
Bullock 5/10/07
Plus 7 amendments - attached

*Thanks
Mindy*

*7:55 pm - phoned legal w typo error
for correction ~~attached~~*

CORRESPONDENCE
RECEIVED AFTER
BILL REPORTED
OUT

MAY 15 2007

**Questions Raised by Senate Finance Committee
Following Testimony Provided by David Van Tuyl on April 28, 2007**

1. Please provide the committee with workable solutions in language to fix each of the major concerns raised in response to the bill, including ways to revise .200(a) and .240(c), without compromising the State position.

BP provided a full mark-up of the bill to the Committee on May 3.

2. Explain the basis for the \$2.39/mcf toll estimate developed in 2001. Was that in money-of-the day or real terms?

The \$2.39/mcf toll estimated generated in 2002 in a money-of-the-day toll, levelized over a period of 30 years. This was based on the \$20 billion capital cost estimate, quoted in \$2001.

3. Please provide similar examples of long-term fiscal stability with governments on pipelines elsewhere, particularly in North America.

No project in North America is similar to the Alaska gas line project in terms of scale and cost by an order of magnitude. When completed, this project will be one of the greatest construction projects ever, a modern Great Wall of China. The project is more in line with resource mega-projects elsewhere in the world that have been provided long-term fiscal stability.

To address the fiscal risk associated with mega projects, "stabilization agreements" that provide "guarantees to an investor that, for a certain period of time, the statutes and regulations covering certain areas of [a country's] legal system (typically taxation, but sometimes other areas as well) will apply to the activities of said investor without including any change, amendment or substitution" are "a well known and widespread option" in foreign countries. Prado, *Fiscal Stabilization Agreements with Host Countries: What They Are and How They Work*, 51 Rocky Mtn. Min. L. Inst. 20-4 (2005) ["Prado"]. The prior administration's energy consultant was able to identify 46 countries with fiscal stability provisions. It is not just the political risk associated with a particular country that drives the need for such agreements worldwide. Rather, it is the nature of the investment itself. Once an investment has been sunk, a rational taxing authority gains leverage over the project revenues because the project is built and subject to the authority's jurisdiction. The temptation is strong to obtain a larger share of revenues from the "captive" investor. Such agreements are particularly important for projects that have a high dependence on the ability to generate substantial cash flows late in their life. These agreements "have become not only of great importance for investors contemplating whether or not to invest in a certain foreign jurisdiction, but they are also greatly appreciated protection tool for financial institutions and multilateral lending

entities, which nowadays are even more important to please than investors themselves.” *Prado*, at 20-3.

In the United States and Canada, stabilization agreements are not common place for several reasons. First, there are relatively few mega energy projects in these jurisdictions. Second, these jurisdictions have a more diversified taxing regime that is not dependent on revenues from one industry. Nevertheless, even in the United States, fiscal stability is mostly found in local jurisdictions that seek to attract development by reducing and fixing property or other taxes or providing tax credits for a specified period. An Alaska solution must be broader than a one-tax approach because the Alaska project and its investors would be subject to levy and increased rates on many different taxes.

Although two recent cross border pipeline projects, the Alliance pipeline and the Maritimes and Northeast pipeline proceeded without special fiscal stability, they are readily distinguishable from the Alaska project. As noted above, the Alaska project is: (1) many times larger, more expensive, and, hence, more risky, and (2) subject to a less diversified revenue base than that associated with the other projects.

The Alaska project is a world class project subject to world class risks. Like similar resource mega projects around the world, it will need fiscal certainty. The solution could take many forms. A separate process will be required, and BP is ready to work on a solution with the Administration and the legislature.

4. What specific circumstances could cause this project to become uneconomic?

There are a number of risks this project faces that could lead to the project not being commercially viable. Three key risks include (1) changes in the fiscal regime, (2) capital cost increases, and (3) fundamental changes in market price.

(1) Fiscal Stability Risk – The uncertainty around future taxation poses a significant risk to the economic viability of the project. Confidence in the ability of the project to generate long term stable cash flows will be an important consideration to investors. The possibility of changed fiscal terms resulting in changes in future cash flows creates uncertainty that is impossible to model with accuracy. In addition, further taxation risk exists in the possibility of the imposition of new taxes that don't exist today.

(2) Capital Cost Risk – One of the biggest risks for the project is the uncertainty around the cost to build the pipeline. This is not “just another mega-project”. This will be the largest privately-funded project in North America, crossing two countries, several provinces and states, and will require massive amounts of steel, materials, and labor. As such, it will present unprecedented challenges in project management, manufacturing, procurement, logistics, and construction. Because of the scope of the project, even relatively small over-runs can have large consequences. Large over-runs could cripple all but the largest corporations.

(3) Market Price Risk – Oil and gas companies willingly take on commodity price risk. The risk is significant, as the historic volatility and unpredictability of energy prices is likely to continue. While the North American gas market is the largest in the world, price competition from LNG and other sources is very real. Anyone who forecasts gas prices two decades into the future and suggests they can't imagine a particular outcome might reference the Economist's March 6 1999 issue. The cover story "Drowning In Oil", explained why oil prices would remain low and possibly drop to \$5/barrel. As it turned out, oil prices were starting to recover from their two-decade low in December 1998, and the Economist's projections were completely off the mark. What is certain is that future energy prices are unknowable.

Although the above three risks are very important, they are just some of the risks faced by the project. Other risks include: completion risk, delay risk, size risk, marketing risk, competition risk from LNG and other energy sources, production risk, resource risk, political risk, permitting risk, firm transportation commitment risk, financing risk, and environmental risk. Any one of these could significantly affect the project's economics.

5. Can you provide examples of BP projects where FERC certificate conditions have been revised based upon negotiation, thereby leading to certificate acceptance?

While we have not identified a BP-sponsored project where FERC certificate conditions have been revised through subsequent actions, such a process is not uncommon. BP has, however, challenged regulatory decisions in a number of areas.

A recent example of a revision to a FERC certificate occurred with Transcontinental Gas Pipeline's proposed "Market Link" expansion project from the early part of this decade went through several iterations with the FERC before reaching its final form.

Unfortunately, the sort of flexibility, which pipelines depend on in order to enable them to respond to changing market conditions, effectively is prohibited under AGIA. Under 43.90.200(a) (Senate Judiciary CS) "[a] licensee that is awarded a certificate of public convenience and necessity for the project by the Federal Energy Regulatory Commission ... shall accept the certificate when all rights of administrative appeal relating to the certificate have expired." Under AGIA as drafted, no later modification of the project is permitted.

6. Can you please describe more fully the conflict created between Section 130 (13) of AGIA and FERC Order 2005?

What FERC Order 2005 requires is that the pipeline owners provide estimated distance sensitive rates to in-state delivery points. What it does not require, but AGIA appears to require, is that pipeline owners set aside capacity for potential in-state shippers even if none sign up for capacity in an open season. The order merely requires estimated

transportation rates for all identified in-state delivery points and those estimates not include the costs for service delivery outside of Alaska.

