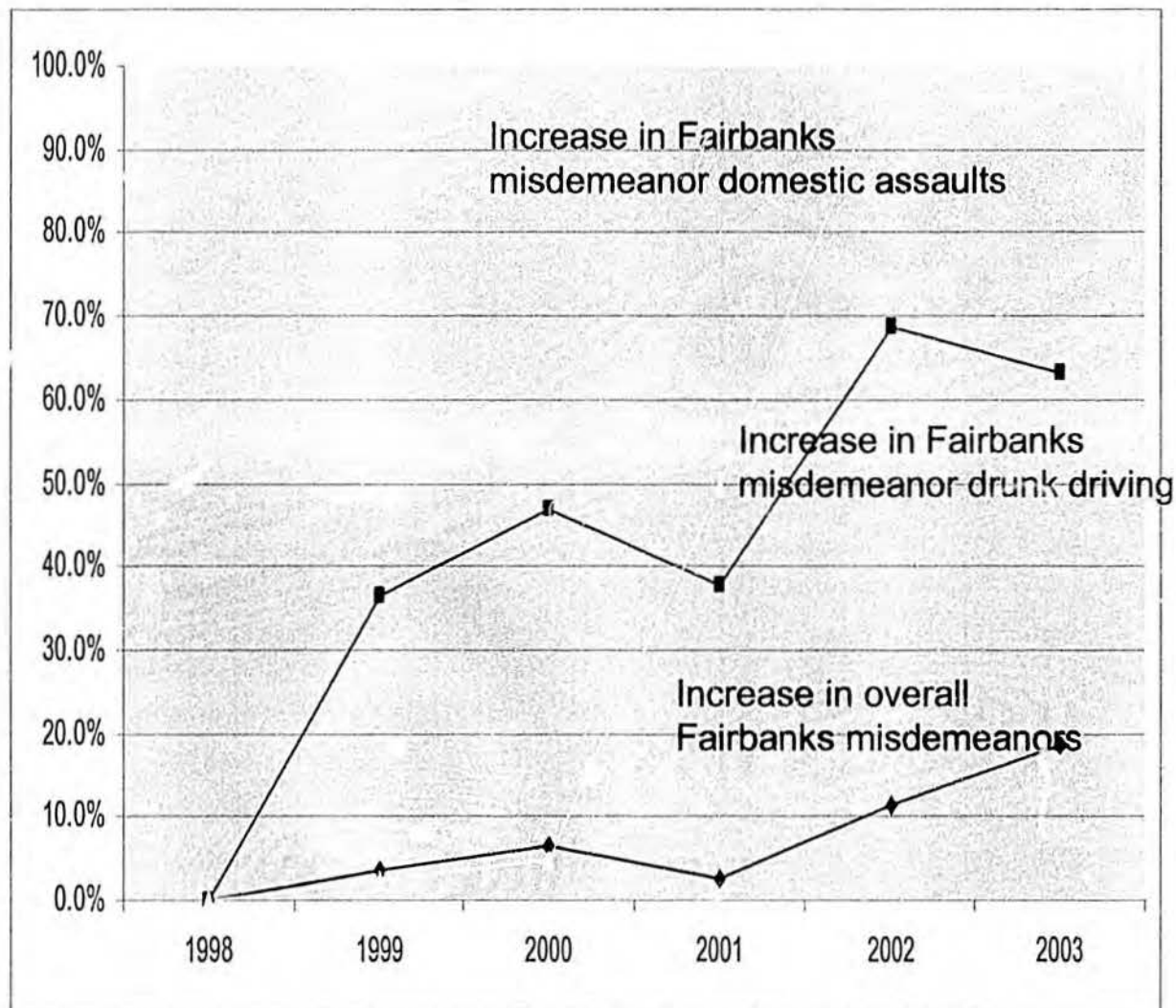


ALASKA LEGISLATURE

2457

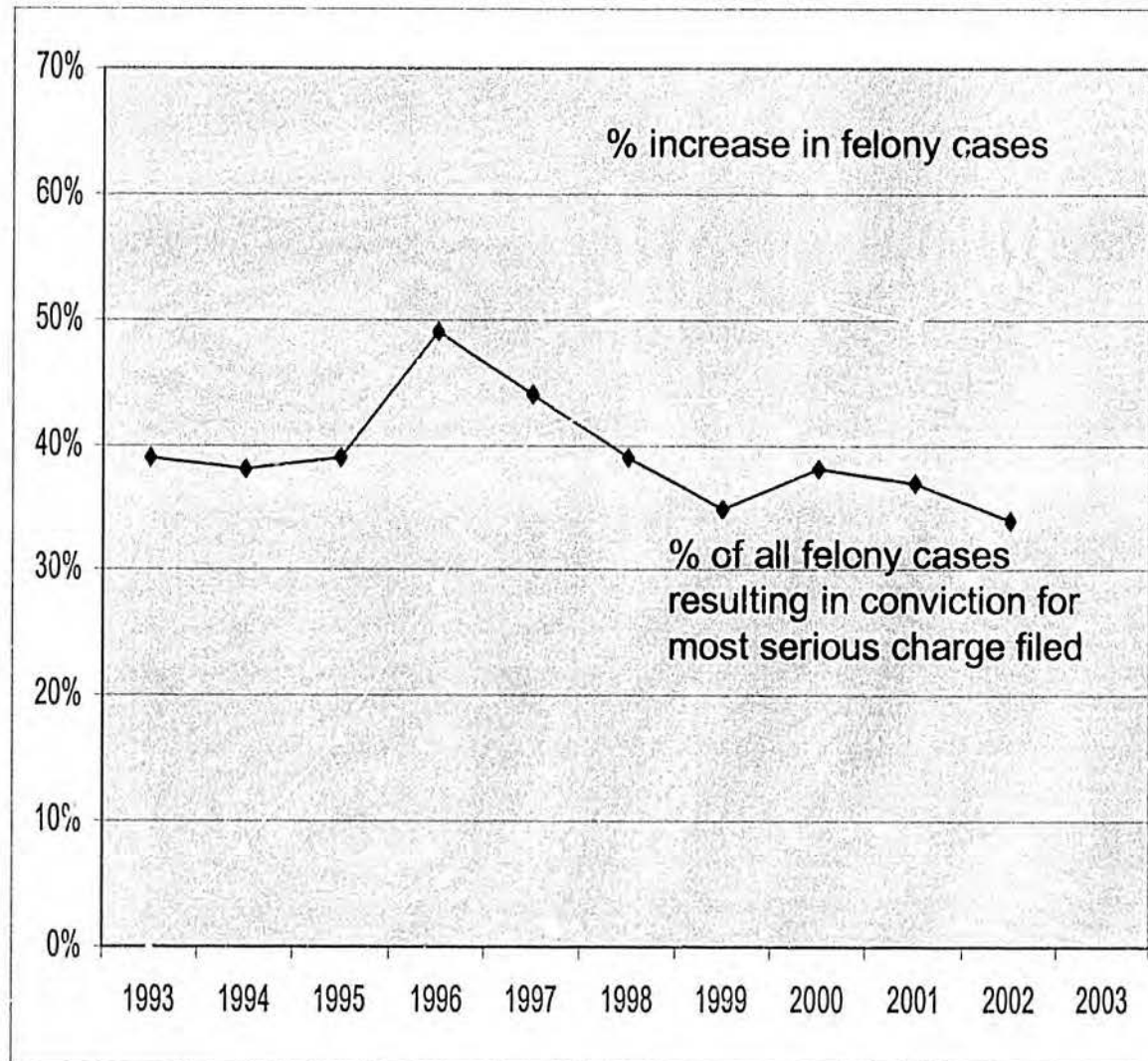
HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004

