

LEG. FINANCE - BILLS 1977 - 1978 995

SB 603 cont., thru CSSB 603 995

1 by or under the authority of the state, except for inheritance and
2 estate taxes on transfers by or in contemplation of death. Nothing in
3 this section affects or limits an exemption from license fees, property
4 taxes, or excise, income or any other taxes, provided under any other
5 law, nor does it create a tax exemption with respect to the interest
6 of any business enterprise or other person, other than the authority,
7 in any property, assets, income, receipts, project, or lease, whether
8 or not financed under this chapter.

9 Sec. 44.55.150. BONDS LEGAL INVESTMENTS FOR FIDUCIARIES. The
10 bonds of the authority are securities in which all public officers and
11 bodies of the state and all municipalities and municipal subdivisions,
12 all insurance companies and associations and other persons carrying on
13 an insurance business, all banks, bankers, trust companies, savings
14 banks, savings associations, including savings and loan associations
15 and building and loan associations, investment companies, and other
16 persons carrying on a banking business, all administrators, guardians,
17 executors, trustees and other fiduciaries, and all other persons or
18 entities whatsoever who are, as of the effective date of this Act, or
19 may hereafter be, authorized to invest in bonds or other obligations
20 of the state, may properly and legally invest funds, including capital
21 in their control or belonging to them. Notwithstanding any other pro-
22 visions of law, the bonds of the authority are also securities which
23 may be deposited with and may be received by all public officers and
24 bodies of this state and all municipalities and municipal subdivisions
25 for any purpose for which the deposit of bonds or other obligations of
26 the state is, as of the effective date of this Act, or may hereafter
27 be, authorized.

28 Sec. 44.55.160. REGULATIONS. The authority may adopt regulations
29 to implement the purposes of this chapter.

1 Sec. 44.55.170. ANNUAL AUDIT. The authority shall have its
2 financial records audited annually by the legislative auditor or by a
3 certified public accountant approved by the legislative auditor. The
4 legislative auditor may prescribe the form and content of the financial
5 records of the authority and is entitled to access to these records at
6 any time.

7 Sec. 44.55.180. ANNUAL REPORT. Before December 1 of each year,
8 the authority shall submit to the governor and the legislature a
9 comprehensive report, in form prescribed by the governor, describing
10 operations, income, and expenditures for the preceding 12-month period.

11 Sec. 44.55.900. DEFINITIONS. In this chapter

12 (1) "authority" means the Alaska Gas Pipeline Financing
13 Authority, established under this chapter;

14 (2) "bonds" means bonds, notes, or other evidences of
15 indebtedness of the authority;

16 (3) "project" means the gas transmission pipeline (together
17 with all related property and facilities) to extend from the Prudhoe
18 Bay area on the North Slope of Alaska to a connection with the Trans-
19 Canada Pipeline on the Alaska-Canada border, as described in the
20 President's report entitled "Decision and Report to Congress on the
21 Alaska Natural Gas Transportation System", issued by the President on
22 September 22, 1977, under provisions of the Alaska Natural Gas Trans-
23 portation Act of 1976, and includes planning, design, and construction
24 of the pipeline and facilities.

25 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
26 10.070(c).

Gas Line Bill - F

SB603

Proposed amendment to HB 943 "An Act creating the Alaska Gas Pipeline Financing Authority; and providing for an effective date."

[Add to Sec. 44.55.010. LEGISLATIVE FINDINGS.]

(5) certain communities, especially those located near the proposed route will bear a disproportionate share of the socio-economic costs of the project, and the state and the project developer will work together with local communities to minimize these.

[Re-number (5) and (6) accordingly.]

John -

What do you think of placing language of this nature w/in the CSB 603 - Bob Lou would like you to consider this.

JW

COMMITTEE REPORT
SENATE

FURTHER: _____

Date: _____

Mr. President:

The Committee on FINANCE has had SB 03
creating the Alaska Gas Pipeline Financing Authority

under consideration and (a majority of the committee) (the committee reports it back as follows)

- recommends it do pass recommends it do not pass
- recommends it do pass with attached amendment(s)
- recommends it be replaced with CS for SB 165

- and _____ new title same title
- AND attaches a Letter of Intent New Fiscal Note
- reports it back without recommendation
- and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Chairman

Cathy
Put in orig file on Checks
Desk + my backup

file
copies to: Miles
Gouper
JACKETT
C.H.A.T.

MEMORANDUM

TO: Hon. Hugh Malone, Speaker, House of Representatives
FROM: Matthew D. Berman, Ph. D., economist, Trustees for Alaska,
Anchorage, Alaska
SUBJECT: State Financial Assistance to the Alcan Pipeline Project
May 15, 1978

The House of Representatives is considering the merits of two proposals to assist financing of the Alaska Highway Natural Gas Pipeline project: HB 943, creating the Alaska Gas Pipeline Financing Authority, with the power to issue tax-exempt revenue bonds, and HCR 126, relating to direct equity investment in the project. The Bill and the Resolution are based on the "finding" of the Legislature that timely construction of the pipeline is in the best interest of the state.

This finding may be in error, for the following reasons:

- 1) It is not known at present what is the magnitude of the impact of the loss of field pressure from gas withdrawal on the difficulty of oil recovery;
- 2) The economic interests of the State of Alaska differ in several crucial ways from those of the operators (or the Federal Government);
- 3) The interaction of petroleum engineering and the divergence of economic interests may mean that it is far superior financially for the state to have gas sales delayed for several years.

Impact of the loss of field pressure on oil recovery

The state's petroleum engineering model of the Sadlerochit formation shows that the rate of withdrawal of gas and the timing of gas withdrawals have a substantial impact on ultimate recovery of oil and gas from the field and on the costs of recovery of a given amount of oil. However, this model is seriously out of date, since it was prepared in advance of any production data from the field. Since billions of dollars of state revenue are at stake, it is imperative that the Legislature request that an up-to-date model be prepared to calculate the tradeoffs involved. This should be done before any commitments are made to assist the natural gas pipeline.

Divergence of state and producers' financial interests

There are at least three reasons why the interests of the State of Alaska and those of the operators are likely to diverge

on the issue of the preferred production rates over time for the field.

1) One of these reasons, outlined in the Doscher and Dougherty report prepared for the Legislative Affairs Office, is that the capital recovery factor which the oil companies use to discount future cash flows differs from that of the state. Two reasons for the discrepancy are a) future oil company income will pay corporate income taxes before it is given to the stockholders, so the before-tax rate of return must be substantially higher than bank interest rates; b) the rate of return which the state can achieve on the Permanent Fund is lower than the after-tax income available to the oil companies from other operations. Both these factors tend to increase the discount rate for the operator relative to the state. This causes the operators to want to realize income from oil (and gas) withdrawals more quickly than the state, other things equal.

2) The state earns most of its income from royalties and severance taxes (i.e., sales of oil and gas), while the operators seek profits (i.e., sales less costs). This means that the state would like to have the operators undertake all activities which increase the discounted cash flow of royalties and severance taxes, while the oil companies also consider the cost to them of these recovery procedures.

3) State oil revenues are earned at pump station one. The operators, on the other hand, sell a final product to consumers, and own the oil transportation systems. Since the state does not earn much income from the oil pipeline, pipeline tariffs affect the revenues to the state much more strongly than they affect the profits of the producers. One of the most important variables affecting pipeline tariffs is the rate of throughput, and it is clearly in the economic interests of the state to have more throughput, other things equal.

Timing of gas sales to serve the state's best interest

There is some minimum time path of expected natural gas wellhead prices below which the oil companies will prefer to reinject gas to maintain field pressure rather than sell it. There is also a time path of expected gas prices below which it is in the state's interest to retain the gas, but this price threshold must be much higher for the state than for the oil companies. Because of the complex interactions of oil field operations and pipeline throughput on the discounted cash flows (which differ for the state and the operators), delay of gas sales may be the most powerful and cost-effective method of insuring oil conservation to maximize the financial benefits to the state from its oil and gas resources.

These issues involved in the tradeoffs between gas sales and oil revenues, and how the state interest differs from the operators' interest, are of critical importance to the state if it wishes to consider any kind of financial assistance for the Alcan gas pipeline. The state should certainly not put itself in the position of expediting construction of the line if delay of construction is actually a far more favorable policy.

Before the state commits itself to any type of financial assistance to the gas pipeline, it should commission a separate financial analysis, using the updated oil field engineering model, to see how state interests might best be served in terms of the discounted cash flow of revenue. This financial analysis, which should be performed independently of the field model by consultants not connected to the oil industry or petroleum engineering, should examine the discounted cash flows arising out of alternative specific oil and gas production strategies. Some of the issues which this study should examine are the revenue streams associated with changes in the timing of gas sales, and the advantages of using gas reinjection as a more cost-effective means of increasing ultimate oil recovery than various recovery operations.

HCR 88 is a Resolution currently being considered by the House which would direct the Legislative Affairs Agency to retain a consultant to carry out a comprehensive study of possible avenues of state financial participation in the Alcan project. The issues discussed in this memorandum suggest that this Resolution be amended to contain a provision both for a revised oil field engineering model to be prepared and for a financial analysis using that model to clarify the state's revenue position with respect to the timing of gas sales.

① Transportation Savings mf.

From - Walsey -

No affect on credit of state - Revenue bond.

"Positive affect"? - More info to financial community about the state.

Northwest.

Time schedule of FRC - Dec 1949 -

Deliver April '49 - 2 mos - available - In plan.

Was not their idea of recommendation - marginal - not necessary, now

Review - 2

(A) State tax exempt status.

(B) Shows that FRC would absorb \$1 billion "total financing plan."

STATE OF ALASKA
THE LEGISLATURE

FOUCHY - STATE CAPITAL
JUNEAU, ALASKA 99801
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 13, 1978

SUBJECT: Administration Conditions for State Financial Assistance
for the Northwest Pipeline Project (H.O. #5342)

TO: The Honorable John Sackett, Chairman
Senate Finance Committee

FROM: Richard G. Haggart
Research Analyst

This memorandum is in response to a request of Ms. Judy Crondahl of your staff that we examine the attached list of administration "conditions" for provision of state financing for the Northwest Alaska natural gas pipeline project, and provide an analysis of them in terms of:

1. The inclusiveness and appropriateness of the proposed conditions.
2. The desirability of the administration's proposed financing package consisting of \$1 billion in industrial revenue bonds and \$500 million in cash investment from General Fund revenues.

In general, we believe the administration's proposed conditions for financing a portion of the Northwest Alaska Pipeline project cover the major areas of concern in terms of state interests. The conditions are quite similar in most respects to those we have developed independently at the request of other legislators (see the attached House Joint Resolution which we prepared at the request of Rep. Bill Miles).

As you can see from the attached material, however, there are some differences between both the administration's proposed financial package and their apparent strategy to achieve state objectives, and the approach we have developed. Specifically, we recommended that the state undertake the proposed financing assistance in two discrete steps:

1. Commit to raise approximately \$1.5 billion by pledging the state's royalty gas interest in Prudhoe Bay as collateral. The value of the royalty gas would be the state's sole commitment in support of the pipeline.