AGIA's language, however, appears to require the AGIA licensee to offer in-state transportation service to in-state delivery points, regardless of whether any shippers bid successfully for in-state commitments in an open season. The language implies that potential capacity needs for in-state service must be set aside and included in the initial construction capacity, rather than ensuring that such service be made available only if the capacity is actually available as is provided in FERC Order 2005.

The specific language of the two relevant provisions is provided below for reference:

FERC Order 2005 - 18 C.F.R. 157.34(c)(8):
based on the In-State Study and the delivery points within the State of Alaska identified in (1) above, 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;

CSSB 104 - 43.90.130(13):
commit to offer firm transportation service to delivery points in this state as part of the tariff regardless of whether any shippers bid successfully in a binding open season for firm transportation service to delivery points in this state, and commit to offer distance-sensitive rates to delivery points in this state consistent with 18 C.F.R. 157.34(c)(8);

The difference between the two provisions is significant. Under FERC Order 2005, the capacity would be constructed only if in-state shippers committed to pay for the costs. Under AGIA, it appears that the capacity would have to be constructed regardless of whether in-state shippers committed to pay for its costs. If they did not, the costs of the unsubscribed capacity would have to be shifted elsewhere, possibly even to the other shippers using the line who neither requested nor need the capacity.

7. Please provide more context on the application of rolled-in rates in Canada and how that may affect the project in whole?

The National Energy Board (NEB) in Canada does not have a policy on tolling (rolled-in, stand alone, incremental, etc.) or cross subsidization. According to Enbridge Pipeline's May 1st testimony to the House Finance Committee, the last three cross border pipelines have been constructed without the ability for the initial shippers' rates to be changed.

Ron Brintnell of Enbridge testified that the Alliance, Martimes NE and Vector pipelines were based on negotiated rates that did not provide for rolled-in rates. Mr. Brintnell said in his May 1st testimony:

"I would like to touch on the issue of rolled in rates, which you have heard that there is a presumption of in Canada and in particular the ability for existing shippers to be charged higher rates on expansions. While this true for vintage

pipeline, new cross border gas pipelines like Alliance and Vector were developed with negotiated rates. In these cases initial shippers have contracts which give them protection from upside rate escalation above what was agreed to in the contract. The NEB is supportive of pipelines and shippers reaching negotiated settlements."

When considering the appropriate tolling treatment for system expansions of older existing pipelines, the NEB has historically favored rolled-in tolls. In various decisions, the NEB has ruled in favor of rolled-in toll treatment when looking at similar projects - unless compelling reasons/circumstances to do otherwise are raised.

Although rolled-in rates have generally been the norm for expansions of older pipelines in Canada, several recent large cross-border pipeline expansions have been based upon negotiated rates.

8. Do you have any comments on the project evaluation and ranking section of AGIA?

BP provided a full mark-up of the bill to the Committee on May 3.

9. BP is a participant in the Rockies Express pipeline. How specifically are you protected in those agreements from cost overruns?

The Rockies Express pipeline's tariff provided initial shippers with the opportunity to obtain firm, fixed rates that would insulate the shippers against the potential of their negotiated rates being increased during the term of the agreement. AGIA takes away this opportunity. Additionally, the pipeline's tariff provided initial shippers with the opportunity to insulate themselves from the risks of cost overruns during the term of their agreement. No pipeline company that has expressed any interest in constructing the Alaska project has offered such a guarantee.

Shippers on Rockies Express may elect negotiated rate provisions as part of their precedent agreement. The actual negotiated rates applicable to a shipper depend on whether the shipper qualifies as Foundation, Anchor or other Standard shipper. The negotiated rates applicable to each category are set forth on Appendix A to the precedent agreement.

The negotiated rates provide for a choice between firm, fixed rates for the term of the firm transportation agreement, or rates which are subject to a one-time adjustment for actually incurred steel costs. Because Rockies Express is still in the construction phase, shippers electing firm, fixed rates at this point (regardless of the outcome of construction) are insulated from the risks of cost overruns for the term of their agreement. The availability of firm, fixed rates also insulates the shippers against the potential of their negotiated rates being increased during the term of the agreement as a result of

subsequent pipeline expansions. In that regard, while shippers agree to pay the actual levels of certain variable operating costs, the precedent agreement also contains protections from those costs increasing above certain levels as well as a result of system expansions.

Similar protections are prohibited under AGIA because AGIA undermines protections provided by negotiated rates. First, section 130(7)(B)(ii) of CSSB 104 (JUD) requires the licensee to raise "negotiated rates" to reflect any increased costs which it might incur as a result of an expansion. Moreover, although the Administration argues that any such increase would be limited to "no more than" 15%, that statement is simply wrong. As currently drafted, the section requires that the licensee retain the right to increase negotiated rates by up to "15 percent above the negotiated rate for pipeline capacity *on the date of commencement of commercial operations.*" Often, negotiated rates can decrease (or increase) over the life of the contract by significant amounts from the initial rate levels. Thus, it is easy to imagine a situation in which the initial rates would be high relative to those applicable at subsequent times during the term of the negotiated rate. In that instance, requiring that the rates under negotiated contracts be raised in the event of an expansion by 15% from the rate in effect on the date of commencement of commercial operations could result in actual later rate increases by much larger (e.g., 35% or more) amounts.

AGIA also undermines negotiated rates in a second way. As currently drafted, AGIA effectively ensures that the AGIA licensee is the only entity able to put forth a pipeline proposal. Pipeline owners are willing to negotiate rates when shippers have alternatives available. In those situations, owners of competing pipeline projects offer shippers negotiated rates to attract shippers to one proposal over others. Under AGIA, however, the AGIA coordinator will ensure that state regulations favor one proposal over another in obtaining state permits, with the result that the AGIA licensee will have an effective monopoly over the project. In that situation, AGIA licensee has little incentive to negotiate rates. As a result, it is unlikely that negotiated rates (or as favorable a set of negotiated rates as would be available in a competitive environment) will be available for shipments on an AGIA-based pipeline.

10. What is the track record for any major pipeline projects managed by the producer on the North American continent?

In North America, producers largely have been involved in areas where additional investment is required in order to provide transportation from production areas requiring new or expanded transportation options. A good example is the Alliance Pipeline, which at the time of initial FERC certification was a project owned by 17 limited partners (15 of which were producers). The 1,855 mile pipeline, which runs from British Columbia and Alberta to Chicago, was proposed and built in the late 1990's in response to capacity bottlenecks in existing transportation systems from the Western Canadian Sedimentary Basin to Midwest US markets. Subsequent to construction, the producer interests were acquired and consolidated by a financial investor and a major pipeline company.

Other examples exist in the US Deep Water Gulf of Mexico, where because the need for capacity is production driven and as a result of technological and other challenges, producers have taken the lead in developing new pipeline capacity. A good example there is BP's Mardi Gras Transportation System, a 485-mile system composed of a series of pipelines designed to bring gas and oil produced from the Deep Water to the existing shelf and onshore pipeline network. BP's Destin Pipeline also is an example of a pipeline designed to carry gas produced from the offshore to the existing onshore infrastructure.