Fairbanks District Attorney's Office handles all misdemeanor cases in central Alaska



- Domestic assault cases doubled to over 600 when the city repealed its ordinances
- More than 1000 drunk driving cases are handled annually by the Fairbanks office
- **Overall, the Fairbanks office handles over 4500 misdemeanor cases each year in central Alaska, in addition to 1200 felonies**

The consequence of higher caseloads and static resources: Fewer convictions and convictions for lesser charges



- As caseloads increase, more felony cases are plea-bargained to lesser felonies or misdemeanor charges.
- From a high of 49% in 1996, only 34% of felony offenders are now convicted of the most serious charge filed

Anchorage DA's Office: Sexual Crimes Unit

57% increase from 106 cases in 2000 of sexual assault and child sexual abuse to 166 cases in 2003. The unit also handles dozens of sex-related felonies such as child pornography and sex offenders who fail to register.

One new attorney is needed.

Anchorage DA's Office: Violent Crimes Unit

46% increase from 414 violent felonies in 1993 to 605 cases in 2003. This includes murder, manslaughter, attempted murder, kidnapping, shootings, stabbings and armed robbery.

One new attorney is needed.

Anchorage DA's Office: Felony Property Crimes Unit

Three attorneys were assigned to handle over 800 new felony property crimes in Anchorage in 2003 (burglary, theft and malicious destruction) plus over 100 miscellaneous felonies, such as escapes from prison and felons possessing handguns. This is an increase of over 200 cases in just two years.

One new attorney is needed.

Anchorage Appeals Unit: Misdemeanor appeals and Post-conviction relief

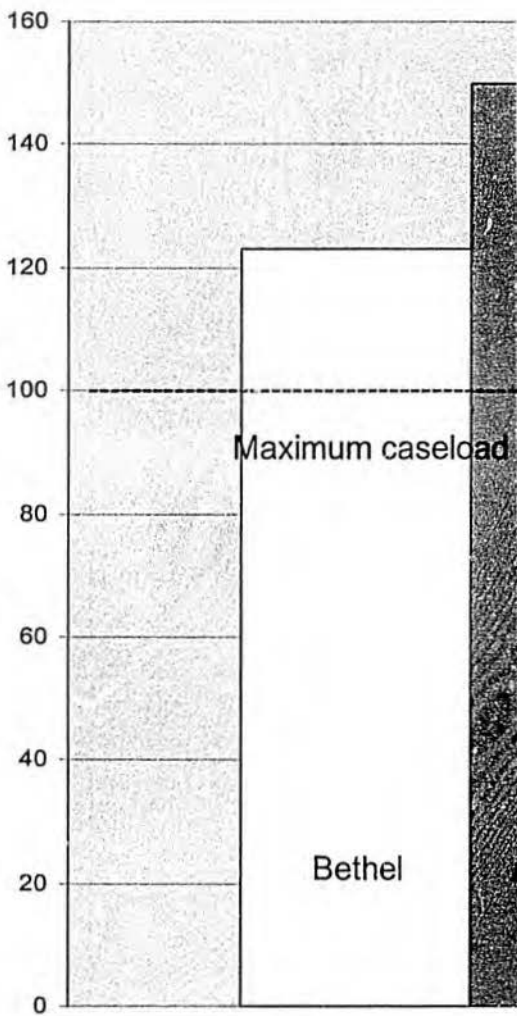
Misdemeanor appeals and post-conviction relief (in other words, a second chance for an appeal) are matters that take valuable time away from busy district attorney offices. By handling those cases in the Criminal Division's appellate office in Anchorage, all DA offices across the state will benefit.

Two new attorneys are needed.

Civil Division

- Child Protection
 - Three child protection attorneys
 - One child protection appellate attorney
 - One child protection paralegal for Fairbanks
- One attorney for juvenile delinquency
- One attorney for labor relations
- One attorney for Ethics Act
- One attorney for state affairs