2. Utilize this money to invest in the pipeline project, providing the requisite conditions were met by Northwest and the governments involved.

We believe this approach has one very desirable feature: it ties state participation directly to the value of the Prudhoe Bay natural gas. If there is continuing doubt regarding pipeline completion or the value of the gas, the state will find it very difficult to raise the necessary funds for participation in the project. In our judgment, this strategy gets at the heart of the problem: *that the federal government is the primary source of pressure on the state for financial assistance*, while simultaneously being the source of most of the uncertainty regarding the value of the state's interests in the North Slope gas.

Since the government's rationale for state participation is based on presumed state benefits arising from project completion, it makes a great deal of sense, in our view, to make such participation directly contingent on these benefits. In short, if the federal government or the Canadian governments involved do not satisfactorily resolve the major issues facing the project, state financing will probably not be available--not because the state is unwilling to participate, but because the state will be unable to raise the money in the specified manner. In any event, the risk associated with the investment will be limited to the value of the state's royalty share of natural gas--leaving the state's bonding capacity relatively unimpaired, and posing no threat to General Fund revenues.

The approach to financing outlined above is based on our conviction that the state has much more to negotiate with the federal and Canadian governments than it does with Northwest Pipeline. The governments involved, to a far greater degree than Northwest, can guarantee the state the terms and conditions under which pipeline financing would be feasible or desirable. Unfortunately, the onus of further action has been placed jointly upon the state and Northwest, despite the fact that these two parties do not have control over many of the key elements of the project.

Under these circumstances, we believe it would be a great mistake for the state to attempt to negotiate direct guarantees regarding well-head values, tariffs, and the like with Northwest Alaska. Northwest cannot reasonably commit to these matters, and if the state attempts to force the issue, we believe the financing negotiations are likely to collapse--a result which could place the state in the role of "spoiler" in terms of the project. Given comments by federal officials (during their visit to the Legislature on February 15 and 16 of this year) to the effect that favorable regulatory decisions regarding Alaska's gas were directly related to Alaska's cooperativeness on the financing issue, we believe it is very important that the state avoid any appearance of intransigence in the current negotiations.

None of this is to say, of course, that the state should simply move ahead on trust and commit \$1.5 billion to the project without adequate assurances regarding government policies on natural gas. We do believe, however, that current negotiations with Northwest should be limited to those items which Northwest can reasonably be expected to deliver--local hire, full compliance with relevant state laws and regulations, insuring that Alaska businesses have full access to pipeline-related business, community impact assessment and assistance, management role, etc. If Northwest can satisfy state needs in such areas, the state will be in a position to make a conditional commitment to pipeline financing assistance--conditional on the ability to raise money based on the value of the royalty gas and upon satisfactory resolution of the various governmental issues remaining.

By utilizing the approach outlined here, the state not only will make favorable federal policy a necessity, if financing assistance is to be provided, but also will protect itself from unexpected or uncontrolled events in the future. And, in the short-run, it avoids the risk of a failure of negotiations between the state and Northwest which could prejudice the state's position with federal regulators.

RGH:jm
Attachment

1. Proper resolution of pricing issues (including price, conditioning, rolling in, etc.)
2. No liability for over-runs (direct or indirect)
3. File & support a ¢/mcf - mile tariff.
4. "Commitment" expires by "x" date (June 1980+?)
5. Support sec(13.b) "take-back" provision before FERC and elsewhere
6. No implied waiver of other statutory and regulatory authorities
7. Option of acquiring equity or similar position
8. Possible conditions re: Federal Government or Producer Participation
9. Local hire; EEO, etc.
10. Reimbursement for out-of-pocket expenses by state in considering and negotiating financial participation
11. Make gas available to local communities (e.g., "take-off saddles")
12. Possible Alaska purchase or "Alaska content" provision
13. Local community information and cooperation to minimize adverse impact
14. Support and aid in most beneficial use of royalty gas and gas liquids in the State.
15. No commitment until entire financing package is together

MEMORANDUM

TO: James W. Allen
Vice President - Finance
Northwest Alaskan Pipeline Company

FROM: Michael R. Stanfield
Vice President
Loeb Rhoades, Hornblower & Co.

Howard W. Cann, III
Vice President
Bank of America

DATE: April 28, 1978

SUBJ: ALASKA FINANCIAL PARTICIPATION

The purpose of this memorandum is to set forth our opinions of the potential impact of the issuance of up to \$1 billion of tax-exempt revenue bonds by the Alaskan Pipeline Financing Authority on the credit of the State of Alaska, its agencies, or political subdivisions, on their ability to sell debt issues and on the interest rates required to sell those debt issues.

In determining if there is any impact, there are several factors that need to be considered:

1. The credit behind the bonds to be sold.
2. The size and nature of the market in which the bonds are to be sold.
3. The type, size and timing of other state or local Alaskan bonds to be sold.
4. The manner in which the various bond issues are sold.

MEMORANDUM
April 28, 1978

Page Two

Impact on the Credit of the State of Alaska - In our opinion there will be no impact on the credit of the State of Alaska, its agencies, or political subdivisions. The bonds to be issued by the Authority will be entirely dependent upon the collateral of the bonds purchased by the Authority for repayment of principal and interest which, in turn, are entirely dependent on the Project's revenues. This direct dependence is typical of industrial revenue bond financings, pollution control financings and many port authority financings. The issuance of bonds by the owners of the TAPS Line to fund the construction of the Valdez Port facilities is a typical example. In such cases, investors do not consider these either legal or moral obligations of the political subdivisions through which issuance is facilitated.

Impact on Ability to Sell Other Debt Issues - We do not believe that there will be any material impact on the ability of the State of Alaska, its agencies, or political subdivisions to market debt issues during the period the Alaskan Pipeline Financing Authority will be selling its bonds. Of course, the type, size and timing of these Alaskan financings must, as always, be arranged in light of the daily calendar at the time the financings are contemplated.

The municipal bond market is a very substantial market. In 1976 and 1977, \$35.3 billion and \$46.7 billion of long-term securities were issued in that market. In 1977 alone, revenue bond issues total \$28.7 billion of which \$15.1 billion were "lessee revenue" which are, for the most part, issues similar to what is proposed for the Project.

The municipal market is subdivided by the method of sale (public or private), and the type of buyer. The following table sets forth the total holdings in 1977 by categories of buyers:

Private Households	\$ 77.2 billion
Commercial Banks	118.3
Casualty & Other Insurance	46.8
Others	<u>22.8</u>
	\$265.1 billion

The bonds to be sold by the Authority are to be issued principally to casualty companies which are the primary "private placement" buyers in the municipal market. Bonds sold by Alaska and the political subdivisions are sold as public issues, and as such, are sold primarily to private households and commercial banks.

When considering this market size, it should be pointed out that casualty companies are also substantial buyers of corporate preferred stocks because of the tax advantage associated with the inter-corporate dividend exclusions under the IRS Code. Therefore, the issuance of the Authority bonds will be competing in the larger combined market of preferred and municipal purchasers.

Impact on Interest Rates of Alaskan Bonds - The fixed income securities markets, which include government securities, municipal securities, corporate bonds and preferred stocks, set rates by a

MEMORANDUM
April 28, 1978

Page Four

complex interrelationship of supply and demand, credit comparisons, tax considerations and other factors. Due to the ways in which the various markets interact, the size, timing and type of other Alaskan issues, it is impossible to definitely state that any major issue will not have some impact on other interest rates.

However, when considering the spreading of the issuance over three years, the size of the municipal and preferred markets and the private placement of Authority bonds within a specific sector of the municipal market, the issuance of Authority bonds will not have any appreciable impact on the rates charged to Alaskan borrowers.

Merrill Lynch, Pierce, Fenner & Smith

1221 Avenue of the Americas

New York, New York 10020

212 850-0000

May 4, 1978

Mr. Richard G. Haggart
Research Analyst
Legislative Affairs Agency
State of Alaska
Pouch Y - State Capital
Juneau, Alaska 99811

Dear Dick:

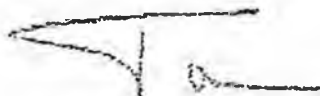
Merrill Lynch, Pierce, Fenner & Smith has had an involvement with Northern Natural Gas for over 25 years. We have performed normal investment banking services including underwriting of securities offerings and rendering financial advice. No fee generating services have been rendered since 1976, but a \$150mm debt offering has been announced for the third quarter of 1978.

Since 1941 we have performed normal investment banking services for PGE including underwriting of securities offerings and rendering financial advice. Merrill Lynch, Pierce, Fenner & Smith has been involved since late March 1976 in a proposed stock offering for PGE which was filed with the SEC on April 26. Proceeds of the offering are to be used for general corporate purposes, including the retirement of short term debt.

The last time any service was rendered to Pacific Gas Transmission was in 1973, when we underwrote \$40mm of debentures.

With best regards,

Sincerely,



Thomas B. Lovejoy
Senior Vice President

TBL:in

STATE OF ALASKA
THE LEGISLATURE

POUCHY - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

CONTRACT BETWEEN

STATE OF ALASKA

LEGISLATIVE AFFAIRS AGENCY

AND

BLYTH EASTMAN DILLON & COMPANY ^{INC}

The parties of this agreement are the LEGISLATIVE AFFAIRS AGENCY, on behalf of the Alaska State Legislature, hereinafter referred to as the "Agency", and BLYTH EASTMAN DILLON & COMPANY, 1221 Avenue of the Americas, New York, New York., 10020, hereinafter referred to as the "Contractor".

THE PURPOSE OF THIS AGREEMENT is to provide through the Agency professional financial consulting services with respect to proposed state financial participation in or support of the Northwest Alaskan Natural Gas pipeline Project.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I. - STATEMENT OF WORK

(A) The Contractor shall provide a written review and analysis of the proposal submitted by Northwest Alaskan Pipeline to the State of Alaska on April 17, 1978 entitled "A Plan for Alaska's Financial Participation in the Alaska Highway Pipeline Project". This written review and analysis shall provide the legislature with an independent assessment of the feasibility and desirability, from the state's standpoint, of the proposed planned financial assistance to the Northwest Alaskan Project. This general review and analysis shall include consideration of the following points:

1. The degree to which state financial participation as proposed could have negative effects on the creditworthiness of the state and its subdivisions and their ability to issue other revenue or general obligation bonds.

2. The probability that the project as currently contemplated by Northwest Alaska Pipeline Company and its financial advisors can be successfully financed--both with respect to overall project viability and the financial and managerial resources of the sponsor.

3. The degree to which Alaska financial participation of the type and magnitude proposed would improve chances of successful financing and project completion.

4. The extent issuance of the proposed \$1 billion tax exempt, state related debt would affect rates in the tax exempt markets.

5. The extent that the efficacy of the proposed financial participation by the state would be affected by making such financial support contingent upon receipt of federal assurances regarding items such as wellhead prices, tariffs, arrangements for in-state offtake, etc., and in the event such contingencies would negatively affect the value of the state's financial participation in terms of the project's prospects for successful completion, alternatives to the present plan that might alleviate such negative effects.