A more recent example is the proposed Rockies Express pipeline, in which ConocoPhillips has a 25% ownership interest. Rockies Express is designed to link increased production from the Rocky Mountain region to Midwest US markets. Producers also own substantial interests in a number of major US oil pipelines throughout the Lower 48 states.

11. Was BP one of the producers who participated in the Alliance Pipeline?

No. At the time of initial FERC certification Alliance was owned by 17 limited partners (15 of which were producers), but did not include BP.



May 11, 2007

RECEIVED

MAY 15 2007

Honorable Bert K. Stedman
Chairman, Senate Finance Committee
Alaska State Legislature
Juneau, Alaska 99801-1182


Dear Senator Stedman,

Thank you for the opportunity to provide testimony before your committee last week regarding the Governor's Alaska Gasline Inducement Act. As I mentioned during my testimony, BG strongly supports this legislation and believes it will expedite the development of an Alaska gas pipeline.

During my testimony, you asked that I provide your committee with a comprehensive list of all of the interventions BG has been involved in at FERC. You also asked for BG to submit a note regarding our specific concerns relating to open access. Enclosed is a list of cases in which BG intervened before the Commission, along with a filing before FERC in case RM07-1, which addresses the open access concerns BG has regarding the Alaska gas pipeline. In this particular case, I have included a filing by Anadarko, along with BG's supporting letter.

I look forward to continue to work with the Senate and your committee on this very important issue. Should you have any questions please do not hesitate to contact me at 713 599 4009.

Sincerely,


David N. Keane

enclosures

Proceedings in which BG has participated before the FERC

Docket No.	Proceeding	Participating BG Entity
RM07-1	Rulemaking -- Standards of Conduct for Transmission Providers	BG E&P Alaska, Inc.
RP04-42-000 RP04-42-001	Southern Natural Gas Company -- Update of Gas Quality Provisions	BG LNG Services, LLC
RM06-21 RM07-4	Pacific Gas and Electric Co. and Southwest Gas Corp. -- Petition for Rulemaking to remove price cap applicable to capacity release transactions	BG Energy Merchants, LLC
ER06-1367 ER07-239	Application for market-based rate authority	BG Dighton Power, LLC BG Energy Merchants, LLC Lake Road Generating, L.P.
EG99-220	Transfer in upstream ownership from Lake Road Generating Company, L.P.	BG Dighton Power, LLC BG Energy Merchants, LLC Lake Road Generating, L.P.
ER07-546 ER07-547	ISO New England, Inc. -- Revisions to market rules implementing Forward Capacity Market Settlement Agreement	BG Dighton Power, LLC BG Energy Merchants, LLC Lake Road Generating, L.P.
ER07-397	ISO-NE and NEPOOL Participants Committee -- Amendment of Schedule 2 of ISO-NE Open Access Transmission Tariff	BG Dighton Power, LLC BG Energy Merchants, LLC Lake Road Generating, L.P.
RP07-149	Gulf South -- Tariff filing to modify gas quality specifications	BG Energy Merchants, LLC
EC07-50	Joint application for authorization of disposition of jurisdictional facilities pursuant to FPA 203	BG North America, LLC Lake Road Generating, L.P.

RP01-503-007	Natural Gas Pipeline Co. of America -- Tariff filing on Commission's gas interchangeability	BG LNG Services, LLC
ER07-2	Order instituting inquiries regarding possible revision of scheduling and compensation mechanisms for gas-fired generators	BG Dighton Power, LLC
EL07-1 EL07-2 EL07-3 EL07-5	Order instituting inquiries regarding possible revision of scheduling and compensation mechanisms for gas-fired generators	BG Energy Merchants, LLC
CP06-474	Southern Natural Gas Co. -- Application to authorize abandonment by sale of existing facilities from Elba Express Co. (EEC) and to acquire facilities to be constructed by EEC	BG LNG Services, LLC
CP06-471 CP06-472 CP06-473	Elba Express Co. LLC -- Motion to construct and operate natural gas facilities, and to acquire facilities to be abandoned by Southern Natural Gas Co.	BG LNG Services, LLC
CP06--470	Southern Natural Gas Co. -- Application to authorize abandonment by sale of existing facilities from Elba Express Co. (EEC) and to acquire facilities to be constructed by EEC	BG LNG Services, LLC
EC06-153	Application for approval under FPA 203	BG Dighton Power, LLC
Ec06-73	Self-certification of status as exempt wholesale generator	BG Dighton Power, LLC
RP04-249	Florida Gas Transmission (FGT) -- gas quality and interchangeability standards	BG LNG Services, LLC
CP06-102	Trunkline LNG -- Application to construct/operate Ambient Air Vaporization and natural gas liquids processing facilities	BG LNG Services, LLC

RM03-10	Rulemaking Amendments to Blanket Sales Certificates	BG Energy Merchants, LLC
CP06-1	FGT -- Application for Phase VII expansion of facilities	BG LNG Services, LLC
CP04-223 CP04-293 CP04-358	KeySpan LNG, L.P. -- Application to convert storage facility into LNG terminal	BG LNG Services, LLC
CP05-388	Southern Natural Gas Co. -- Filing on gas quality and interchangeability standards	BG LNG Services, LLC
RP05-491	Trunkline -- Tariff filing with increase in currently effective fuel reimbursement percentage and increase in electric power cost adjustment	BG LNG Services, LLC
RP01-229-002	Trunkline -- Tariff with negotiated rate agreement	BG LNG Services, LLC
CP02-60-006	Trunkline -- Tariff with negotiated rate agreement	BG LNG Services, LLC
CP05-357 CP05-358 CP05-359 CP05-360	Creole Trail LNG, L.P. -- Application to construct/operate LNG import terminal; Cheniere Creole Trail -- Application for related pipeline	BG LNG Services, LLC
CP05-130 CP05-131 CP05-132	Dominion Cove Point LNG -- Application to expand LNG terminal; Dominion Transmission, Inc. -- Application to expand related pipeline	BG LNG Services, LLC
CP02-378	Cameron LNG, LLC -- Application to modify proposed LNG terminal's berthing facilities	BG LNG Services, LLC
RP05-168	Southern LNG -- Rate filing reflecting decrease in demand	BG LNG Services, LLC

	surcharge for maintenance costs of the turning basin	
RP04-326	Marathon LNG Marketing -- Petition for Declaratory Order to end controversy over "buy/sell" arrangements in the LNG sales contract with BG	BG LNG Services, LLC
RP04-523	Southern LNG -- Revisions to GT&C	BG LNG Services, LLC
CP04-358	Algonquin Gas Transmission (AGT) -- Application to construct and operate pipeline and facilities to connect to proposed KeySpan LNG facility and to establish rates	BG LNG Services, LLC
RP04-263	AGT -- Tariff filing to reflect three firm transportation service agreements with negotiated rates with USGen New England, and one interruptible service agreement with discounted and negotiated rates	BG LNG Services, LLC
CP04-64	Trunkline -- Application to construct/operate natural gas transmission facilities	BG LNG Services, LLC
RP04-117	Trunkline -- Tariff filing to provide that on transactions where no compression is required to make deliveries (consuming no gas as compressor fuel), no fuel usage component of the fuel reimbursement percentage will be required	BG LNG Services, LLC
CP04-4 CP04-5 CP04-6	Lake Charles Express LLC -- Application to construct/operate pipeline and related facilities, and interconnection with Trunkline	BG LNG Services, LLC
RP03-484 RP01-208	BP America, ExxonMobil & Power Marketing and Shell Offshore -- Complaint alleging harm resulting from lack of objective and nondiscriminatory gas quality standards in Southern LNG Tariff	BG LNG Services, LLC