Comparison

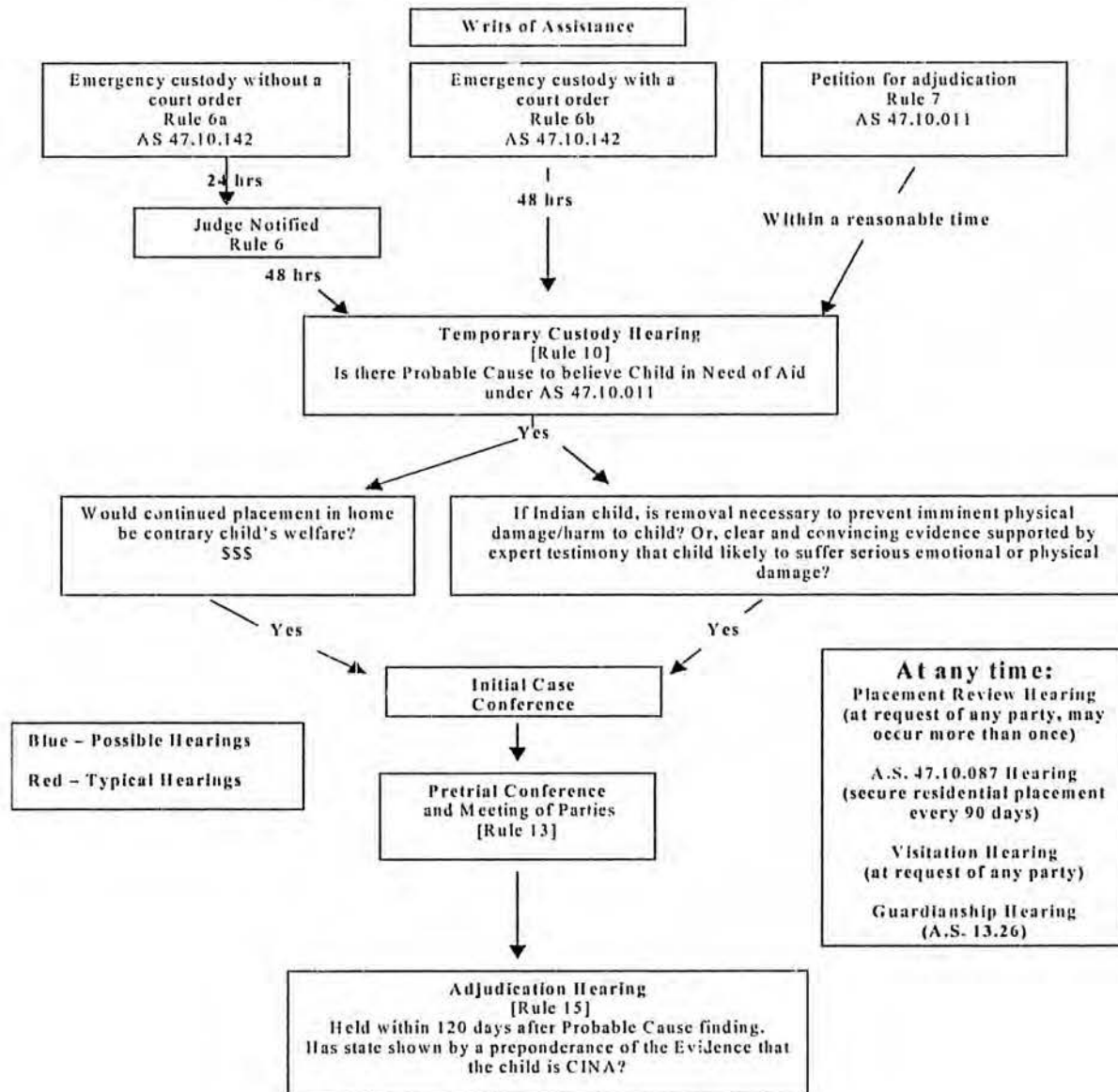


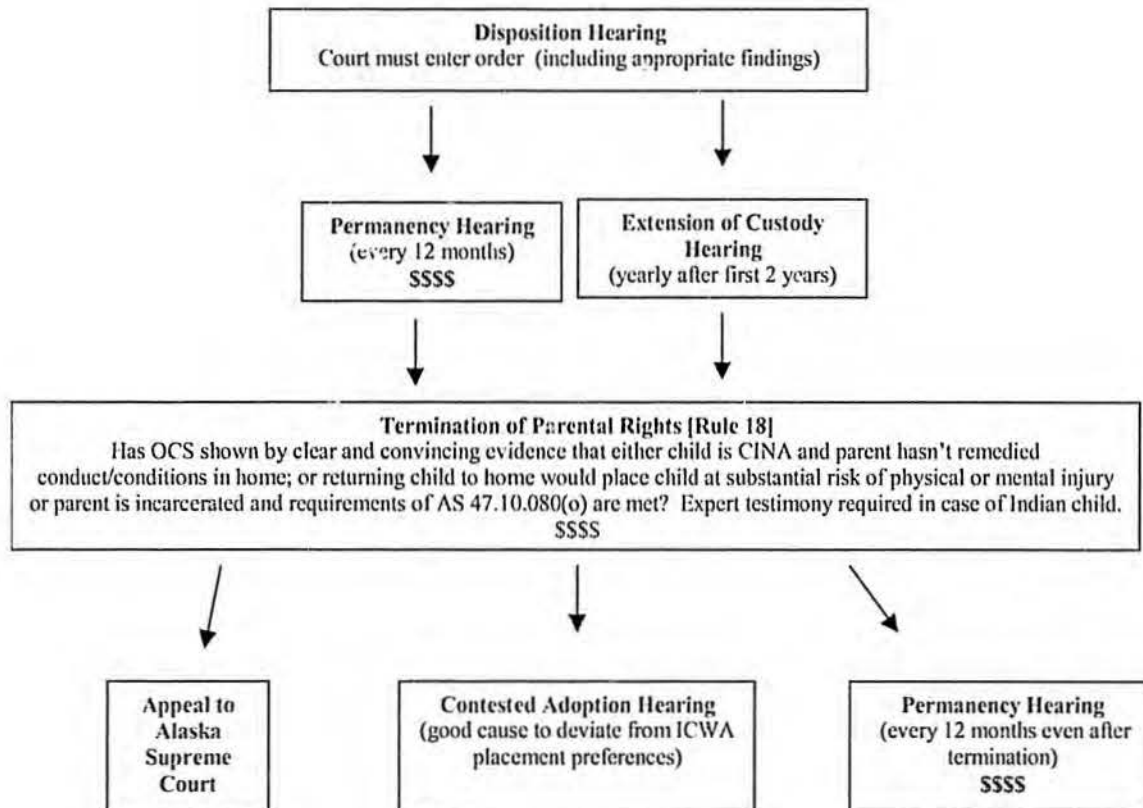
d per Attorney



**Maximum
caseload of 100
per attorney was
determined by
the US DHHS,
Administration
for Children and
Families, 2002**

Child in Need of Aid Proceedings





Blue – Possible Hearings
 Red – Typical Hearings

Child Protection Challenges

- Cases are constantly changing in terms of facts, circumstances, and the needs of children and family
- Numerous parties and participants with competing interests
- Expert testimony required
- Child testimony often required
- Additional hearings required by Adoption and Safe Families Act in order for DHSS to obtain federal funding
- Stress factor