6. The extent that requiring legislative approval prior to actual issuance of the proposed revenue bonds would affect the efficacy of the proposed financing assistance package.

(B) The Contractor will be available on reasonable notice to testify before the Legislative Council and other committees of the legislature on the subject matter of the report.

CLAUSE II. - PERIOD OF PERFORMANCE

(A) The written review to be prepared by the Contractor under Clause I(A) shall be submitted in a form suitable for offset printing to the Project Director no later than 18 May 1978.

(B) The period of this contract, unless extended by written agreement or terminated in accordance with (C) of this clause, shall begin on the date it is signed by the Contractor and terminate on 30 June 1978.

(C) This contract may be terminated by either party on written notice to the other.

CLAUSE III. - PROJECT DIRECTOR

The Project Director shall be Gregg K. Erickson, Director of Research, Legislative Affairs Agency, Pouch Y, Juneau, Alaska 99811.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

(A) Contractor's total compensation for preparation and submission of the written report described in Clause I(A) shall be \$50,000, payable on submission of the report.

(B) Travel expenses of the Contractor under Clause I(B) shall be authorized in advance by the Project Director and shall be reimbursed on the same basis as and under procedures governing state employees, i.e., payment of per diem at state rates and air transportation at coach class fare. Travel not authorized in advance shall not be reimbursable. Total travel expenses shall not exceed \$4,000.

CLAUSE V. - REPORTS

The Contractor shall keep the Project Director informed as to the progress of the work performed under this agreement and shall provide progress reports as specified by him.

CLAUSE VI. - OFFICE SPACE, EQUIPMENT, CLERICAL SUPPORT

Office space, equipment, and clerical support to the Contractor that will be necessary to carry out the Contractor's obligations under this contract shall be supplied by the Contractor at no cost to the Agency.

CLAUSE VII. - RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records, including detailed time records, as may be required by the Agency. The records are subject to inspection by the Agency at all reasonable times. All documents, reports and writings produced in the course of the work performed under this contract are upon delivery to the Agency or termination of this contract the property of the Agency.

CLAUSE VIII. - CONFIDENTIALITY

It is understood by the Agency that in the course of the work under this contract the Contractor may receive material under prior written guarantee of confidentiality. The Agency agrees that nothing in this contract shall require the disclosure of such material provided that a copy of the written guarantee is mailed to the Research Division, Legislative Affairs Agency, prior to receipt of the material.

CLAUSE IX. - CONFLICT OF INTEREST

The Contractor affirms that it is not now individually or collectively engaged in any professional business relationship with any firm holding an interest in the Northwest Alaskan Pipeline Project.

CLAUSE X. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings oral or otherwise regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties of this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted.

Jrc.
BLYTH EASTMAN DILLON & COMPANY

LEGISLATIVE AFFAIRS AGENCY
(By direction of the Executive Director)

THOMAS B. LOVEJOY Date
Senior Vice-President

GREGG K. ERICKSON Date

Approved as to form:

AGENCY LEGAL COUNSEL Date

NORTHWEST ALASKAN PIPELINE COMPANY

P.O. BOX 1526
SALT LAKE CITY, UTAH 84110
801-534-3600

May 3, 1978

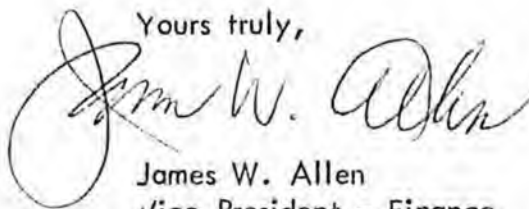
The Honorable John C. Sackett
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Dear Senator Sackett:

During the hearing before the Senate Finance Committee on April 27, 1978, to consider our plan for financial participation by the state of Alaska in the Alaska Highway Gas Pipeline Project, we stated that we would furnish your committee with certain data from our financial advisors concerning the plan's impact on the credit of the State and its ability to issue debt in the future.

The attached memorandum which has been prepared by representatives of Loeb Rhoades, Hornblower & Co. and the Bank of America, two of our financial advisors, addresses these issues. We intend to discuss these matters further with you and your committee when we meet with you again on May 4, 1978.

Yours truly,



James W. Allen
Vice President - Finance

JWA:bh
Attachment

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCHY STATE CAPITAL
JUNEAU ALASKA 998
907-586-1810

April 25, 1978

MEMORANDUM

SUBJECT: Pipeline Financing Issues to be Addressed by Consultant

TO: The Honorable John Radey
The Honorable Hugh Malone
The Honorable John Sackett
The Honorable Steve Cowper
The Honorable Bill Miles

FROM: Richard G. Haggart
Research Analyst

As you know, the Division has been evaluating potential financial consultants to assist the legislature in its consideration of the proposed financial assistance package for Northwest Alaskan Pipeline Company. Of the various investment banking houses considered, Blythe, Eastman, Dillon and Company has emerged as the preferred choice of consultants. We have contacted Blythe and have held preliminary discussions with them with respect to establishing a consulting relationship with the legislature. Before these discussions can proceed further, we need to determine specifically what we wish them to do for us within the time available.

This memorandum sets forward a suggested list of topics with respect to the desirability and feasibility of gas pipeline financing which we would ask Blythe to address. Any additions or further suggestions would be most welcome.

1. Northwest Alaskan Pipeline Company has said that state financial participation in the pipeline project in the manner specified in their proposal of April 17, 1978, will measurably increase the chances of project success, without putting the state at risk. Is this a correct assessment of the April 17 proposal? To what extent would state participation, as proposed, enhance chances for successful project completion? Conversely, if the state chose not to participate in the specified manner, to what extent would the chances for project success be impaired?

2. While the proposed bonding authority's debt issues would not be general obligations of the state, is there a possibility that such a debt offering could, nonetheless, effect the state's bonding capacity? Specifically, what are the possibilities that investors could perceive a "moral" or perhaps "political" commitment on the part of the state to rescue the project if completion difficulties are encountered, and hence downgrade the state's overall credit-worthiness?
3. A state financial consultant has testified that only "so many" Alaska-related bonds can be marketed each year; i.e. that the market has an absorption capacity for Alaskan debt that is somehow limited by factors other than Alaska's credit-worthiness alone. In your judgment is this a fair assessment of the market's ability to absorb Alaska's debt? Is such a comment applicable to the proposed financing for the pipeline?
4. To what extent would issuance of \$1 billion of tax-exempt debt affect rates in the tax-exempt markets?
5. In general, comment on the overall soundness and feasibility of the proposed financing plan. To what extent have similar financing arrangements been used in the past? With what consequences for the parties involved?
6. Assuming that the state were to accept the general financing approach proposed, are the state's interests as financial participant fully protected by the terms of the financing proposal? What additional conditions or terms might be desirable?
7. Both the federal executive and the Congress have declared that Alaska's great financial interests in North Slope natural gas production make state financial support of the pipeline project both logical and desirable. However, the actual value of the state's interest in North Slope natural gas (both in terms of taxes and in terms of the state's 12.5% royalty interest) are dependent on a variety of federal policy actions on well-head pricing, pipeline tariffs, treatment and conditioning costs and city-gate pricing. What would be the effect of the state's making financing contingent upon achievement of some minimum value for North Slope natural gas? Would such a contingency requirement make state financing, as proposed, more difficult? Impossible?

If such contingent requirements would substantially impair the current financing proposal, what modifications or alternatives to the plan might ameliorate these difficulties, if any?

8. The Northwest financing proposal includes provisions which allow the state to purchase an equity position in the pipeline, under certain terms and conditions. Will these provisions afford the state an equity position in the project under terms and conditions that are reasonable given the level of state participation, and which confer upon the state rights and benefits which are similar to those available to equity investors in other projects of similar risk and magnitude? If this is not the case, what special or unusual provisions are contained in the equity participation formula? What special or unusual risks do they involve if the state were to act favorably on them? What alternatives to the Northwest equity participation formula might be appropriate in view of such possibly negative considerations, assuming the state wished to purchase \$500 million in equity in the pipeline?
9. A key aspect of the Northwest proposal involves seeking Congressional approval of tax-exempt status for the state's pipeline related debt. To your knowledge, have such exemptions been sought in the past for other major projects? With what success? Given your experience in tax-exempt markets and dealings, what would be your assessment of the probability of obtaining tax-exempt status for Alaska's pipeline debt?

RGH:dh

Alaska State Legislature

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Senate

SENATOR
John C. Sackett
CHAIRMAN
SENATE FINANCE COMMITTEE
MEMBER
LABOR & MANAGEMENT COMMITTEE

May 3, 1978

Mr. David K. Watkiss
Watkiss & Campbell
310 S. Main, 12th Floor
Salt Lake City, Utah 84101

Dear Mr. Watkiss:

On April 27, 1978, you appeared before the Senate Finance Committee, State of Alaska, regarding the State's participation in the financing of the North West Alaskan pipeline.

During your testimony you said "There is no cost and no risk to the State. We look upon this as a means for the State to declare its interest in the project without in any way encumbering the State or committing the State's revenue."

At the point in your presentation where you were talking about the financing package your company had put together, you emphasized the fact that you hoped the Committee would move on it soon "because there's really no risk involved."

Senator Butrovich was concerned about "no risk to the State" and requested a letter from you on North West Alaskan Pipeline letterhead as to what the effect of this intent would be on the State. Please furnish us with this letter at the earliest date.

Sincerely,

John C. Sackett
Alaska State Senator

JCS:jb

Gold

Floating rate system - better to appear to the market

Yes - at mi dec.

Disinflation

not without - but price to consumers

1 billion - left.

$\% \text{ transportation cost} = 75\% = 3\% \text{ per mil.}$

Some things are done

to give - 1d per mil. savings to person

* (lost savings) not that significant

Helps keep...

* # 18 23 - not better - makes a difference; difference. Excess as

+ Training

+ without risk

Investing in research (private)

get in the way of things in the future

1 billion

difficult when you have to work in Japan

(industrial) price

financial & labor

The fact is...

It is a fact that there are many things that

are not done

in the world

some things in the world

have to be done - in the world

(Allison)

It is a fact that there are many things that are not done in the world - some things in the world have to be done - in the world

→ to let legislature have final authorization.

Give final auth. affect Cooper.

Affect: (1) Access to tax free mkt in future.
(2) Regulatory process
(3) Complete financing package.

The league looks at who issues revenue bonds, even tho faith & credit of state not affected.

"Kipton isn't convinced state needs to participate.
"is easier" - since eq. of
ref. interests.

"Any delay is a cost" - visible - reduces true value of gas.

Alma Go Pipeline Financing Quirkly.
\$500m. Considerable debt - into portfolio

Improved Stock. ~~Revenue~~ Revenue during
Resolution? Construction

Q. Higher return

C. Regulated investor -

- less conflict.

②. What convinced - Alma.

④. \$500,000 equity part. Critical.

You need back
delay
Fin very difficult.

Delaying equity - not all facts.

Why debt participation.

substantive judgment.

Exempt tax free bond market.

limited state participation.

- confidence & support -

state coal debt.