CP02-374 CP02-378 CP02-377 CP02-378	Hackberry LNG Terminal -- Application to construct/operate LNG terminal and provide open access LNG tanker services to shippers importing LNG (name later changed to Cameron LNG after acquisition); comments for Draft Environmental Impact Statement	BG LNG Services, LLC
CP03-75	Freeport LNG Development -- Application to construct/operate LNG receiving terminal	BG LNG Services, LLC
CP02-60	Trunkline -- Application to construct/operate additional facilities at LNG terminal in Calcasieu Parish, Louisiana	BG LNG Services, LLC
RP02-379	CMS Trunkline -- Revised tariff to increase currently effective fuel reimbursement percentage and increase in electric power cost adjustment	BG LNG Services, LLC
CP02-379 CP02-380	Southern LNG -- Application to expand Elba Island LNG import terminal	BG LNG Train 3 Ltd.
RP02-129	Southern LNG -- Revised tariff to reflect a rate increase under Section 4 NGA	BG LNG Train 3 Ltd.
CP02-60-004	Trunkline -- Application to amend authority in LNG terminal expansion project	BG LNG Services, LLC
CP02-57 CP02-58 CP02-59	SCG Pipeline LNG -- Application to construct, install and operate natural gas pipeline facilities; a request for a blanket certificate authorizing transportation of gas for others; a request for a blanket certificate authorizing certain facility construction and operation	BG LNG Train 3 Ltd.
CP02-56	Southern LNG -- Application for approval to abandon an undivided interest in the capacity of two parallel pipelines, by sale, to SCG Pipeline, Inc.	BG LNG Train 3 Ltd.

CP02-55	CMS Trunkline -- Application to increase maximum capacity of its LNG metering facilities at Calcasieu Parish, LA; requested approval to operate its pipeline system downstream of same	BG LNG Services, LLC
CP99-579	Southern LNG -- Update of rates for Elba Island LNG Terminal	BG LNG Services, LLC
CP99-579-001 CP99-580-003 CP99-581-001 CP99-582-004	Southern LNG -- Tariff filing; update of initial rates of service consistent with FERC orders	BG LNG Train 3 Ltd.
RP01-445 RP01-445-001	Trunkline -- Stipulation and Agreement	BG LNG Services, LLC
CP01-76 CP01-77 RP01-217	Cove Point LNG -- Application to construct/operate facilities and reactivate existing facilities for LNG import; application for authority for siting, construction, and modification of import facilities	BG LNG Services, LLC

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Standards of Conduct for
Transmission Providers

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Docket No. RM07-1-000

REPLY COMMENTS OF
ANADARKO PETROLEUM CORPORATION

INTRODUCTION

On January 18, 2007, the Federal Energy Regulatory Commission ("FERC" or "Commission") issued a Notice of Proposed Rulemaking proposing revisions to the Standards of Conduct for transmission providers ("Standards of Conduct NOPR").¹ On March 30, 2007, the State of Alaska submitted timely Comments on the proposed rule, directed solely at the relationship between this rulemaking proceeding and federal regulation of an Alaska natural gas transportation project. Anadarko Petroleum Corporation ("Anadarko"), an oil and gas exploration company with significant gas-prone acreage in the State of Alaska, hereby submits Reply Comments supporting the Comments filed by the State of Alaska.

Anadarko joins the State of Alaska in its request that the Commission (1) make it clear that the Standards of Conduct for an Alaska natural gas transportation project apply to the relationship between the project sponsor's and the ultimate pipeline's relationship with *both* its "Marketing Affiliates" and "Energy Affiliates", and (2) confirm that the requirements of Order Nos. 2005 and 2005-A, relating to the conduct of open seasons for an Alaska natural gas

¹ *Standards of Conduct for Transmission Providers*, Notice of Proposed Rulemaking, 118 FERC ¶ 61,031 (2007).

transportation project,² remain unaltered by this Commission's actions on remand of *National Fuel Gas Supply Corp. v. FERC*, 468 F.3d 831 (D. C. Cir. 2006) ("*National Fuel*").

BACKGROUND

1. Competitive Concerns Affecting The Alaska Natural Gas Pipeline

In Order Nos. 2005 and 2005-A, the Commission promulgated its first rules relating specifically to an Alaska natural gas transportation project. The rules were promulgated to satisfy a Congressional directive in the Alaska Natural Gas Pipeline Act, 15 U.S.C. § 720, *et seq.* ("ANGPA") that the Commission promulgate specific rules formalizing for an Alaska pipeline the Commission's policy that all new pipeline construction be preceded by a non-discriminatory "open season." The open season is the process through which potential shippers bid on capacity on the pipeline, as designed by the project sponsor. It culminates in a final project design and the execution of precedent agreements between the project sponsor and the prospective shippers for some or all of the design capacity of the project.

In enacting the ANGPA Congress was cognizant of the fact that virtually all of the natural gas that would be available for commitment to an Alaska pipeline in the initial open season would be the Prudhoe Bay/Point Thomson reserves, identified as a result of the development of the Prudhoe Bay/Point Thomson oil and gas fields. Over 90% of these reserves are owned by three producers – ExxonMobil Corporation, ConocoPhillips Company, and BP Exploration (Alaska) Inc. ("North Slope Producers") – the self-declared Alaska pipeline project sponsors. Therefore, to ensure that potential competitors of the North Slope Producers will have access to the pipeline, and, thereby, be positioned to move forward in their exploration programs, Congress required that the Commission's open season regulations "promote competition in the

² *Regulations Governing the Conduct of Open Seasons for Alaska Natural Gas Transportation Projects*, Order No. 2005, 110 FERC ¶ 61,095 (2005), *order on reh'g*, Order No. 2005-A, 111 FERC ¶ 61,332 (2005).

exploration, development, and production of Alaska natural gas" and, as to open seasons for capacity exceeding the initial capacity, that the regulations provide the opportunity for gas other than that from Prudhoe Bay and Point Thomson to be transported through the pipeline.

To develop the rules, the Commission compiled a substantial record, receiving both written comments and oral testimony from many parties, including the State of Alaska, certain Alaskan elected officials, Alaskan Natives, representatives of potential project sponsors – both the North Slope Producers and independent pipeline companies, potential shippers – including the North Slope Producers and explorers, representatives of state and federal agencies, and the general public.