Physical Abuse Cases

- Shaken babies – subdural hematomas, retinal damage, permanent injuries, death
- Broken bones – usually infants and toddlers; not consistent with accidental trauma
- Beaten children – bruised and swollen faces and bodies, cuts and scrapes; child stoned by her parent
- Unnecessary medical procedures – parent insisted on unnecessary and unwarranted feeding tube
- Siblings killed by a parent or partner of a parent
- Starved, emaciated children, failure to thrive
- Children restrained, locked up or held in captivity within portions of a home for lengthy periods of time

Substance Abuse Cases

- Children found in home containing methamphetamine labs or in close proximity to drugs, medicine, drug paraphernalia, dangerous items or substances while the parent is incapacitated
- Mother smothered infant while intoxicated, siblings removed
- Parents driving intoxicated with children in the car
- Parents leaving children, including infants, unattended while they use alcohol/drugs
- Domestic violence witnessed by children
- Abandoned children, sometimes at the hospital after birth, sometimes with relatives who seek OCS assistance
- Children testing positive for cocaine at birth, numerous cases of cocaine positive children born to same mother
- Children required to care for younger children as a result of incapacitated parents
- “Dirty house” cases – feces, exposed wires, chaotic living environment
- Habitual criminals, incarcerated parents

Sexual Abuse Cases

- Sexual abuse by parents, relatives, or friends of parents
- Sexual abuse of children too young to testify
- Sexually abused children with unsupportive parents who chose the perpetrator over the child
- Sexual abuse by a sibling, unsupportive parents
- Parent who coaches or encourages child to make untrue allegations of sexual abuse for the parent's own purposes

S.H. v. State, 42 P.3d 1119 (Alaska 2002)—

S.H. v. State

10 years of suspected child abuse were finally substantiated in 1997 in an incident involving a meat cleaver during which intoxicated male parent, R.H. assaulted his wife, S.H, and two of the five children in the home. Less than three weeks later, DFYS received a report that the couple's 7 year old daughter was sexually molested and another child was assaulted when S.H., the female parent, invited a couple she had met on a dating chat line to her house to engage in sexual activities. In spite of these events the children were allowed to stay in the home until 1999 until it became clear that domestic violence and substance abuse were still taking place in the home. S.H. did not comply with treatment and R.H. did not stay away from the home, as was required under the case plan. It was soon learned that R.H. and S.H. were using crack cocaine and smoking cigarettes in the home, something that was prohibited because two of the children had asthma. Finally the children were removed from the home. A trial was needed because the parents refused to voluntarily relinquish parental rights. Parental rights were terminated. The decision was appealed, and upheld on appeal.

The couple's five children were 13, 9, 7, 6, and 5 years of age at the time of termination. All of them exhibited serious signs of trauma and behavioral disorders as a result of their lives in an abusive home. The lone female child exhibited signs of sexual abuse.

***Ruby A. V. DFYS, 2003 WL 23018276 (Alaska
2003) MO&J***

Ruby already had three children, Mona, Shari, and Jim when she met Lloyd in 1996. Mona reported that Lloyd sexually abused her. Lloyd was jailed on a DWI charge and after his release, went to Texas. DFYS took temporary custody of the children, but that lapsed after three months and the children returned to Ruby's custody. Soon after, Mona reported a family friend, who was ultimately convicted of that charge, had sexually abused her. DFYS took custody of Mona but she was returned to Ruby in 1999. Two years later, Lloyd returned to Alaska and moved in the Ruby and her children. By then Ruby had another child. In a long and drawn out process, the children were removed from the home because of Lloyd's sexually abusive conduct and Ruby's unwillingness to protect her children from Lloyd. Another child was born in 2002, but because Ruby and Lloyd were still together, this child was also taken into custody – requiring another lengthy trial and appeal process.

J.H. v. DFYS, 30 P.3d 79 (Alaska 2001)

Jenny was born prematurely and tested positive for cocaine in July 1996. Jenny's mother, Jane, had a long history of abusing drugs, becoming involved with abusive men, and neglecting her children. By age 18, Jane was addicted to cocaine. She had repeatedly participated in drug treatment, but continued to relapse. By the time Jenny was born, Jane had already had 4 sons, all born cocaine-exposed, none of whom were in her care. DFYS sought custody of Jenny, which was granted. Jane was arrested a month after Jenny's birth and convicted for felony possession of cocaine. As in the past, DFYS attempted to get Jane to participate in substance abuse treatment and counseling related to past victimization and sexual abuse.

Shortly thereafter, Jane became pregnant by Denver, a man she met while in jail. Denver had a criminal record and abused alcohol. Jane gave birth to another child, Carrie, in April 1998 and shortly thereafter completed residential treatment and actively participated in other treatment.

Because experts believed that Jane was high risk for relapse, and the fact Jenny had spent more than 22 months in continuous foster care, DFYS changed its permanent goal in for Jenny to adoption. The trial to terminate parental rights took place over the course of 28 days ending in the fall of 1999. During the course of the trial, Jane did relapse, and so custody was assumed of Carrie. The court terminated parental rights, finding that Jane had a long-standing history of substance abuse, a pattern of treatment followed by relapse, and continued relationships with violent men who participated in criminal activity related to drugs. The court also found that she was at high risk of relapse and that she was unable to recognize how her behaviors affected her children or the impact on Jenny if she were removed from her long-term foster home. An appeal followed, and the decision was upheld by the Alaska Supreme Court.