No risk

NATURAL GAS COMPROMISE PROPOSAL -- SUMMARY OF MAJOR PROVISIONS

TO: THE SENATE
FROM: THE HOUSE
4/24/78

April 21, 1978

1. There will be price controls on all categories of natural gas (both interstate and intrastate) between now and January 1, 1985. On the date, the following categories of natural gas will be deregulated:
 - New natural gas,
 - Natural gas from new wells deeper than 5000' in old reservoirs, unless that gas is dedicated to interstate commerce ("special development incentive price gas"), and
 - Most gas that is currently being sold in intrastate commerce.
2. Special development incentive price gas from wells shallower than 5000' will be deregulated on July 1, 1987 unless price controls are reimposed. If they are, that gas will be deregulated at the end of the reimposition of price controls.
3. Natural gas that is deregulated will be deregulated for at least six months. At any time between July 1, 1985 and July 1, 1987 either Congress or the President (subject to veto by both Houses of Congress) can reimpose price controls. The level of reimposition will be set by statute and will vary according to the type of gas. If reimposed, controls will last 18 months. The reimposition authority can only be used once.
4. The statute will establish various rates of price increases ("trend lines") for different categories of natural gas.
 - New natural gas ceiling prices will increase at a level equal to inflation (measured by the GNP deflator plus 0.2%) plus 3.5% through April 30, 1981 and plus 4.0% through December 31, 1984. The starting price will be \$1.75 as of April 30, 1977 (approximately \$1.93 today).
 - Special development incentive price gas will increase at a level equal to inflation. The starting price will be \$1.75 as of April 30, 1977 (approximately \$1.86 today). Special development incentive price gas from wells shallower than 5000' will get a trend line halfway between its old trend line and the new gas trend line between January 1, 1985 and the time it is deregulated.
 - Old gas not currently covered by an existing contract or an FPC price ceiling will increase at a level equal to inflation. The starting price will be \$1.45 as of April 30, 1977 (approximately \$1.54 today).
5. New gas onshore will be gas from new wells 2-1/2 miles beyond an old well, or 1,000 feet deeper than an old well (the original Carter definition) and new wells into reservoirs that have not produced in commercial quantities before April 30, 1977 (with exclusions for behind the pipe gas and withheld gas)

6. New gas on the Outer Continental Shelf will be gas from leases leased after April 20, 1977. Gas from reservoirs discovered after July 27, 1976 in old leases will get the new gas price, but will not be deregulated.
7. Special development incentive price gas will be gas from new wells in an old reservoir within 2-1/2 miles of an old well. However, the new well must meet certain spacing requirements.
8. Prices charged under rollover contracts will be limited. Interstate rollovers will have a ceiling price of 54¢ if the contract price is below that price. If the contract price is above that price, the rollover will be limited to the contract price. Intrastate rollovers will get \$1.00 if the contract price is below that price. If the contract price is above \$1.00 they will get the contract price. Price escalator clauses will be allowed to operate on intrastate contracts on existence on the day of enactment of the Act, until the contract price equals the new gas price (with some other limitations).
9. There will be broad allocation authority in times of emergency for high priority needs. After voluntary emergency sales are exhausted, the President will have authority to allocate gas following certain priorities. The priorities are:
 - First, gas from boilers that have the ability to use coal. This includes both intrastate and interstate supplies ("Glenn amendment gas").
 - Second, gas from other low priority users served by interstate pipelines.
 - Third, gas owned by low priority end users ("Order 533" gas).
10. FERC will have authority to specify the duration of contracts (with a minimum 15 year term for OCS contracts); to provide for a right-of-first-refusal on interstate contracts; to require purchasers to file copies of contracts and ancillary agreements; and to issue rules and regulations pursuant to the Act.
11. High cost gas will be deregulated upon the effective date of the first incremental pricing rule. Included are gas from:
 - Devonian shale
 - Methane from coal seams;
 - New wells drilled to a depth greater than 15,000'; and
 - Geopressurized brine.
12. FERC will be authorized to establish reasonable price incentives to encourage investment in development of other types of high cost gas. The authority is to be exercised in advance of drilling activity and is not cost based in

13. Stripper wells shall have a \$2.09 ceiling price which will increase at the same rate as new gas. They will not be deregulated. A stripper well is a well producing non-associated gas at the maximum efficient rate of production of 60 mcf per day or less for three months. FERC is directed to provide a rule allowing wells that qualify as stripper wells to increase production if the producer uses recognized production enhancement techniques.
14. There shall be mandatory incremental pricing for industrial boiler fuel users under a rule to be developed by FERC within 12 months of enactment. Schools, hospitals, and other similar institutions, and agricultural users shall be exempt. The cost will be allowed to increase to these users until it reaches the cost of substitute fuel (No. 2 fuel oil as determined on a regional basis).
15. The FERC shall develop a second incremental pricing rule within 18 months and submit it to Congress for review (subject to a one House veto). It shall provide incremental pricing for other low priority users.
16. Incremental pricing will be applied solely to users served by interstate pipelines. It will be applied to that portion of an interstate pipeline's cost of certain categories of supply that exceed \$1.45 per MMBtu's, adjusted for inflation. The categories are:
 - New natural gas;
 - Rollovers into the interstate system of previously intrastate gas; and
 - Special development incentive price gas.

Incremental pricing will also be applied to deregulated high cost supplies if the price exceeds the price of imported No. 2 fuel oil plus 30%. LNG imports will be incrementally priced. However, there will be a grandfather clause for approved projects. Projects pending before the DOE, and projects for which FERC determines there are binding contractual or substantial financial commitments shall be priced under the Natural Gas Act. Natural gas imports that exceed the new natural gas ceiling price and are in excess of current contract volumes will also be incrementally priced.

16. There are numerous other technical provisions. In addition the compromise proposal does not address all of the issues before the Conference which will have to be resolved.

2555-968

A PLAN FOR
ALASKA'S FINANCIAL PARTICIPATION
IN THE
ALASKA HIGHWAY PIPELINE PROJECT

April 17, 1978

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Appendix I

I. INTRODUCTION

The purpose of this memorandum is to describe and recommend a specific plan for participation by the State of Alaska in financing of the Alaska Highway Pipeline Project (the "Project"). The Project will encompass approximately 4,800 miles of pipeline consisting of four segments which will be separately and independently financed and constructed. These four segments, their mileage and estimated cost are:

Alaska	-	731 miles	-	\$ 3.7 billion
Canada	-	2028	-	4.1
Western Leg	-	911	-	.8
Eastern Leg	-	1117	-	1.7
		<u>4787 miles</u>		<u>\$10.3 billion*/</u>

It is proposed that the State participate only in the funding of the 731 mile Alaska segment.

In order to begin construction of the Project in 1980, final commitments for debt and equity must be made by early 1979.

To meet this critical schedule, we are proposing specifically that the legislature this session enact legislation creating a financing authority (the "Authority") to issue \$1.0 Billion in tax-exempt revenue bonds in a manner that would not utilize the State's credit or adversely affect the State's credit rating and adopt a joint resolution establishing an interim committee to study how the state can best participate

*/ The financing requirements of the Project were estimated in the President's Decision and Report to Congress on the Alaska Natural Gas Transportation System ("President's Decision") to be approximately \$10.3 billion in escalated dollars.

in equity financing. It is essential that the committee report back to the legislature early next session so the necessary legislation can be enacted in time to permit the State's equity participation to be incorporated in the overall financial plan.

This memorandum discusses how the tax-exempt revenue bonds would be issued and proposes a plan for State equity participation that the interim committee should study and consider.

The plan for State participation set forth in this memorandum would provide for an equity return to the State upon completion of the Project; encourage major institutional investors and commercial banks to invest in the Project, thereby aiding the development of Prudoe Bay gas; and add the tax-exempt debt market to the capital sources that will be called upon to complete this large and complex financing.

- o The proposed Authority would be empowered to issue \$1.0 billion of tax-exempt revenue bonds ("Tax-Exempt Revenue Bonds") backed by the simultaneous purchase of a like amount of Project debt.

This transaction would raise approximately 25% of the Project's debt capital but would not involve the credit of the State. The Authority could in this way pass on to the Project the advantage of an expanded capital market. Additionally, this reduced interest cost would benefit the Project by reducing the transportation cost by approximately 4%.

This transaction would require an amendment to the Internal Revenue Code (the "Code") specifically exempting the

Project from the restrictions set forth in Section 103 of the Code. The Project does not now qualify as an exempt facility under Section 103 of the Code, and tax-exempt status would not be available for revenue bonds in the absence of such an amendment. Obtaining an amendment to Section 103 will require the cooperation of all interested parties, including the State and its representatives and the Administration. If such an amendment is not obtained, bonds issued by the Authority would be taxable and neither the State nor the Project would benefit since such bonds would be simply the equivalent of Project bonds.

- o The State would evaluate our proposal that it make an equity-related investment of \$500 Million in Project Convertible Debt ("Convertible Debt").

These securities would be convertible after the Project becomes operational, if the Partnership is succeeded by a corporation, into \$500 million of participating preferred stock. The participating preferred stock would carry a fixed dividend rate that would increase with the profits of the Project according to an agreed upon formula. If the Partnership is not succeeded by a corporation, the Convertible Debt could be exchanged after operations have begun for a preferred income limited partnership interest.

To maximize net return to the State, this investment could be funded principally by an appropriation of State funds. Alternatively, but with less financial return to the State,

this investment might be funded by the sale of Authority Taxable Revenue Bonds ("Taxable Revenue Bonds"), which would be secured by the Convertible Debt. If the State decides to fund all or part of its purchase of Convertible Debt in this manner, however, additional credit support beyond that of the investment itself would be required. (See Section IV for a discussion of different ways the State could provide additional backing for Taxable Revenue Bonds.)

As an investment vehicle, the Convertible Debt would provide current income to the State during the construction period, as well as an opportunity for the State to participate in an equity return subsequent to the initiation of Project operations.

At the appropriate time, the State's investment could be sold or distributed to its political subdivisions, native corporations and its citizens.

II. THE ALASKA SEGMENT OF THE PROJECT

A. Description

The Alaska segment will begin at Prudhoe Bay and parallel the Alyeska oil pipeline for 539 miles to Delta Junction. At Delta Junction the pipeline will diverge from Alyeska and follow the Alaska Highway and the existing Haines oil products pipeline for 192 miles to the Yukon Territory border.

The Alaska segment will be owned by the Partnership, and designed, constructed, and operated by Northwest Alaskan Pipeline Company ("Northwest Alaskan"), a subsidiary of Northwest Energy Company. The Partnership is currently comprised of subsidiaries wholly-owned of the following six natural gas companies:

- o Northwest Energy Company
- o Northern Natural Gas Company
- o Pacific Gas and Electric Company
- o Pacific Lighting Corporation
- o Panhandle Eastern Pipe Line Company
- o United Gas Pipe Line Company

It is anticipated that additional natural gas companies will join the Partnership in the future.