A primary concern expressed by the State of Alaska, explorers, independent pipeline companies, and federal and state agency representatives, was the fact that the North Slope Producers intend to own and/or control the pipeline, and, were they to succeed in doing so, would have every incentive to enhance and solidify their dominance in the Alaska natural gas production market through their control over the Alaska natural gas pipeline. This expressed concern related not only to the open season process but also to the on-going operating conditions of the pipeline. As to open seasons, the primary concern expressed by these parties is the pipeline's ability to hold open seasons for expansion capacity under conditions that could tilt the balance toward their own production – either through timing, rates, or terms and conditions of service. If the North Slope Producers controlled the pipeline, the Commission was told, the risk would be significant that the North Slope Producers would give themselves preferential access to the pipeline and preferential terms and conditions of service in order to enhance their already dominant market position in Alaska.

These competitive concerns are not new, as noted in the Comments filed by the State of Alaska. Rather, they date back to the Alaska Natural Gas Transportation Act of 1976 (“ANGTA”),³ in the very early stages of the effort to develop a natural gas pipeline to transport Alaska’s North Slope gas to markets in the lower 48 states. That the concerns remain today is clear from the record in Docket No. RM05-1, and ANGPA itself, where Congress directed the Commission to ensure that the rules governing access to the pipeline will “promote competition in the exploration, development, and production of Alaska natural gas.”⁴

The need to establish a level playing field for explorers, both in terms of obtaining capacity and in terms of receiving service, was a fundamental objective of the Commission’s rulemaking proceeding in Docket No. RM05-1. To address the competitive concerns, the Commission found it necessary to impose “strict requirements on all proposals, and *particularly on affiliate-owned projects*, with respect to the public disclosure of information.”⁵ Concerned that even with the informational disclosure requirements there would still be an unacceptable risk that the producer and/or marketing affiliates of a project applicant would have an advantage over non-affiliates, the Commission specifically incorporated into its Order No. 2005 rules certain of the Standards of Conduct promulgated in Order Nos. 2004 *et seq.* to govern the relationship between the project sponsor and any of its marketing or energy affiliates. Moreover, faced with the prospect that the North Slope Producers, themselves, will be the project sponsors conducting the open seasons for capacity on the Alaska pipeline, the Commission required that any project applicant create a unit or division to conduct the open season, which unit or division “will be required to function independent of the *other non-regulated divisions* of the project applicant *as*

³ Pub. L. No. 94-586, 90 Stat. 2903 (1976).

⁴ ANGPA § 103(e)(2)(B).

⁵ *Id.*

well as the project applicant's Marketing and Energy Affiliates."⁶ Through this rule, the Commission independently adopted and made applicable to project applicants conducting an open season for an Alaska natural gas transportation project the following regulations, initially promulgated in Order Nos. 2004 *et seq.*: separation of functions (18 C.F.R. §§ 358.4(a)(1), (3), (4), (5) and (6) and (b)(c)(3), (5) and (6) (2004)); information access (18 C.F.R. § 358.5(b) (2004)); prohibitions against discrimination (18 C.F.R. § 358.5(c)(5) (2004)) and discounts (18 C.F.R. § 358.4(d) (2004)).⁷ The Commission's application of these regulations to an Alaska natural gas transportation project was not the subject of a rehearing request in Docket No. RM05-1 and was not the subject of the court appeal filed in that rulemaking docket.

2. The Standards of Conduct As They Relate To An Alaska Natural Gas Pipeline

The Commission's rulemaking adopting Standards of Conduct for transmission providers in Order Nos. 2004 *et seq.*, as it relates to interstate pipelines, had its genesis in the Standards of Conduct developed in Order No. 497, *et seq.*,⁸ These rules were intended to address the propensity of interstate natural gas pipelines to grant special preferences to their marketing or brokering affiliates over non-affiliates.⁹ The Alaska pipeline was not a focus of the rule. The Commission subsequently promulgated similar Standards of Conduct for electric transmission providers.¹⁰ In an effort to develop one rule applicable to all transmission providers, gas or electric, the Commission synthesized and expanded the application of its Standards of Conduct

⁶ Order No. 2005 at P 74.

⁷ See Order No. 2005 at P 74.

⁸ *Inquiry Into Alleged Anticompetitive Practices Related to Marketing Affiliates of Interstate Pipelines*, Order No. 497, FERC Stats. & Regs. Regulations Preambles 1986-1990 ¶ 30,820 (1988); *order on reh'g*, Order No. 497-A, FERC Stats. & Regs. Regulations Preambles 1986-1990 ¶ 30,868 (1989); *order extending sunset date*, Order No. 497-B, FERC Stats. & Regs. Regulations Preambles 1986-1990 ¶ 30,908 (1990); *order extending sunset date*, Order No. 487-C, FERC Stats. & Regs. Regulations Preambles 1991-1996 ¶ 30,934 (1991), *reh'g denied*, 58 FERC ¶ 61,139 (1992); *aff'd in part and remanded in part sub nom. Tenneco Gas v. FERC*, 969 F.2d 1187 (D.C. Cir. 1992).

⁹ See Order No. 497 at ¶ 31,127; *Tenneco Gas*, 969 F.2d at 1194 (D.C. Cir. 1992).

¹⁰ See *Open Access Same-Time Information System and Standards of Conduct*, Order 889, FERC Stats. & Regs. Regulations Preambles Jan. 1991- Jan. 1996 ¶ 31,035 (1996).

rules in Order Nos. 2004, *et seq.* to govern not only the relationship between transmission providers and their “Marketing Affiliates,” but also the relationship between transmission providers and their “Energy Affiliates.”¹¹ As relevant here, a “Marketing Affiliate” excludes sellers that sell gas solely from their own production or solely from their own gathering or processing facilities.¹² Therefore, with respect to an Alaska pipeline, the Standards of Conduct would not apply to the relationship between the pipeline and its producer affiliates if the rule were restricted to “Marketing” rather than “Energy” affiliates of the pipeline.

In *National Fuel*, the United States Court of Appeals District of Columbia Circuit vacated Order Nos. 2004, *et seq.* as applied to interstate pipelines, noting that while the court had affirmed the rules developed in Order Nos. 497, *et seq.* governing the relationship between interstate pipelines and their “Marketing Affiliates”¹³ there was no record evidence in the Order No. 2004 proceeding supporting the extension of the restrictions to the pipeline’s “Energy Affiliates.”