Frank E. v. DFYS, 77 P.3d 715
(Alaska 2003)

In November 2000, police raided a home, on a report that F.E. and A.E. were operating a meth lab. They found methamphetamine cooking on the stove, filling the apartment with toxic vapors. F.E. was sitting in a chair with the toddler Br.E. on his lap, and a syringe containing methamphetamine in the cushion. The apartment was filthy, with knives and razor blades accessible to the children. Dirty clothes, dishes and dog food were strewn throughout the home. The dog food was apparently fed to the children, as the family had no dog.

OCS assumed custody of the four children in the home. After both parents stipulated that the children were children in need of aid, they were placed with their paternal grandmother. The mother abandoned the children, and the father began serving a four-year sentence. OCS pursued termination of parental rights. Shortly before the termination trial, and during father's incarceration, two of the minor children disclosed that the father sexually abused them.

A one week contested termination trial was held in June 2001. At the conclusion of the hearing, the court postponed the trial for seven months, so that it could determine if father could complete a substance abuse treatment program and remedy his conduct. When the trial reconvened in February 2002, the father was still being held pending trial on the sex abuse charges. The court took testimony concerning the programs and classes that father was participating in, and again continued the termination hearing, this time to await the results of the criminal trial. Shortly thereafter, father was convicted of sexually abusing his daughters.

In July 2002, the court terminated father's parental rights based on continued incarceration, his failure to remedy either substance abuse problem, and his violent tendencies. Father appealed the termination order and criminal conviction. In 2003, the Alaska Supreme Court affirmed the termination of parental rights.²⁷



Child Protection Appellate Attorney

- The department has 25 child protection appeals at any given time. A manageable child protection appeals caseload is half that amount.
- An additional appellate attorney in this area will further consolidate appeals and achieve significant improvement in the state's performance in the appellate arena because cases are better briefed and argued, and the implications of appellate decisions are clearly and quickly communicated statewide - to attorneys, and OCS.

The consequence of static resource in Child Protection

- Heavy caseloads result in missed deadlines and risk loss of federal funds
- Fewer social workers and child protection attorneys to protect Alaska's children from neglect and abuse
- Child protection attorneys burn out and quit - high vacancy and heavier caseloads result
- Potential fiscal sanctions

Juvenile Delinquency

- Federal Juvenile Accountability Block Grant funds available through an RSA with H&SS were eliminated, resulting in the loss of one JD attorney.
- Services to DJJ were seriously reduced in Kenai and Anchorage. Personnel in the DJJ are very concerned about this reduction, claiming that they need more attorneys to represent them, not fewer.

Ethics Act Attorney

- The Executive Branch Ethics Act requires the AG to carry out a wide variety of functions including all boards and commissions and post-state employment issues of all former state employees for a two-year period after they leave state service.
- Legal Functions Include:
 - Investigating and acting on complaints filed under the Ethics Act
 - Rendering of written and oral advice on ethics issues
 - Preparing written opinions on ethics issues
 - Analysis and recommendations on gift disclosure and outside employment disclosure
- Currently an unfunded mandatory body of work assigned to an attorney with other responsibilities

Labor and State Affairs Attorney

- Steady increases in the frequency and complexity of lawsuits and other disputes involving labor and employment issues increase demand on current staff
- State's budget issues are likely to lead to further increase demand on the section
- Changes and reorganization of government will further necessitate legal assistance and response to challenges to budget decisions made that impact employees and recipients of state services
- Two attorneys are needed to provide the timely advice that other state agencies need to make sound labor and employment decisions, and to represent state agencies effectively in court.

Legislation and Regulations Attorney

- Located in the Office of the Attorney General
- Staff of 2 attorneys and three other staff positions compared to Legislative Affairs Agency with 7.5 attorneys and 15 other staff positions
- Deadlines set by statute or uniform rules
- Section is critical achieving the Governor's goals
- Better and faster legal review and drafting of regulations as well as legislation

Summation

- Department has been underfunded over a long period of time
- Difficulty meeting statutory responsibilities
- Thorough review by Department and CWAG has identified some cost efficiencies which were implemented, but has been unable to eliminate any significant body of work without jeopardizing core responsibilities

Department of Law Contacts

- Gregg Renkes, Attorney General 465-2133
- Scott Nordstrand, Deputy Attorney General Civil Division
465-6179, 269-5100
- Susan Parkes, Deputy Attorney General Criminal Division
269-6379
- David Marquez, Legislative Liaison 465-2132
- Kathryn Daughhete, Director, Administrative Services
465-3673



GREGG D. RENKES
ATTORNEY GENERAL OF ALASKA

February 26, 2004

The Honorable John Harris, Co-Chair
House Finance Committee
Alaska State Legislature
State Capitol, Rm. 505
Juneau, AK 99801-1182

The Honorable Bill Williams, Co-Chair
House Finance Committee
Alaska State Legislature
State Capitol, Rm. 515
Juneau, AK 99801-1182

Re: Department of Law Fiscal Year '05 Budget

Dear Chairman Harris and Williams:

Thank you for the upcoming opportunity to meet with the House Finance Committee. As we approach fiscal year 2005, I'd like to share my concerns about the challenges and opportunities facing the Department of Law, while acknowledging that these are difficult times to ask for additional resources.

One of the core responsibilities of our state government is to protect the safety of the public. Sadly, we are currently not meeting this responsibility. During his campaign for election, Governor Murkowski recognized that a lack of commitment by the past administration had left Alaskans more vulnerable to crime, particularly women and children. At the Governor's direction I have proposed a budget that will allow us to address the most severe and urgent public safety needs. Overall, the effect of the House Finance Subcommittee reduction leaves the Department in the position where it cannot fund the Governor's priorities to increase criminal prosecution and protect children in Alaska. In fact, the overall impact of the subcommittee's action reduces Law's general funds below the FY 2004 level. This is of paramount concern to me because the same House Subcommittee fully funded the Department of Public Safety's request for 20 new state troopers, supplying public safety protection tools to a portion of the state's criminal justice team while at the same time effectively reducing our ability to protect the public from the worst offenders. It is the women, children and neighborhoods of our state that will suffer should this budget decision stand.

As you prepare the Finance Committee's version of the operating budget, I wanted to review key requests for funding reflected in the Governor's FY 2005 budget and compare them to the changes the House Subcommittee made in developing the Department of Law's budget.