B. Financing Plan for Alaska Segment

The capital for constructing the Alaska segment will be raised on a project financing basis, through the sale of equity and debt securities by the Project. Debt service and return on equity securities will be provided solely by the cash flow generated from the Project's operations. These securities will be designed at the time of issuance to compete successfully in the public and private capital markets and, accordingly, will offer the appropriate market sales of interest or dividend in the case of participating preferred stock.

Under the proposed overall financing plan, a percentage amount over and above the final capital cost estimates will be committed to assure that sufficient funds are available to complete the Project. Upon completion, the Partnership will have contractual arrangements pursuant to a Federal Energy Regulatory Commission ("FERC") approved tariff that will provide funds adequate to pay debt service and provide an attractive return to the equity investors. (For a more detailed discussion of the Project's Financing Plan, see pages 8 to 14 of the Discussion Memorandum Regarding Financial Participation by the State of Alaska in the Alaska Highway Pipeline Project, dated March 15, 1978, attached as Appendix I.)

While the ratio between the equity and debt securities of the Project, as well as the timing of any takedowns, will be subject to various factors, including the financial requirements of the Project, the fundamental element of the financing plan

is that all funds -- equity and debt -- must be committed at the same time and remain committed throughout the construction period. However, no commitment shall be binding (including that of Alaska) until all equity and debt commitments necessary to complete the Project have been received.

The project's capital structure would consist of the following:

o Equity and Equity-Related Securities

1. General Partnership Interests - The owners of the Partnership will contribute equity capital in a total amount of approximately \$1.0 billion. Their partnership interests will earn the rate of return provided by the FERC approved tariff.

2. Convertible Debt - It is proposed that Convertible Debt in a principal amount of \$500 million be offered to the State of Alaska. This debt will bear an interest rate dictated by market conditions at the time of issuance, which today would be in the range of 10% to 12% per annum. After the completion of construction and the commencement of operations of the Project, the Convertible Debt will be convertible into an equivalent amount of a participating preferred stock of the corporate successor to the Partnership or into an equivalent limited partnership interest in the Partnership. The participating preferred stock would have a minimum

annual dividend rate of approximately 10%, and, in addition, would share in the profits of the Project on the basis of a pre-determined formula.

o Debt Securities

1. Series A First Mortgage Pipeline Bonds - Series A First Mortgage Pipeline Bonds in a principal amount of \$2.0 to \$3.0 billion will be offered to institutional investors and commercial banks at an annual interest rate that in today's market would be approximately 10%. These securities will have various maturities of up to twenty-five years, subject to sinking fund provisions.

2. Series B First Mortgage Pipeline Bonds - Series B First Mortgage Pipeline Bonds in a principal amount of \$1.0 billion will be purchased by the Authority. The Series B First Mortgage Pipeline Bonds will have an annual interest rate which incorporates the maximum interest differential allowed by law (i.e., 1/8 of 1%) over the interest rate on the equivalent amount of Tax-Exempt Revenue Bonds sold by the Project through the Authority to fund the purchase. These Series B First Mortgage Pipeline Bonds will be subject to sinking fund provisions, and the underlying Tax-Exempt Revenue Bonds will have concurrent maturities.

III. ALASKA'S PARTICIPATION

As part of the financing plan described above, it is proposed that the Alaska legislature this session enact legislation to provide a mechanism for the issuance of \$1.0 billion in Tax-Exempt Revenue Bonds, the proceeds of which would be simultaneously invested in \$1.0 billion of the Project's Series B First Mortgage Pipeline Bonds and establish a committee to consider the proposal for investment in \$500 million of equity-related securities of the Project. This Section III describes the proposed revenue bond financing mechanism, the advantages of Convertible Debt as an investment vehicle for Alaska and the returns Alaska might realize from this investment and a possible time schedule for Alaska's financial participation.

A. Revenue Bond Financing Mechanism

As was discussed earlier, the State should establish an Authority for the issuance of \$1.0 billion of Tax-Exempt Revenue Bonds. Contingent upon and concurrent with the sale of the Tax-Exempt Revenue Bonds, the Authority would purchase \$1.0 billion of Series B First Mortgage Pipeline Bonds, and would receive annually a 1/8 of 1% interest differential on the aggregate amount of Tax-Exempt Revenue Bonds issued by the Authority. This differential, amounting to \$1,250,000 per year, is the highest allowed by Federal law and would be generated from the difference in interest rates between the Tax-Exempt Revenue Bonds and the Series B First Mortgage Pipeline Bonds.

B. Convertible Debt

During the period in which the Convertible Debt is outstanding, the interest received by the State, assuming the entire amount is outstanding, would be approximately \$55 million. This debt would be convertible into participating preferred stock of any successor corporation to the Partnership. After conversion the State would receive a fixed dividend of approximately \$55 million, which would increase according to an agreed upon formula as the profits of the Project increase.

In recommending that Alaska's equity participation take the form of a fixed income security convertible into equity upon completion of the construction period, the following two considerations are particularly important:

1. Form of Ownership - The State, as a tax-exempt entity, cannot utilize the Federal income tax benefits relating to construction (e.g., the Investment Tax Credit and interest and other deductions) which will be passed through to the general partners in the Partnership. However, these tax benefits are significant to the taxable general partners who will provide the principal source of the Project's equity capital. Thus, by allocating the tax benefits exclusively to these taxable entities, the financing of the Alaska segment will be greatly facilitated at no disadvantage to the State. In addition, by structuring the State's participation during the construction period as Convertible Debt, any

conflict between the State's role as an equity investor and its role as a regulator would be minimized.

2. Return on Investment - During construction, the return on the general partners' investment will be capitalized and subject to downward adjustments depending upon the relationship between the final construction estimate and the actual construction costs.^{*/}

Upon completion of construction and the commencement of operations, the return on common equity will be fixed by the FERC (estimated at approximately 15%). A return will be distributed first to the holders of participating preferred equity, and second to the holders of common equity, with the amounts to be distributed to holders of common equity based upon the cash requirements of the Project. As a debtholder during construction, the State's return will be fixed and distributed currently as interest. Upon the completion of construction, the State would have the option of converting its interest into participating preferred stock or the equivalent limited partnership interest.

*/

A variable rate of return to equity investors during the construction period has been mandated by the President's Decision and the details thereof are being formulated by the FERC.

C. Timing of Alaska's Investments

The debt and equity funds to be raised from all Project investors must be committed at the same time and remain committed during the construction period. The exact timing of any draw-down will be determined as construction progresses. The current thinking is that debt and equity funds will be drawn down, pro-rata, and invested over the projected three year construction period. Accordingly, there will be some flexibility as to when Alaska's equity-related investments would be made within the constraints of the final capital drawdown schedule.

IV. IMPLEMENTATION OF ALASKA'S PARTICIPATION

This Section recommends a plan for implementing the State's participation and discusses the pertinent financial, legal, and administrative issues on which this recommendation is predicated.

A. Establishment of the Authority

It is recommended that the State establish through legislation enacted during the current legislative session a new Authority to administer the issuance of tax-exempt revenue bonds for the Project.

The establishment of the Authority during the current legislative session would greatly facilitate the financing and completion of the Project. In doing so, the State will have taken an important first step to participate in the Project's financing. This will be not only of considerable symbolic and substantive assistance in encouraging early private sector financial participation, but it is a prerequisite for Congressional action in this session of Congress to amend Section 103 of the Code.

B. Funding the Purchase of Series B First Mortgage Pipeline Bonds

It has been recommended that the Authority fund the purchase of \$1.0 billion of Series B First Mortgage Pipeline Bonds through the simultaneous sale of a like amount of Tax-

Exempt Revenue Bonds. The purchase of the Series B First Mortgage Pipeline Bonds by the Authority would be contingent upon a successful placement of the Tax-Exempt Revenue Bonds with institutional investors.

Since the Partnership is a "non-exempt person" under Section 103 of the Code, interest on Authority Bonds currently would be subject to Federal income taxes. However, the President's Decision and the importance of the Project to national energy policy strongly suggest Administration support for an amendment to Section 103. Alaska legislation authorizing the Authority to issue \$1.0 billion of revenue bonds during this session is essential to any effort in Congress to amend Section 103.

It is important to point out that the issuance of Tax-Exempt Revenue Bonds would not require additional State backing. The tax-exempt status of the Bonds in and of itself would assure that the Bonds would appeal to a class of investors different from those who would purchase the Project's First Mortgage Pipeline Bonds. Moreover, the value of additional credit backing in reducing the interest rate on the Authority's Tax-Exempt Revenue Bonds would be nullified by proposed Treasury Department regulations that would limit to 1/8 of 1% the spread between the tax-exempt interest on the Authority's Revenue Bonds and interest income on the Series B First Mortgage Pipeline Bonds. Accordingly, it has been concluded that additional security for Tax-Exempt Revenue Bonds would be unnecessary and an inefficient allocation of the State's credit resources.

C. Alternatives for
Funding the Purchase of Convertible Debt

The funding of the State's equity-related investment will impact the State's ability to finance other State programs. Therefore, all alternatives for investment in the Project should be carefully considered. The following outlines several alternatives.

1. From the General Fund and/or the Permanent Fund -
At June 30, 1977, the General Fund Investment Account had a balance of approximately \$623 million. New legislation could appropriate a specified amount of monies from the General Fund for the purchase of the Convertible Debt.

The State has projected that from 1978 through 1982 the Permanent Fund will receive approximately \$632 million from various mineral lease rentals, royalties, royalty sale proceeds, Federal mineral revenue sharing payments and bonuses. New legislation could direct the Commissioner of Revenue to exercise existing statutory authority to transfer a specified amount of monies from the Permanent Fund for investment in the Convertible Debt.

The State could purchase \$500 million of the Project's Convertible Debt with the monies it receives from the General Fund, the Permanent Fund or a combination thereof. Importantly, the State's commitment would not become binding until all commitments necessary to

complete the Project are received and all conditions necessary to protect the State's investment are fulfilled.

Until the State's monies are drawn down to fund its commitment to the Project, they could be invested in short term securities of the U.S. Government or its agencies. This is significant because the income from such investments could either be retained by the State or used to fund its investment in the Project. Assuming the latter, a commitment by the State to invest \$500 million in the Project from 1980-1982 would not require that the full \$500 million be taken from the General and Permanent Funds. If monies were escrowed by the State in early 1979 and invested at a 6-1/2% rate of return, the State could meet its \$500 million commitment in 1980-1982 with an initial appropriation of approximately \$442 million.

2. From the Sale of Revenue Bonds^{*/}

(a) Taxable vs. Tax Exempt

As previously discussed, a sale by the State of tax-exempt debt to fund its purchase of Convertible Debt would be much less financially attractive than a direct investment by the State. Specifically, the U.S. Treasury Department has

*/

The issuance of General Obligation Bonds to fund the purchase of Convertible Debt would require the approval of a majority of the voters of the State under time consuming and costly bond referendum procedures required by the Alaska Constitution. Their use therefore is not recommended.

proposed arbitrage regulations that would limit the positive "spread" between the yield on the Convertible Debt and the interest paid on tax-exempt State debt to 1/8 of 1%. The arbitrage regulations do not apply to taxable debt. Accordingly, the issuance of taxable debt would be the only practical alternative if funds on hand are not utilized.