As a result of the court’s decision in *National Fuel*, the Commission is proposing in this rulemaking to eliminate the restrictions that Order Nos. 2004 *et seq.* placed on the relationships between an interstate pipeline and its “Energy Affiliates” and to reinstate the Order Nos. 497, *et seq.* “Marketing Affiliate” rules. The proposed rule in this proceeding makes no distinction between the application of the “Marketing Affiliate” rules to interstate pipelines, in general, and the application of those rules to an Alaska natural gas transportation project, despite the Commission’s action in Order Nos. 2005 and 2005-A. As explained in greater detail below, it is

¹¹ See *Standards of Conduct for Transmission Providers*, Order No. 2004, FERC Stats. & Regs., Regulations Preambles, 2001-2005 ¶ 31,155 (2003); *order on reh’g*, Order No. 2004-A, FERC Stats. & Regs., Regulations Preambles, 2001-2005 ¶ 31,161 (2004); *order on reh’g*, Order No. 2004-B, FERC Stats. & Regs., Regulations Preambles, 2001-2005 ¶ 31,166 (2003); *order on reh’g*, Order No. 2004-C, FERC Stats. & Regs., Regulations Preambles, 2001-2005 ¶ 31,172 (2004); *order on reh’g*, Order No. 2004-D, 110 FERC ¶ 61,320 (2005).

¹² See, proposed §§ 358.3(e)(3)(i) and (ii).

¹³ *Tenneco Gas v. FERC*, 969 F.2d 1187 (D.C. Cir. 1992).

important that the Commission clarify that its proposed rulemaking in this docket does not impact the adoption of the specific regulations implementing the Standards of Conduct governing the relationship between an Alaska natural gas transportation project, its sponsors, and their Marketing and Energy Affiliates under Order Nos. 2005 and 2005-A.

DISCUSSION

Anadarko fully agrees with and supports the State of Alaska's request that the Commission confirm that the regulations promulgated by Order Nos. 2005 and 2005-A remain intact, including the application of § 157.34(c)(18)-(21), §157.35(c) – (d) to an Alaska natural gas transportation project and its sponsors. Further, Anadarko supports the request by the State of Alaska that the Commission modify its regulations at § 158.1(c) to confirm that the Standards of Conduct govern the not only the relationship between an Alaska natural gas transportation project, its sponsors, and their Marketing Affiliates, but also the relationship between an Alaska natural gas transportation project, its sponsors, and their Energy Affiliates. It is also important that the Commission confirm that as to an Alaska natural gas pipeline, the Standards of Conduct apply in the pre-certification open season process, as provided in Order Nos. 2005 and 2005-A. In this regard, Anadarko respectfully submits that the *National Fuel* decision does not affect the Commission's regulations promulgated in Order Nos. 2005 and 2005-A.

At the heart of the court's decision in *National Fuel* is the proposition that vertical integration creates efficiencies and benefits for consumers, and, therefore, the Commission "cannot impede vertical integration between a pipeline and its affiliates without adequate justification."¹⁴ This proposition derives from the D.C. Circuit's earlier analysis in *Tenneco*, where it found that "in a competitive market, the efficiencies of the pipeline-affiliate relationship

¹⁴ See *National Fuel Gas Supply Corp.*, 468 F.3d at 840 (citing *Tenneco Gas v. FERC*, 969 F.2d 1187, 1199 (D.C. Cir. 1992)).

should produce benefits for consumers.” The *National Fuel* court further commented that “advantages a pipeline gives its affiliate are improper only to the extent that they flow from the pipeline’s anti-competitive market power; otherwise, vertical integration produces permissible efficiencies that cannot by themselves be considered uses of monopoly power.”¹⁵ Because the Commission did not have specific findings of affiliate abuse between a pipeline and its Energy Affiliates, the *National Fuel* court vacated Order No. 2004’s application of the Standards of Conduct to the relationship between a pipeline and its Energy Affiliates.

But, the rationale of *National Fuel* does not apply to an Alaska natural gas transportation project. Firstly, an Alaska natural gas transportation project will be a monopoly. Secondly, the North Slope Producers own over 90% of the natural gas reserves initially available for transportation through the pipeline. Thirdly, the North Slope Producers may well own or control, either themselves or through affiliates, the Alaska natural gas transportation project. Finally, Congress has recognized the unique competitive issues applicable to the development of Alaska natural gas and access to the pipeline by directing the Commission to promulgate regulations governing access to that pipeline that promote competition in the exploration, development and production of Alaska natural gas.

It can safely be said that the market for interstate pipeline capacity in Alaska is *not competitive*. It can also safely be said that the North Slope Producers’ control over the gas reserves that will anchor the project, and their resultant ability to influence the terms and conditions of access to the pipeline, create serious competitive concerns for explorers. These concerns take on added significance in the likely circumstance that the North Slope Producers will own or control the pipeline, either directly or through affiliates. The Commission

¹⁵ See *National Fuel Gas*, 468 F.3d at 840 (citing *Tenneco*, 969 F.2d at 1205)

recognized as much in Order No. 2005 when it stated: “the competitive conditions that are unique to such a project warrant special consideration and oversight.”¹⁶

This is not the natural gas market addressed by the D.C. Circuit in *National Fuel*. This is the Alaska natural gas market – a market with respect to which the Commission received considerable evidence during the rulemaking proceeding in Docket No. RM05-1, and which has been the subject of substantial competitive analyses since the 1970’s, during which time the United States Department of Justice (“DOJ”) conducted an extensive study into the anticompetitive issues related to an Alaska natural gas pipeline.¹⁷ Even then, DOJ identified serious anticompetitive concerns associated with a producer-sponsored Alaska natural gas pipeline, concluding that “an ownership interest, or participation in any form in the transportation system, by producers of significant amounts of natural gas, or their subsidiaries or affiliates, should be prohibited.”¹⁸ The DOJ Report discusses not only competition concerns at the very outset of the pipeline planning process, but also competition concerns after the initial construction, noting: “[W]e cannot say that the problem has been solved just because initial pipeline capacity seems adequate (indeed, even if initial capacity strains technical construction and operating capabilities). For the case we are concerned with includes future efforts by other producers to enter the Alaskan field and consequential needs for expanded pipeline capacity Producer-ownership of the pipeline creates incentives to deny or impede such future capacity expansion.”¹⁹

¹⁶ See Order No. 2005 at P 3.

¹⁷ See *Report of the Attorney General Pursuant to the Alaska Natural Gas Transportation Act of 1976* (July 1977) (“*Attorney General Report*”).

¹⁸ *Id.* at p. 80, see also *id.* at pp. v, 29, 30.

¹⁹ *Id.* at p. 39.

The competitive environment in Alaska has not improved since the time of the DOJ Report. In fact, if anything, it has worsened, with the North Slope Producers now owning or controlling over 90% of the discovered natural gas reserves on the North Slope. Faced with these competition concerns and Congressional directives, as well as the extensive record in the RM05-1 rulemaking proceeding, the Commission's decision to apply the Standards of Conduct to the Energy Affiliates, as well as the Marketing Affiliates, of an Alaska natural gas transportation project, and to do so from the outset, is fully justified. Thus, even if the Commission were to have to justify its application of those rules to an Alaska natural gas pipeline project, it could clearly do so.