CRIMINAL DIVISION

In the last 10 years, felony caseloads for our prosecutors increased 56% statewide. In that same period, General Funds to the Criminal Division increased only 22%. Due to increased benefit costs and other fixed increases, the 22% increase resulted in only a 10% increase in the number of actual General Fund prosecutor positions. To deal with the overwhelming caseloads, while still aggressively prosecuting high priority crimes, more lower priority cases are being plea-bargained to lesser felonies or misdemeanor charges. In 1996, 49% of all felony offenders were convicted of the most serious charge filed. In 2003, that number dropped to 34%. Additionally, the increased stress on our prosecutors leads to a high turnover rate, putting additional pressure on the offices to find ways to manage the caseloads, and that often means dismissing or reducing charges.

To reverse the statewide trend toward higher caseloads, we are requesting two new attorney positions in the Office of Special Prosecutions and Appeals to take over misdemeanor appellate and civil litigation duties that currently burden all local district attorney offices. These cases are better handled by attorneys trained in appellate procedure, thereby leaving front-line prosecutors available for court proceedings.

FY 2005 Governor's Request - \$236,400 GF
FY 2005 House Finance Subcommittee Funding - None

The House Subcommittee also eliminated the funding for Victims for Justice and adopted the Governor's budget reversal of a number of one-time special appropriations not in the Department's base budget.

There are two other areas where the situation is particularly critical: Kenai and Anchorage.

A. Kenai District Attorney's Office

The Kenai District Attorney's office has the highest caseload per attorney in the state. In the last 10 years, the Kenai felony caseload increased 60%, most of that coming in just the last four years. The misdemeanor caseload is also on the rise. This four-attorney office handles 700 felonies and 3000 misdemeanors per year, 600 of which are drunk-driving cases.

To begin to address the serious need in the Kenai District Attorney's Office, we are requesting one additional General Fund attorney position in Kenai.

FY 2005 Governor's Request - \$125,200 GF
FY 2005 House Finance Subcommittee Funding - None

B. Anchorage District Attorney's Office

In Anchorage, the felony caseload has increased 60% since 1993. Particularly disturbing is the Sexual Crimes Unit's caseload increase: since 2000, these cases have increased by 57%. Sexual assault cases are some of the most difficult and resource-intensive. The Violent Crimes Unit also saw a sharp caseload increase from 414 violent felonies in 1993 to 605 cases in 2003; a 46% increase. The Property Crimes unit is extremely overburdened; the unit currently has three attorneys handling a felony caseload of 900 new cases per year. The only way for prosecutors to manage such difficult work loads is to dispose of cases the most expeditious way possible. It is the victims of crime that suffer.

To adequately address the Anchorage community's public safety needs, we are requesting three new General Fund attorney positions, one for each of the above named units. Additionally, we are requesting one federally funded gun prosecutor, freeing General Fund resources to be directed to other high priority cases.

FY 2005 Governor's Request - \$383,600 GF, \$120,000 Federal Funds
FY 2005 House Finance Subcommittee Funding - No General Funds,
\$120,000 Federal Funds

CIVIL DIVISION

A. Protecting Children

Child-in-Need-of-Aid (CINA) cases are among the most stressful and difficult cases undertaken by the Department of Law. The caseload facing CINA lawyers, particularly in Anchorage and Bethel, is far in excess of the national standard of 100 children per attorney. The paralegal and appellate support provided to those attorneys is inadequate. Specifically, Fairbanks has no paralegal support for three CINA attorneys. Only Anchorage has the benefit of a dedicated attorney to handle CINA appeals. These pressures, combined with relatively low attorney pay, result in high turnover and vacancy rates of attorneys doing CINA cases.

In response to this crisis, we propose three additional CINA attorneys to relieve the Anchorage and Bethel caseloads, one attorney to cover statewide CINA appeals, and one paralegal to support the Fairbanks CINA attorneys.

FY 2005 Governor's Request - \$644,200 GF

FY 2005 House Finance Subcommittee Funding - \$467,700 GF

B. Juvenile Justice

Delinquency cases involve representation of the Division of Juvenile Justice (DJJ) in prosecuting juvenile delinquents.¹ Generally, the number of cases our office handles is commensurate with the number of attorneys available. Given current staffing levels, DJJ receives legal assistance in only about 17% of cases.

In FY 2003, the Department of Law had two full time and one half time attorney positions handling juvenile delinquency cases in Anchorage and Kenai. One of those attorneys was financed by an RSA with DHSS using funds from the federal Juvenile Accountability Incentive Block Grant (JAIBG). The JAIBG money was cut for FY 2004, resulting in the loss of one position. Services to DJJ were seriously reduced in Kenai and Anchorage.

We are requesting one new delinquency attorney position in Anchorage. This will restore a delinquency position lost in FY 2004 and give us the ability to restore attorney representation in the most serious juvenile delinquency cases in the Anchorage and Kenai area.

FY 2005 Governor's Request - \$112,200 GF

FY 2005 House Finance Subcommittee Funding - None

C. Ethics Attorney

The Executive Branch Ethics Act requires the Attorney General to carry out a wide variety of functions for the implementation and enforcement of the Ethics Act for

¹ The Civil Division handles delinquency cases in some parts of the state but not in others. The Anchorage office handles delinquency cases in Anchorage, Kenai, and Dillingham. The Fairbanks office handles Fairbanks and Barrow delinquency cases. The Bethel office handles delinquency cases in that region. In all other areas of the state, the Criminal Division is responsible for handling juvenile delinquency cases. In order to unify administration, in March, 2004 the Civil Division will transfer its delinquency caseload to the Criminal Division, along with all the resources it presently utilizes in that regard.

the executive branch of state government, including all boards and commissions and post-state employment issues of all former state employees for a two-year period after they leave state service. Ethics Act advice, investigations, follow-up, and training must be provided in a timely manner to facilitate agency decision making, to prevent potential problems, and to ensure sound enforcement of the law.

In the past administration, only a fraction of one attorney's time was dedicated to this important responsibility. The remaining ethics work was parceled out to other attorneys. While the ethics attorney's tasks may occasionally exceed a single attorney's capabilities, the Department of Law does not presently have even that capacity. The attorney presently assigned to handle Ethics Act functions is also assigned to work on Indian Law issues. Given the volume of work in both areas, we are unable to give either the attention they require.