The spread between the yield on the Convertible Debt and the interest on such taxable debt would be much less than the spread between the yield on the Convertible Debt and the yield the State is now earning on its existing investments of the General and Permanent Funds. Consequently, the net income to the State would be significantly higher if the State's purchase of the Convertible Debt were financed from State funds than if such purchase were financed from the sale of taxable State debt.

(b) Additional Credit Backing for Taxable Revenue Bonds

In the event that Alaska decides to fund all or a portion of its purchase of Convertible Debt through a sale of Taxable Revenue Bonds, the State's debt would be secured by Convertible Debt. However, to provide meaningful assistance in financing the Project, it would be necessary for

the State to back its taxable debt with additional security unrelated to the Project.

If the State elects to issue Taxable Revenue Bonds, however, the two most readily available sources of additional State backing are the Permanent Fund and the State's "moral obligation." Both would involve the State's credit resources.

(i) Permanent Fund - Legislation could direct the Commissioner of Revenue to utilize assets of the Permanent Fund to meet any deficiency in Taxable Revenue Bond debt service, whether directly from monies contained in the Permanent Fund and dedicated, or indirectly by dedicating Permanent Fund monies to a special reserve fund to be used when needed to meet any such deficiency. If the latter approach were adopted, the special reserve fund could be replenished in the same manner, that is, by legislatively authorizing the Commissioner of Revenue to use Permanent Fund monies for such purpose.

(ii) "Moral Obligation of the State" - It may be advisable to combine a dedication of the Permanent Fund with a legislative resolution pledging the State's moral obligation (not its legal obligation) to allocate funds if

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

the State to back its taxable debt with additional security unrelated to the Project.

If the State elects to issue Taxable Revenue Bonds, however, the two most readily available sources of additional State backing are the Permanent Fund and the State's "moral obligation." Both would involve the State's credit resources.

(i) Permanent Fund - Legislation could direct the Commissioner of Revenue to utilize assets of the Permanent Fund to meet any deficiency in Taxable Revenue Bond debt service, whether directly from monies contained in the Permanent Fund and dedicated, or indirectly by dedicating Permanent Fund monies to a special reserve fund to be used when needed to meet any such deficiency. If the latter approach were adopted, the special reserve fund could be replenished in the same manner, that is, by legislatively authorizing the Commissioner of Revenue to use Permanent Fund monies for such purpose.

(ii) "Moral Obligation of the State" - It may be advisable to combine a dedication of the Permanent Fund with a legislative resolution pledging the State's moral obligation (not its legal obligation) to allocate funds if

and when it should become necessary to meet a deficiency in Taxable Revenue Bond debt service.

Moral obligation bonds have traditionally been used to finance public purpose projects such as housing, health care and educational facilities. Approximately \$10 billion of the total \$250 billion tax-exempt municipal bonds currently outstanding are backed by a moral obligation pledge. The State of Alaska has \$240 million of bonds outstanding, issued by the Alaska Housing Finance Corporation and the Alaska Municipal Bond Bank Authority, which are the type of bonds that may be considered to be moral obligation bonds.

APPENDIX I

III. CAPITAL REQUIREMENTS AND FINANCING

The following table summarizes, by segment, the estimated capital requirements under the System design as described in the President's Decision:

<u>Segment</u>	<u>Line Miles</u>	<u>Total (in Billions)</u>
Alaskan	731	\$ 3.7
Canadian	2,028	4.0
Eastern Leg	1,117	1.7
Western Leg	<u>911</u>	<u>.9</u>
Total	4,787	\$10.3*

It should be noted that these dollar amounts do not reflect pre-delivery of Alberta gas,** minor re-routing of the line, or design changes consistent with the U.S. - Canadian negotiations. Final cost estimates of the Project will not be available until full agreement is reached on System design, governmental requirements are defined and definitive engineering is completed.

* 1975 dollars adjusted for assumed inflation through completion of the Project.

** If agreement is reached for the sale and transportation of excess current supplies of Alberta gas, the construction of certain southern portions of the pipeline will be accelerated, resulting in lower capital requirements for certain southern portions of the pipeline.

The capital for the Project is to be raised on a project financing basis. That is, the Project's debt service and return on equity will be provided solely by the cash flow generated from the Project's operations. Under the proposed financing plan, first sufficient funds will be committed to assure completion of the Project. Then, upon completion, the Project's sponsors will have contractual arrangements under a Federal Energy Regulatory Commission ("FERC") approved tariff providing for sufficient funds to cover debt service and an attractive rate of return to the equity investors.

1. Completion of Construction - First, before construction begins, commitments will be obtained providing for an amount of capital large enough to assure all investors that there will be sufficient funds to complete the Project. The size of this committed pool will be determined through negotiations with lenders and investors, but will reflect evaluations of the Project's final cost estimate and the estimating procedures used to develop it. These evaluations will first identify the variables that could affect the Project's capital cost (i.e., inflation, delays, etc.). Then, using probability analyses, a percentage amount over and above the final capital estimate will be determined so as to reduce to zero (or as a practical

matter as close to zero as possible) the probability of having insufficient capital to complete the Project. It is this percentage amount that when added to the final cost estimate will constitute the total capital pool to assure completion of the Project under any and all circumstances.

2. Pipeline Operations - Second, the Project's operating entities will execute service agreements that, upon completion of the Project, will unconditionally bind purchasers of Prudhoe Bay gas to pay a FERC approved transportation tariff that reflects the final cost of the Project. The terms of the proposed tariff will provide sufficient funds to meet all debt service, and will be binding even in the unlikely event of service interruption and non-delivery of gas.

As presently envisioned, the capital for constructing the Project will be raised through the sale of equity and debt securities. These securities will be designed at the time of issuance to compete successfully in the public and private capital markets and will therefore offer the appropriate market rates of return. Under current market conditions, the debt might carry an interest rate of approximately 10%. As for the equity rate of return, in previous filings and studies with FERC, Northwest Alaskan

has assumed a 15% rate of return. A substantial portion of that return would be paid out annually as dividends to the equity investors.

While the percentage breakdown between the equity and debt as well as the timing of any takedowns will be subject to market conditions, the final composition of the investor group and other factors, the fundamental element of the financing plan is that all funds -- equity and debt -- must be firmly committed at the outset and throughout the construction period.

Although it is presently contemplated that the sponsors of each segment of the Project will be responsible for separately financing its respective capital costs, the plan outlined above requires that all financing for the Project be closely coordinated. Since Northwest Alaskan's tariff payments will not begin until all segments of the Project are completed, lenders and investors undoubtedly will require that sufficient funds (whether they are raised separately or not) be available to complete all segments. Thus, close coordination between the segments is essential.

In this regard, the probability of additional costs above the final estimate is currently perceived by lenders to be higher for the Alaskan segment and Yukon

Although natural gas transmission companies will be the principal purchasers of the equity securities and institutional lenders the principal purchasers of debt securities, the size of the Project, compared with the individual and collective financial strength of the sponsors, necessitates as broad a base of financial support as possible. Consequently, the financing plan is predicated on the basis that all beneficiaries participate in the financing. These beneficiaries would include the sponsors, the producers, the suppliers and the State of Alaska. The following is a list of the various investor classes which will be asked to commit to purchase Project securities:

- U.S. Transmission Companies
- Canadian Transmission Companies
- U.S. Banks
- Canadian Banks
- U.S. Long-Term Lenders
- Canadian Long-Term Lenders
- Producers, Suppliers, Alberta & Others
- Alaska

It should be noted that all investors will be called upon to fund their commitments to the Project as construction proceeds. Because the committed capital pool will reflect the amount necessary to complete the Project,

even in the event of adverse occurrences, it is unlikely that the entire commitment of any investor will be called upon.

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. NB 943 / SB 603
 Title An Act creating the Alaska Gas Pipeline Financing Authority
 Requested by Governor's Office Date _____

II. FISCAL DETAIL

Agency Affected _____ Revenue _____
 Program Category Affected _____
 Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		-0-	-0-	-0-	-0-	-0-

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

IV. DATE April 20, 1978 PREPARED BY *Sterling Gallagher*
 AGENCY Department of Revenue
 PHONE 465-2300
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE CONCURRENT RESOLUTION NO. 102

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 Relating to a direct investment
6 by the state in the Alaska natural
7 gas pipeline project.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS, Northwest Alaskan Pipeline Company has been selected by the
10 President and the Congress of the United States to construct a pipeline to
11 transport Alaskan natural gas from Prudhoe Bay to markets in the lower 48
12 states; and

13 WHEREAS, the cost of the project is estimated to be 10.5 billion
14 dollars, 3.7 billion dollars of which will be used to construct over 700
15 miles of pipeline in Alaska; and

16 WHEREAS, timely completion of the Alaska Highway Natural Gas project
17 to transport North Slope natural gas is a matter of vital concern to the
18 nation's energy future; and

19 WHEREAS, construction of the project will produce important social and
20 economic benefits for the people of Alaska, including approximately 20,000
21 new jobs, increased state and local tax revenue, enhanced availability of
22 natural gas for Alaskan communities, and stimulus and expansion of private
23 enterprise, including greater potential for development of in-state manu-
24 facturing, refining, and processing facilities; and

25 WHEREAS, Northwest Alaskan Pipeline Company has advised the state that
26 it would be of substantial assistance to the company in constructing the
27 gas line if the state were to provide financial aid, both through the means
28 of creating an authority with the power to issue tax-free bonds for invest-
29 ment in the pipeline and through the means of direct investment in the

1 pipeline; and

2 WHEREAS, Northwest Alaskan Pipeline Company has asserted that a direct
3 investment in the pipeline would be beneficial to Alaska, not only because
4 it would hasten the construction of the pipeline, but because it would
5 create a substantial return to Alaskans on the dollars invested; and

6 WHEREAS, unlike the creation of an authority to issue tax-free bonds,
7 a direct investment would be a direct commitment of taxpayers' funds to the
8 project and should only be undertaken after the legislature and the admini-
9 stration have had an opportunity to completely review all the economic data
10 pertaining to the pipeline, as well as the final financial plan for construc-
11 tion of the pipeline; and

12 WHEREAS, decision by the state not later than the first quarter of
13 1979 to participate in the direct financing of the project will materially
14 assist the project, and thereby realize the potential benefits of the
15 project for Alaskans;

16 BE IT RESOLVED by the Alaska State Legislature that

17 (1) under provisions of AS 24.20.090 and Rule 48(c), Uniform
18 Rules of the Alaska State Legislature, the Legislative Council is directed
19 to establish a joint interim committee on gas pipeline financing, consisting
20 of three members from each house of the legislature, to review and consider
21 a possible direct investment by the State of Alaska in the pipeline project;

22 (2) the governor, in consultation with the committee, is respect-
23 fully requested to determine if direct state financial participation in the
24 project appears to be in the best interest of the state;

25 (3) if it is determined that such participation is desirable,
26 the governor, again in consultation with the committee, is respectfully
27 requested to negotiate and enter into a specific agreement for direct state
28 financial participation; and

29 (4) if such an agreement is entered into, it must be submitted

1 to the legislature not later than the 15th day of the 1979 legislative
2 session for approval by law.