But, *National Fuel* is simply inapposite. The risk of anti-competitive conduct relating to access to an Alaska natural gas pipeline controlled by the North Slope Producers has been fully recognized by Congress and by the Commission. Here, the threat of a producer-owned or controlled pipeline enabling its producer affiliates to secure capacity under terms and conditions not generally available to their non-affiliated competitors or otherwise to benefit from non-public information or knowledge about the operations and plans of the transmission system is readily apparent. The threat, here, like in *Temaco*, stems directly from the pipeline's monopoly position and the North Slope Producers' control over Alaska's immediately available reserves. The facts are clearly different from those in *National Fuel*.

Finally, as explained by the State of Alaska, and as noted above, the Commission's regulations applying the Energy Affiliate rules to an Alaska natural gas transportation project were not challenged by any party to the proceeding and, therefore, are final and non-appealable. Accordingly, the Commission should confirm that these regulations remain in full force and effect, notwithstanding *National Fuel*.

CONCLUSION

For the reasons set forth above, Anadarko supports the Comments filed by the State of Alaska and urges the Commission to clarify that its open season regulations promulgated in Order Nos. 2005 and 2005-A remain in full force and effect and are not in any way affected by the Commission's actions in this rulemaking proceeding. In addition, Anadarko supports Commission adoption of the suggested clarification to its regulations, as requested by the State of Alaska.

Respectfully submitted,

ANADARKO PETROLEUM CORPORATION.

By: _____ /s/
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Dated: April 30, 2007

April 26, 2007

Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
883 First Street, NE
Washington, D.C.

**RE: Reply Comments of BG E&P Alaska Inc. on Standards of Conduct for
Transmission Providers, FERC Docket No. RM07-1**

Dear Ms. Bose:

BG E&P Alaska Inc. wishes to state its concurrence in the Comments filed by the State of Alaska on March 30, 2007 and the Reply Comments filed by Anadarko Petroleum Corporation on April 27, 2007 in the above-referenced rulemaking proceeding.

As noted by the State of Alaska and Anadarko, the Commission's rules promulgated in Docket No. RM05-1 governing the application of the Standards of Conduct to the sponsors of an Alaska natural gas transportation project are final, non-appealable rules and are fully justified by the record in that docket. Moreover, the need for rules governing the disclosure of information to the Energy Affiliates of the project sponsors during the open season, and to the pipeline once it is in existence, are essential if there is to be any semblance of a level playing field between the North Slope Producers and explorers in Alaska.

The unique competitive concerns in Alaska have been recognized by Congress and by this Commission in the Alaska Natural Gas Transportation Act, the Alaska Natural Gas Pipeline Act, and the rules promulgated by the Commission in Order Nos. 2005 and 2005-A. Accordingly, BG E&P Alaska joins in the positions expressed by the State of Alaska and Anadarko.

Respectfully submitted,



David N. Keane

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SARAH PALIN, GOVERNOR

550 WEST 7TH AVENUE, SUITE 800
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May 18, 2007

RECEIVED

MAY 23 2007

The Honorable Bert Stedman
Co-Chair Senate Finance Committee
State Capitol, Room 516
Juneau, AK 99801-1182

RE: Royalty and Tax Incentives Presentation to Senate Finance April 25, 2007

Dear Senator Stedman:

On Thursday, April 25, 2007, I gave a presentation to the Senate Finance Committee about the various royalty and tax incentives that are now available to the oil and gas industry in Alaska. As I indicated during my testimony, I was unable to prepare a formal slide presentation on short notice. Instead, I promised the committee that I would follow-up with a memo that would summarize my presentation. Here is the summary.

The catalogue of royalty and tax incentives now offered by the state of Alaska are available to any qualified company willing to commit to exploring and developing the state's oil and gas resources. It should be noted that, while there is a growing interest to find natural gas in anticipation of the North Slope gasline, the principal target of these incentives on the North Slope has been the exploration and development of oil. These incentives are sought after by explorers and developers who face a commercial landscape where access to regulated oil pipelines in the state is not constrained and where the oil pipeline version of rolled-in rates is available.

Explorers want incentives for marginal oil prospects even though the transportation cost, as a proportion of the market value of oil, is relatively small. Commercializing gas is challenged by the relatively higher cost of transportation as a proportion of market value. To illustrate this point, consider that the combined marine transportation and TAPS tariff is about \$7.00 per barrel for ANS crude oil that sells in the U.S. West Coast for more than \$60.00. Contrast this with a \$2.00 - \$2.50 per mmBtu tariff on ANS gas that today sells for \$6.50. On an energy equivalent basis, the cost of transportation for gas is two-to-three times the cost of transportation for oil.

The division has incorporated all of the incentives that are currently available in the prospect modeling done in our economic analysis of AGIA. Because they are available to every company, these incentives, by themselves, do not favor the explorer/developers vis-à-vis incumbent producers. To provide pipeline access for these players, the terms in AGIA are required.

During the hearing on April 25, 2007 committee members were given a list of the royalty and tax incentives now offered by the state. Some of these incentives are particularly focused on different regions in the state. During my testimony, I focused on those that applied to the North Slope.

"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."

DIRECTED INCENTIVES

Exploration Incentive Credits (EICs)

AS 38.05.180(i) provides royalty and tax credits for up to 50 percent of drilling costs on a lease or 50 percent of seismic costs on unleased state lands. This provision allows DNR to incorporate the credit as part of a lease offered in our conventional lease sales. Since the state began offering EICs under this program, 22 exploratory wells qualifying for credit have been drilled on state leases. This has resulted in approximately \$60 million in credits for exploratory drilling since 2004. There have been no applications for geophysical EICs.

AS 41.09.010 provides royalty and tax credits for up to 50 percent of drilling and seismic costs on unleased state and non-state lands. It also provides up to 50 percent of the seismic costs on lands within an exploration license area. The program is capped at \$500,000 per project with a total program cost capped at \$30 million. Data acquired under this program must be made public after two years. This provision expires on July 1, 2007.

Exploration Tax Credits

AS 43.55.025 provides an incentive credit for work performed between July 1, 2003 and July 1, 2016. The applicant may receive a production tax credit of 20 percent of drilling costs if the well is more than 3 miles from an existing oil and gas well or more than 25 miles from an existing unit (more than 10 miles from a unit in Cook Inlet). An applicant who meets both conditions may receive a credit of 40 percent. An applicant may also receive a credit for 40 percent of seismic costs if outside of an existing unit.

For income tax, AS 43.20.043 provides an incentive of up to 10 percent of the qualified capital investment costs for any oil and gas activity south of 68° latitude. The program applies to cost expended after the program was initiated on June 30, 2003 and is capped at 50 percent of the taxpayer's tax liability. Carry-forwards are allowed. These credits can be transferred if the entire business of the taxpayer is sold. The credit ceases to apply once production starts. The applicant cannot "double dip" other tax credits offered by the state.

Royalty Reduction/Modification

AS 38.05.180(j) provides three opportunities to modify royalty rates on a lease: to encourage development and production in a field or pool that would not otherwise be developed; to provide for a lower royalty rate where a field has shut in; or provide a lower royalty rate to extend field life. In the first instance, the royalty rate cannot go below 5 percent and must include a mechanism that accommodates for changes in price and may include a mechanism for changes in production rates, costs, etc. The royalty rate may be reduced to as low as 3 percent in the second and third instances.