We are requesting the addition of one attorney position dedicated entirely to Ethics Act responsibilities.

**FY 2005 Governor's Request - \$112,200 GF
FY 2005 House Finance Subcommittee Funding - None**

D. Labor Relations and State Affairs

Steady increases in the frequency and complexity of lawsuits and other disputes involving labor and employment issues has increased attorney demands in the Civil Division's Labor and State Affairs Section. The state's current budget challenges will likely lead to further increases in labor and employment disputes requiring legal assistance.

Presently, all the contracts with the state's employee unions are under negotiation. In recent years, the Department of Law provided little direct advice regarding labor negotiations and administrative proceedings related to those contracts. We view that approach as unwise and are undertaking to provide legal support to the negotiating teams in the Department of Administration through a short-term RSA. To maintain that support, we must add an attorney position to the FY 2005 budget.

The Labor and State Affairs Section also suffers from the sheer enormity of the legal advice required to support the administration's initiatives. The Department of Law is the "agent of change" in government; recent state governmental changes require our attorneys' active participation. We simply need more help to support the process.

Two additional attorneys are necessary to provide labor relations and government reform advice to the Governor and Executive Branch agencies.

FY 2005 Governor's Request - \$164,800 GF
FY 2005 House Finance Subcommittee Funding – None

E. Legislation and Regulations (Executive Office of the Attorney General)

The Legislation and Regulations Section reviews and edits all legislation and executive orders for the Office of the Governor, edits amendments to bills during the session, reviews and edits bill reviews for the Governor's consideration for action on passed legislation, prepares veto messages, edits administrative orders, and reviews and edits regulations for legal sufficiency. In addition, this section responds to a myriad of requests for legal assistance and advice surrounding the governor's legislation, regulation drafting, and public records and the Open Meetings Act requests.

The Legislation and Regulation Section's work requires professional research, drafting, and editing under high stress within tight timelines. Many of the section's deadlines are set by statute or uniform rules of the Alaska State Legislature. Also, many requests from the Office of the Governor have strict deadlines requiring immediate legal services for preparing amendments to discuss with legislators and stakeholders.

The Alaska Supreme Court requires that virtually all major policy decisions by state agencies not already in statute be established by regulation. Timely and thorough regulation reviews are necessary to avoid successful legal challenges to major policy reforms. Because of the volume of work during the legislative session to address requests of the Office of the Governor and coordinate legislative responses, the entire burden of regulation attorney work falls on one Assistant Attorney General during the session. The Legislation and Regulations Section needs an additional attorney position to fulfill its responsibilities for professional and statutorily required standards.

FY 2005 Governor's Request - \$147,400 GF
FY 2005 House Finance Subcommittee Funding – None

DEPARTMENT WIDE

A. Rising Costs of Personal Services

The cost of benefits for existing personnel is expected to increase sharply in FY 2005. In order to minimize the cost impact, the Department of Law deleted a number of long-standing vacancies. The House Subcommittee 20% reduction amounts to \$266,700.

FY 2005 Governor's Request - \$1,360,100 GF
FY 2005 House Finance Subcommittee Funding – \$1,093,400 GF

B. Other Actions Taken by the House Subcommittee

In addition to denying certain increments and partially funding others, the House subcommittee adopted a number of other budget cuts:

1. A 25% reduction to the travel line item – a reduction of this magnitude is not sustainable. The bulk of the department's travel is mandatory for witnesses, depositions, court appearances and proceedings. The Criminal Division would be hardest hit by this reduction.

FY 2005 Governor's Request – No reduction

FY 2005 House Finance Subcommittee Funding – \$292,700 GF reduction

2. Elimination or reduction of personal services costs in three areas:
 - a. In accordance with recommendations made by the Conference of Western Attorneys General, supervision of Civil Division sections was consolidated. New statewide supervising attorneys were moved up one salary range in order to reflect their significantly increased supervisory responsibilities. The House Subcommittee cut the funds for the one range increase.
 - b. The Attorney General reclassified a special assistant position downward to an Associate Attorney and tasked that individual with media and communications responsibilities. Most state agencies have at least one position doing this type of work. The House Subcommittee cut the funds for the salary and benefits associated with the position.
 - c. The subcommittee inexplicably cut all funding for the salary and benefits for the Deputy Attorney General component in the Civil Division, effectively zeroing out the personal services line item.

Net effect:

FY 2005 Governor's Request – No reduction

FY 2005 House Finance Subcommittee Funding – \$268,300 GF reduction

CONCLUSION

My review of the Department of Law over the course of this last year has revealed an agency that does not have sufficient funding to meet its basic statutory responsibilities. We carefully evaluated the Department's resources over the last year and concluded that no amount of reorganization or prioritization can address the funding shortfalls. The House Subcommittee's budget if enacted will leave us even further from the Governor's goals of improving public safety and protecting children from harm. Further, we will not be able to meet our basic statutory responsibilities in the areas of ethics, labor relations, regulatory and legislative review.

Again, thank you for carefully considering these requests. If you have any questions prior to our upcoming meeting, do not hesitate to call me.

Sincerely,



Gregg D. Renkes
Attorney General

3/17/04

ALASKA

GASLINE

PORT

AUTHORITY

HFIN

FILE

ALASKA GASLINE PORT AUTHORITY

731 N Street
Anchorage, AK 99501
(907) 278-7000 \ fax: (907) 278-7001
ddengel@ci.valdez.ak.us

February 27, 2004

**Board
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City of Valdez,
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Esq.

Richard Glenn

John Kelsey

Dave Dengel,
Interim Executive
Director

Governor Frank Murkowski
3rd Floor State Capitol
Juneau, AK 99811

Commissioner William A. Corbus
Department of Revenue
11th Floor State Office Bldg.
Juneau, AK 99811

Re: AGPA Application under Alaska Stranded Gas Development Act

Dear Governor Murkowski & Commissioner Corbus:

The Alaska Gasline Port Authority voted at its December 12, 2003 annual meeting to submit an application under the Stranded Gas Development Act for determination by the Commissioner of Revenue that the Port Authority is a qualified sponsor and that the project qualifies under AS 43.82.100.