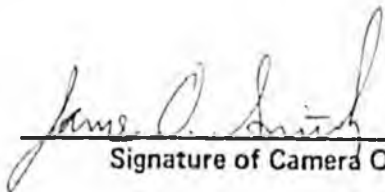
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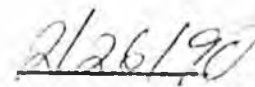
RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.



Signature of Camera Operator



Date

COMMITTEE REPORT

HOUSE

2/4/77

FURTHER: FINANCE

Date: _____

Mr. Speaker:

The Committee on GOV. AND GOV. has had CSB 603 (Title)
"An Act creating the Gas Pipeline Financing Authority; etc. etc."

under consideration and (a majority of the committee) (the committee reports it back as follows)

- recommends it do pass recommends it do not pass
- recommends it do pass with attached amendment(s)
- recommends it be replaced with CS for _____

and _____ new title same title

- AND attaches a Letter of Intent New Fiscal Note
- reports it back without recommendation
- and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Chairman

Original sponsor: Rules Committee by
request of the Governor

IN THE SENATE

BY THE FINANCE COMMITTEE

HOUSE CS FOR CS FOR SENATE BILL NO. 603

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act creating the Alaska Gas Pipeline Financing
Authority; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 44 is amended by adding a new chapter to read:

Sec. 44.55.010. LEGISLATIVE FINDINGS. The legislature finds that

(1) if the state makes a final determination that production
of natural gas from the Prudhoe Bay reservoir will be consistent with
optimal recovery of oil and gas from the reservoir, and if the Congress
of the United States and federal regulatory agencies take favorable
action with respect to matters of Alaska natural gas policy, then timely
construction of the Alaska Highway Natural Gas Pipeline Project will be
in the best interest of the state and of the United States;

(2) state assistance to the financing of the project will
promote an essential public purpose in assuring timely transportation to
market of Prudhoe Bay natural gas;

(3) the project is essential to the development of the natu-
ral resources and the long-term economic growth of the state, and will
directly and indirectly provide employment in the state;

(4) additional benefits to Alaska from the project include
increased state and local tax revenues, enhanced availability of natural
gas for Alaska communities, and stimulus and expansion of the private
sector economy, including greater potential for development of in-state
manufacturing, refining and processing facilities;

(5) construction of the project is a matter of statewide

1 concern; there is no existing general law adequate for the purpose of
2 assisting with financing of the project, as provided in this chapter;

3 (6) it is a public purpose of the State of Alaska to promote
4 timely completion of the project through the creation of an instrumen-
5 tality empowered to sell revenue bonds, the interest on which is exempt
6 from federal income tax except when held by a substantial user or re-
7 lated person as these terms are defined in sec. 103 of the Internal
8 Revenue Code of 1954 as amended, and to use the proceeds to purchase or
9 otherwise acquire obligations issued with respect to the project;

10 (7) an amendment by Act of Congress to sec. 103 of the In-
11 ternal Revenue Code of 1954 as amended is required if the authority is
12 to be empowered to sell revenue bonds, the interest on which is exempt
13 from federal income tax and that the authority should be established in
14 the event Congress does decide that the amendment would be in the
15 national interest;

16 (8) the establishment of the authority as contained in this
17 chapter shall be the state's sole direct or indirect financial support
18 of the project unless the legislature approves equity-related state
19 financing in the amount of \$500,000,000, as substantially described in
20 "A Plan for Alaska's Financial Participation in the Alaska Highway
21 Pipeline Project" dated April 17, 1978.

22 (9) establishment of the authority as contained in this
23 chapter constitutes no waiver, either explicit or implied, of valid
24 state laws or regulations, or of the state's power to make such laws or
25 regulations as it considers necessary;

26 (10) the best interests of the project sponsors and the state
27 would be served by selecting a person who is knowledgeable with respect
28 to major corporate activities in the State of Alaska to serve on the
29 Board of Partners of the Alaskan Northwest Natural Gas Transportation

1 Company during inception, construction, and operation of the project;

2 (11) certain communities, especially those located near the
3 proposed pipeline right-of-way, will bear a disproportionate share of
4 the social and economic costs of the project and the state and the
5 project sponsors have a responsibility to assist these local communities
6 in predicting, preparing for and minimizing these costs;

7 (12) realization of the state and national interests enumer-
8 ated in this section is dependent on the state making a quantifiable
9 judgment determination as to the amount of natural gas that can be
10 produced from Prudhoe Bay consistent with optimal recovery of oil and
11 gas reserves from the Prudhoe Bay reservoir, and upon favorable reso-
12 lution by the national government of the policy and regulatory issues
13 pertaining to the production, transportation and sale of North Slope
14 natural gas.

15 Sec. 44.55.020. CREATION OF AUTHORITY. There is created the
16 Alaska Gas Pipeline Financing Authority. The authority is a public
17 corporation of the state. It is an instrumentality of the state within
18 the Department of Revenue, but has a legal existence independent of and
19 separate from the state. Exercise by the authority of the powers con-
20 ferred by this chapter is an essential governmental function of the
21 state.

22 Sec. 44.55.030. MEMBERSHIP. The membership of the authority
23 consists of the commissioner of revenue, the commissioner of commerce
24 and economic development, and the commissioner of natural resources.
25 The commissioner of revenue is chairman of the authority. If a member
26 is unable for any reason to attend a meeting of the authority, the
27 member may, by a written instrument filed with the authority, designate
28 a person within his department to act in the member's place at the
29 meeting. For all purposes of this chapter, the designee is a member of

the authority at the meeting.

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Sec. 44.55.040. OFFICERS AND QUORUM. The members may elect other officers. Two members constitute a quorum. Action may be taken and motions and resolutions adopted by the authority at a meeting by the affirmative vote of at least two members.

Sec. 44.55.050. COMPENSATION. The members of the authority serve without compensation but are entitled to the same travel pay and per diem as provided by law for board members who are state employees.

Sec. 44.55.060. STAFF. The authority may employ an executive director who may, with the approval of the authority, select and employ additional staff as necessary. Employees of the authority are in the exempt service under AS 39.25.110. In addition to its staff of regular employees, the authority may contract for and engage the services of bond counsel, consultants, experts, and financial advisors the authority considers necessary for the purpose of developing information, furnishing advice, or conducting studies, investigations, hearings, or other proceedings.

Sec. 44.55.070. LEGAL COUNSEL. The attorney general is the legal counsel for the corporation. He shall advise the corporation in legal matters and represent it in legal actions.

Sec. 44.55.080. PURPOSE OF AUTHORITY. The purpose of the authority is to assist in the financing of the project through the issuance of revenue bonds as provided in this chapter.

Sec. 44.55.090. GENERAL POWERS. In furtherance of its purpose, the authority has the following powers in addition to its other powers:

- (1) to sue and be sued;
- (2) to have a seal and alter it at pleasure;
- (3) to make and alter bylaws for its organization and internal management;

(4) to maintain an office at any place in the state;

(5) to acquire, hold, use, mortgage, encumber, or otherwise dispose of income, revenue, funds, memberships, contracts, bonds or other property or interests in a corporation or other legal entity, or any other real or personal property;

(6) to accept gifts, grants, or loans from, and enter into contracts or other transactions with, any national, state, or municipal government, or agency or instrumentality of a government, or with any private organization, or other source;

(7) to deposit or invest its funds subject to agreements with bondholders and other parties; and

(8) to enter into contracts or agreements with respect to the exercise of its powers, and to do all things necessary or convenient to carry out its purpose and to exercise the powers granted in this chapter.

Sec. 44.55.100. BONDS OF THE AUTHORITY. (a) The authority may borrow money and issue revenue bonds, in one or more series, the interest on which is exempt from federal income tax except when held by a substantial user or related person as defined in sec. 103 of the Internal Revenue Code of 1954 as amended, up to the principal amount of \$1,000,000,000 inclusive of amounts required for fund reserves, capitalized interest, and costs of issuance of the bonds or notes and exclusive of refunding bonds. Bonds of the authority may be issued for the purpose of purchasing or otherwise acquiring any obligation issued with respect to the project in any form which is fixed and certain as to terms of repayment and for the establishment of reserves to secure or to pay bonds or notes or interest on bonds or notes and all other costs of the authority incident to and necessary for issuance of bonds or notes. The principal and interest on the bonds are payable from the income and

receipts or other money derived by the authority with respect to the project, except to the extent payable out of money attributable to the proceeds of the sale of the bonds or out of income from the temporary investment of those proceeds.

(b) The bonds issued by the authority do not constitute an indebtedness or other liability of the state or of a political subdivision of the state, but are payable solely from the income and receipts or other money of the authority. The authority may not pledge the faith or credit of the state or of a political subdivision of the state to the payment of a bond, and the issuance of a bond by the authority may not directly or indirectly or contingently obligate the state or a political subdivision of the state in any manner, except as specifically provided in this chapter.

(c) Bonds shall be authorized by resolution of the authority and shall be dated and mature as the resolution provides. Bonds shall bear interest at the rate or rates, be in the denominations, be in the form, either coupon or registered, carry the registration privileges, be executed in the manner, be payable in the medium of payment, at the place or places, and be subject to the terms of redemption which the resolution provides.

(d) All bonds, regardless of form or character, are negotiable instruments for all the purposes of the Uniform Commercial Code.

(e) All bonds may be sold at public or private sale in the manner, for the price, and at the time or times which the authority determines.

(f) The authority may enter into financing agreements necessary or desirable to secure the bonds. Before the issuance of bonds, the authority shall make provision by agreement with the owner or user of the project for payment by the owner or user of amounts at least sufficient in the judgment of the authority to pay the principal of and interest on

the bonds as they become due, to establish or maintain the reserves for payment, if any, as the authority considers necessary or desirable.

(g) Refunding obligations may be sold or exchanged for outstanding obligations issued under this chapter subject to legislative approval. If sold, the proceeds may be applied, in addition to other authorized purposes, to the purchase, redemption or payment of the outstanding obligations. Pending the application of the proceeds of any refunding obligations, with any other available funds, to the payment of the principal (accrued interest and any redemption premium on the obligations being refunded, and if so provided or permitted in the authorization for issuance of the refunding obligations, to the payment of any interest on the refunding obligations and any expenses in connection with the refunding), the proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America which mature or which will be subject to redemption, at the option of the holders of them, not later than the respective dates when the proceeds, together with the interest accruing on them, will be required for the purposes intended.