Royalty modification under this statute has been approved only once, for leases at the Oooguruk Unit development project (2006). No production has occurred to-date at Oooguruk. Royalty modification for Oooguruk reduced total state revenues by \$111 million and added 8.4 percentage points to the producer's IRR (including PPT; see below.)

Cook Inlet Platform Royalty Relief

AS 38.05.180(f)(6) provides for a sliding scale royalty rate between a low of 5 percent and the lease rate depending on per-barrel production rates measured over a three month period on platforms and selected units within the Cook Inlet basin. The table below illustrates how the royalty rates are set.

Dolly, Grayling, King Salmon, Steelhead				
< 1200 Bpd = 5%	1200-1300 Bpd = 7%	1300-1400 Bpd = 8.5%	1400-1500 Bbl = 10%	>1500 Bpd = 12.5%
Baker, Dillon, "A", "C"				
<975 = 5%	975-1100 Bpd = 7%	1100-1200 Bbl = 8.5%	1200-1350 Bpd = 10%	>1350 = 12.5%
Granite Point, Anna, Bruce, and West McArthur River Unit				
<750 = 5%	750-850 Bpd = 7%	850-1000 Bbl = 8.5%	1000-1200 Bpd = 10%	>1200 = 12.5%

The Baker and "A" platforms have been shut-in. All other platforms are still in production.

Discovery Royalty

AS 38.05.180(f)(4) provides for a discovery royalty of 5 percent on leases issued before 1969. This discovery royalty is now rarely available because most of the leases where this discovery royalty may apply have expired.

AS 38.05.180(f)(5) provides for a 5 percent royalty rate in the following six fields in the Cook Inlet: Falls Creek, Nicolai Creek, Starichkof, North Fork, Redoubt Shoals, and West Foreland. In order to receive this incentive, the fields must be in production by January 1, 2004.

Lease Valuation Modification

AS 38.05.180(aa) substitutes for the lease term that requires the lessee to pay royalties based on the "higher-of" actual proceeds, market value, or the actual proceeds of other lessees in the same field. Instead, the value of royalty production sold by the lessee to a utility will be based on the contract price.

AS 38.05.180(cc) substitutes for the lease term that requires the lessee to pay royalties based on the "higher-of" actual proceeds, market value, or the actual proceeds of other lessees in the same field. Instead, the value of royalty production sold by the lessee to a chemical fertilizer plant will be based on the contract price.

PPT INCENTIVES

Tax Ceiling based on the Economic Limit Factor

AS 43.55.011(j) and (k) provides that the tax payer will pay no more than the tax it would owe under the severance tax and ELF system. Applies to production only in the Cook Inlet.

Qualified CapEx Credits

AS 43.55.023(a) provides a 20 percent transferrable tax credit under PPT for qualified capital expenditures.

Loss Carry-Forward Credits

AS 43.55.023(b) provides 20 percent transferrable tax credits under PPT for capital expenditures if the taxpayer is unable to take advantage of the qualified capex credits in any year.

Transition Investment Expenditure Credits

AS 43.55.023(i) provides a non-transferrable tax credit based on 20 percent of the capital expenditures incurred by the taxpayer between 2001 and 2006. The amount taken as a credit under this section may not exceed 10 percent of the taxpayer's qualified capital expenditures incurred during the calendar year for which the credit is taken.

Frontier Basin Production Credit

AS 43.55.023(a) provides a non-transferrable tax credit of up to \$6 million for production south of 68° latitude and outside of the Cook Inlet basin. This credit will sunset in 2016.

Small Producer Credit

AS 43.55.023(c) provides for a non-transferrable tax credit of up to \$12 million for small producers. The tax credit is based on a sliding scale: a producer whose statewide production is 50,000 barrels per day or less qualifies for the full \$12 million tax credit, at 100,000 barrels per day the credit amount falls to zero.

As part of its evaluation of both the Oooguruk Unit and Nikaichuq Unit royalty modification applications, DNR examined the impact of the PPT and the PPT tax incentives on new development economics. In both cases, the producer will pay more taxes on an undiscounted basis but, when discounted, the cash flows to the producer are significantly enhanced. For example, at DNR's mean price (\$33) the Oooguruk the producer NPV(10) rose by nearly \$90 million and 6.5 percentage points were added to the producer IRR. Similarly, the Nikaichuq producer will realize a \$120 million in tax savings (discounted) with similar increases in producer IRR.

PROGRAM INCENTIVES

Exploration Licensing

AS 38.05.132 provides the authority to the DNR commissioner to award an exploration license of up to 500,000 acres in return for a work commitment from the licensee. The licensee pays no bonus bid, only a one-time \$1.00 per acre fee, and no rental. The license may eventually be converted to a conventional oil and gas lease upon expiration of the license. Normal oil and gas lease obligations will apply at that point, i.e., a 12.5 percent minimum royalty rate, rent, and term.

DNR has issued four licenses in three basins since the inception of this program, two in Susitna basin (both in 2003), and one each in Nenana (2002) and Copper River (2000) basins. Additionally, a license was issued but not executed by the licensee in the Bristol Bay basin (2004).

Nonconventional Gas Incentive

AS 38.05.180(n)(2) provides that the commissioner may award a lease for only gas and offer a 6.25 percent royalty and reduced rent if the lease is located in a region where gas from the lease does not compete with gas produced from conventional oil and gas leases, i.e., gas supplied to the Red Dog mine.

FEDERAL OUTER CONTINENTAL SHELF LEASES

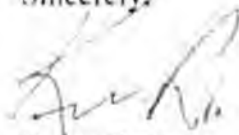
The U.S. Department of the Interior, Minerals Management Service, has offered leases in the Beaufort Sea that provides a royalty suspension volume (RSV), the initial volume of production that is free of royalty. The RSV differs by lease size and location. Zone A is near existing infrastructure in the central part of the Beaufort Sea planning area; Zone B includes areas east and west of the existing infrastructure and the deep water. The lessee receives the benefit of the RSV only if it successfully discovers and develops oil on the lease.

Lease Size	Zone A	Zone B
< 771 Hectares (-2000 ac)	10 MMB	15 MMB
771 - 1541 ha (2000 - 3800 ac)	20 MMB	30 MMB
> 3800 ha (3800 ac)	30 MMB	45 MMB

The RSV program is subject to a price ceiling \$39 per barrel, sustained for a year and adjusted for inflation (the 2004 ceiling = \$41.47 per barrel). At this level, the lessee must pay royalty on all of the oil produced from the lease. If the price of oil falls below \$21 per barrel through a quarter, the lessee pays no royalty and the royalty-bearing volumes suspended during this time do not count against the RSV.

There is no similar incentive program offered on federal lands within the NPRA.

Sincerely,



Kevin Banks
Acting Director

cc: Tom Irwin, Commissioner DNR
Marty Rutherford, Deputy Commissioner DNR
Pat Galvin, Commissioner DOR
Jon Iverson, Director Tax Division DOR