Sec. 44.55.110. SUBMISSION OF FINANCIAL AND ALASKA IMPACT PLAN. With respect to the bonds of the authority and the project, the authority shall submit to the legislature by the 60th day of the first session of the Eleventh Legislature a financial and Alaska impact plan for the project. The financial and Alaska impact plan shall be a general description of the status of the project with respect to engineering, technical, financial and regulatory matters relating to the project. In addition, the plan shall include the following specific items as well as findings and recommendations on each item:

- (1) the proposed methods and procedures by which the project

1 will be financed including the amounts and times of issuance of bonds by
2 the authority;

3 (2) the method of securing the bonds;

4 (3) projected debt service requirements of the bonds; and

5 (4) projected revenues for the period of time during which
6 reasonable projections can be made, which will be available to the
7 authority to meet debt service requirement;

8 (5) the extent to which the state's right to withdraw its
9 royalty share of the natural gas stream as described in section 13(b) of
10 the Alaska Natural Gas Transportation Act (P.L. 94-586) is protected and
11 assured;

12 (6) the amount and type of financial support which the
13 Prudhoe Bay natural gas producers have committed in support of the
14 project;

15 (7) documentation that the project sponsors have entered into
16 contracts with the state to guarantee that

17 (A) to the extent that qualified workers are available,
18 all workers employed for the construction, operation and mainte-
19 nance of the project will be drawn from the existing and resident
20 Alaska work force;

21 (B) to the extent qualified contractors or firms are
22 available, all vendor, material, labor and professional service
23 contracts and subcontracts for work to be performed within Alaska
24 will be awarded to existing resident Alaska contractors or firms;

25 (C) quarterly audits of the performance of the project
26 sponsors under (A) and (B) of this paragraph shall be conducted,
27 and the results of these audits transmitted to the legislature and
28 other interested state officials in a timely manner;

29 (8) the estimated number of Alaska workers who will be em-

1 ployed under the provisions of the contract described in (7)(A) of this
2 section, the estimated total number of workers to be employed on the
3 project during construction, the estimated dollar volume of contracts
4 which will be let to Alaska contractors or firms under the provisions of
5 the contract described in (7)(B) of this section, and the estimated
6 total dollar volume of contracts which will be let for the project
7 during construction;

8 (9) documentation that a minimum capital pool of debt and
9 equity funds equal to at least 150 per cent of the estimated project
10 cost has been committed to the project, in order to provide sufficient
11 capital to insure timely project completion;

12 (10) documentation that the project sponsors have supported
13 and, when appropriate, have filed the necessary documents and exhibits
14 before the appropriate federal or regulatory agencies to provide:

15 (A) an intra-state natural gas tariff based on a zone
16 tariff concept, with as many zones as state officials believe to be
17 in the state's best interest;

18 (B) the minimum average wellhead price for Prudhoe Bay
19 natural gas sales that is the higher of \$1.48 per mcf (or such
20 escalated price as may be provided for by federal law or regula-
21 tion) or the BTU-equivalent price for Prudhoe Bay oil if the higher
22 BTU-equivalent price is permissible under applicable federal laws
23 and regulations;

24 (C) that treatment and conditioning costs shall be added
25 on to, and not included in, the minimum average wellhead price
26 contained in (B) of this paragraph;

27 (D) that the minimum average wellhead price described in
28 (10)(B) of this section shall apply only to Prudhoe Bay natural
29 gas;

1 (E) that rolled-in pricing shall be used with respect to
2 marketing Alaskan natural gas in contiguous United States or
3 Canadian markets;

4 (F) that payment to or reimbursement of the state for
5 items contained in (13) of this section shall be included in the
6 rate base;

7 (11) documentation that the appropriate state agencies have
8 considered the study described in (13)(B) of this section, and a deter-
9 mination by these agencies with respect to the extent, if any, that
10 production of Prudhoe Bay natural gas in volumes sufficient to meet
11 project requirements would be in the state's best interest;

12 (12) the preliminary financial plan for the entire transmis-
13 sion system, as prepared for submission to the Federal Energy Regulatory
14 Commission;

15 (13) documentation that the partnership has entered into a
16 contract with the State of Alaska, approved by the appropriate federal
17 regulatory agencies, to pay for or reimburse the state for expenses
18 associated with the following state activities: (A) provision of in-
19 state off-take facilities at locations to be determined by the state;
20 (B) design and development of a computerized three-dimensional Prudhoe
21 Bay reservoir simulation model; (C) study and determination of the
22 state's bond capacity and bond rating, with respect to both the author-
23 ity bonds and potential state equity-related investment; (D) provision
24 of state personnel and equipment required to carry out the state's
25 supervisory and regulatory functions with respect to construction and
26 operation of the pipeline project; (E) provision of local impact infor-
27 mation and planning assistance for communities affected by the pipeline
28 project.

29 Sec. 44.55.115. LEGISLATIVE APPROVAL. Either house of the legis-

lature may disapprove the financial and Alaska impact plan and the sale of refunding bonds by a simple resolution. If the plan or the sale of refunding bonds is not conditionally approved by the legislature or disapproved by either house within 50 days after presentation to the legislature, it is approved. The legislature may by concurrent resolution approve the plan with conditions concerning matters included in the plan, and the conditional approval becomes effective upon certification to the legislature by the authority that the authority has accepted the conditions and modified the plan in accordance. No bonds or notes may be issued or sold until the approval required by this section has been obtained, and no bonds or notes may be issued or sold except in accordance with the approved plan. Amendments to the plan may be submitted before the passage by the authority of the resolution authorizing the sale of bonds and become effective upon approval by the legislature by concurrent resolution.

Sec. 44.55.117. NOMINATION OF A MEMBER OF THE BOARD. The governor shall nominate within 30 days of the effective date of this Act an Alaskan resident to sit on the Board of Partners of the Alaskan Northwest Natural Gas Transportation Company as an ex officio nonvoting member, subject to approval by the Board of Partners.

Sec. 44.55.120. TRUST INDENTURES AND TRUST AGREEMENTS. In the discretion of the authority, an issue of bonds may be secured by a trust indenture or trust agreement between the authority and a corporate trustee (which may be a trust company, bank, or national banking association, with corporate trust powers, located inside or outside the state) or by a secured loan agreement or other instrument or under a resolution giving powers to a corporate trustee by means of which the authority may

(1) make and enter into all agreements with the trustee or

1 the holders of the bonds which the authority may determine to be neces-
2 sary or desirable;

3 (2) pledge, mortgage, or assign money, agreements, property
4 or other assets of the authority either presently in hand or to be
5 received in the future, or both; and

6 (3) provide for any other matters of like or different
7 character which may in any way affect the security or protection of the
8 bonds.

9 Sec. 44.55.130. NONLIABILITY ON BONDS. Neither the members of the
10 authority nor a person executing the bonds is liable personally on the
11 bonds or subject to personal liability or accountability by reason of
12 the issuance of the bonds.

13 Sec. 44.55.140. PLEDGE OF THE STATE. The state pledges to agree
14 with the holders of bonds issued under this chapter that the state will
15 not limit or alter the rights and powers vested in the authority by this
16 chapter to fulfill the terms of any contract made by the authority with
17 those holders, or in any way impair the rights and remedies of those
18 holders until the principal amount of the bonds, together with interest
19 on them, with interest on unpaid installments of that interest, and all
20 costs and expenses in connection with any action or proceeding by or on
21 behalf of those holders, are fully met and discharged. The authority is
22 authorized to include this pledge and agreement of the state in a con-
23 tract with those holders.

24 Sec. 44.55.150. EXEMPTION FROM TAXATION. All property of the
25 authority is public property devoted to an essential public and govern-
26 mental function and is exempt from all taxes of the state or a political
27 subdivision of the state, including without limitation all boroughs,
28 cities, and unified municipalities. All bonds of the authority are
29 issued by a body corporate and politic of the state and for an essential

public and governmental purpose, and the bonds, the interest on them, and the income and receipts pledged to pay or secure the payment of the bonds or interest on them, are at all times exempt from taxation by or under the authority of the state, except for inheritance and estate taxes on transfers by or in contemplation of death. Nothing in this section affects or limits an exemption from license fees, property taxes, or excise, income or any other taxes, provided under any other law, nor does it create a tax exemption with respect to the interest of any business enterprise or other person, other than the authority, in any property, assets, income, receipts, project, or lease, whether or not financed under this chapter.

Sec. 44.55.160. BONDS LEGAL INVESTMENTS FOR FIDUCIARIES. The bonds of the authority are securities in which all public officers and bodies of the state and all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks, savings associations, including savings and loan associations and building and loan associations, investment companies, and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons or entities who are, as of the effective date of this Act, or may hereafter be, authorized to invest in bonds or other obligations of the state, may properly and legally invest funds, including capital in their control or belonging to them. Notwithstanding any other provisions of law, the bonds of the authority are also securities which may be deposited with and may be received by all public officers and bodies of this state and all municipalities and municipal subdivisions for any purpose for which the deposit of bonds or other obligations of the state is, as of the effective date of this Act, or may hereafter be, authorized.

1 Sec. 44.55.170. REGULATIONS. The authority may adopt regulations
2 to implement the purposes of this chapter.

3 Sec. 44.55.180. ANNUAL AUDIT. The authority shall have its finan-
4 cial records audited annually by the legislative auditor or by a certi-
5 fied public accountant approved by the legislative auditor. The legis-
6 lative auditor may prescribe the form and content of the financial
7 records of the authority and is entitled to access to these records at
8 any time.

9 Sec. 44.55.190. ANNUAL REPORT. Before January 31 of each year,
10 the authority shall submit to the governor and the legislature a compre-
11 hensive report, in a form prescribed by the governor, describing opera-
12 tions, income, and expenditures for the preceding calendar year.

13 Sec. 44.55.200. DEFINITIONS. In this chapter

14 (1) "authority" means the Alaska Gas Pipeline Financing
15 Authority, established under this chapter;

16 (2) "bonds" means bonds, notes, or other evidences of indebt-
17 edness of the authority;

18 (3) "entire transmission system" means the gas transmission
19 pipeline (together with all related facilities) to extend from the
20 Prudhoe Bay area on the North Slope of Alaska into the contiguous United
21 States, substantially as described in the President's report entitled
22 "Decision and Report to Congress on the Alaska Natural Gas Transporta-
23 tion System", issued by the President on September 22, 1977, under
24 provisions of the Alaska Natural Gas Transportation Act of 1976, and
25 includes planning, design and construction of the pipeline and facili-
26 ties;

27 (4) "project" means the gas transmission pipeline (together
28 with all related property and facilities) to extend from the Prudhoe Bay
29 area on the North Slope of Alaska to a connection with the Trans-Canada
30

Pipeline on the Alaska-Canada border, substantially as described in the President's report entitled "Decision and Report to Congress on the Alaska Natural Gas Transportation System", issued by the President on September 22, 1977, under provisions of the Alaska Natural Gas Transportation Act of 1976, and includes planning, design, and construction of the pipeline and facilities;

(5) "project sponsor" means any partner of the Alaskan Northwest Natural Gas Transportation Company or its successors;

(6) "Prudhoe Bay natural gas" means natural gas produced from the Prudhoe Bay reservoir;

(7) "Prudhoe Bay oil" means oil produced from the Prudhoe Bay reservoir;

(8) "Prudhoe Bay reservoir" means those areas defined in Article 5.1 of the "Prudhoe Bay Unit Agreement" of April 1, 1977.

* Sec. 2. AS 39.25.110 is amended by adding a new paragraph to read:

(21) employees of the Alaska Gas Pipeline Financing Authority.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-

070(e).