While the Stranded Gas Act was authorized to allow the fiscal terms relative to royalty and taxes be tailored to the particular economic conditions of the project, the Port Authority structure requires no such concession on the part of the State. In fact, as is demonstrated in the application, the Port Authority project is, without such concessions, the most favorable gasline project to the State and the gas producers in terms of well head value. Further the "Y-line" concept of the project, with the additional line to Southcentral Alaska, provides for maximum market exposure and maximum in-state distribution of Alaska's natural gas resources.

Pursuant to AS 43.82.200 it is the intent of the Port Authority, to negotiate with the Commissioner, a contract for payment of impact funds to affected municipalities prior to and during construction. This will provide Alaskan communities with the means to mitigate the strain on local infrastructure during construction, as well as share the benefit of development of Alaska's natural resources with all municipalities throughout the term of the project.

ALASKA GASLINE PORT AUTHORITY

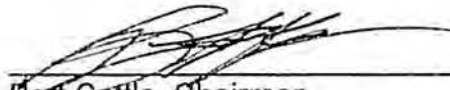
As evidenced in this application, the Port Authority structure, with the "Y-line" concept, allows for the maximum development of Alaska's natural gas resources to the maximum benefit of its people.

In accordance with its formative mandate, the Alaska Gasline Port Authority intends to provide for the maximum commercialization of Alaska's North Slope natural gas resources by securing North Slope gas supplies, and financing and contracting for the construction and operation of a gas pipeline project.

The Port Authority looks forward to continuing its work with other project applicants in the exploration of ways to make the Port Authority structure available to maximize the benefit of a natural gas pipeline.

ALASKA GASLINE PORT AUTHORITY

By:


Bert Gottle, Chairman
Mayor, City of Valdez

Enc.

cc: Commissioner Tom Irwin, Department of Natural Resources
Attorney General Gregg D. Renkes
Jim Clark, Chief of Staff

Alaska State Legislature
HOUSE OF REPRESENTATIVES
House Finance Committee
AGENDA

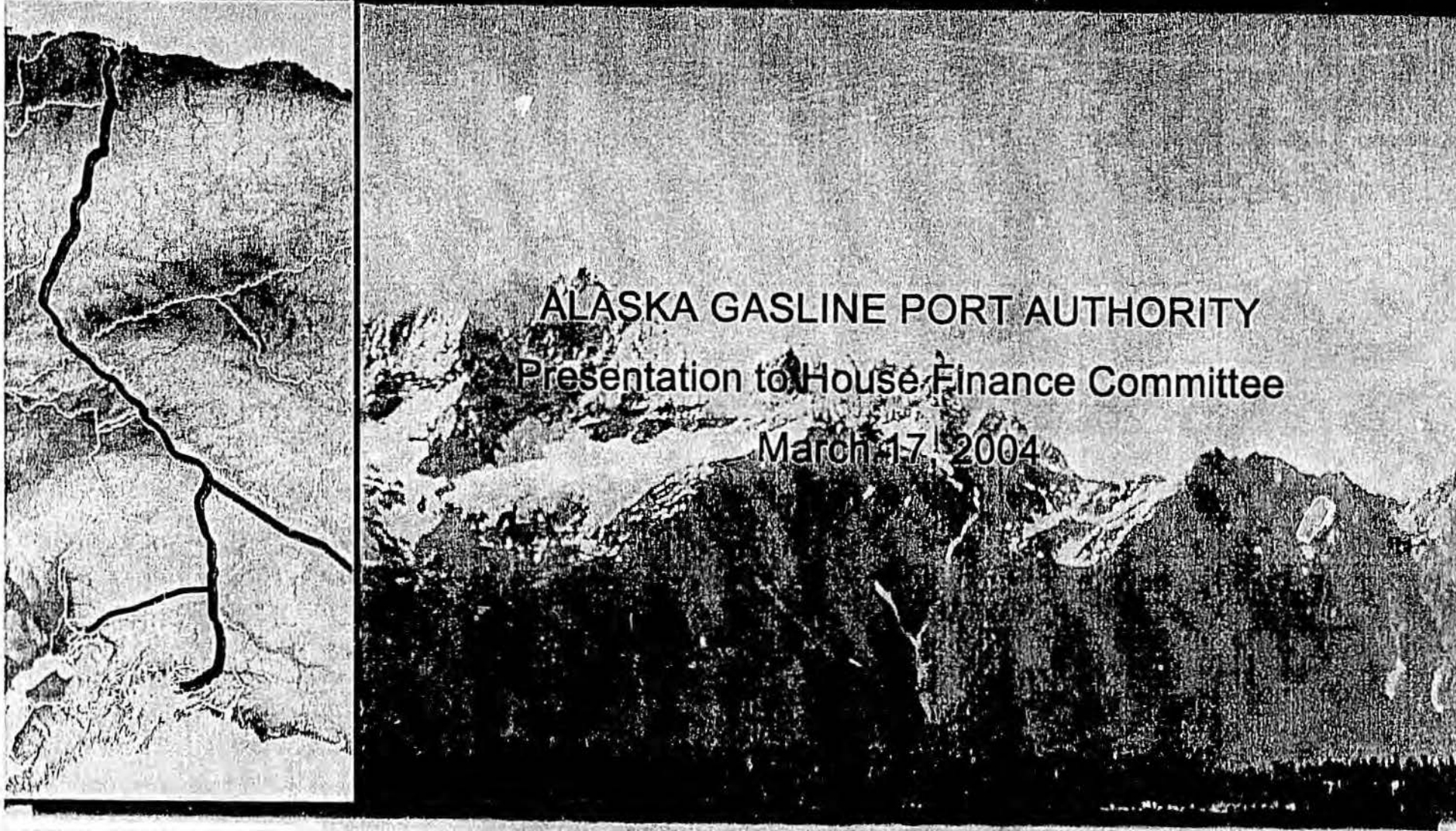
March 17, 2004 - Wednesday

Overview:

Alaska Gasline Port Authority/Stranded Gas Application

Bills previously heard/scheduled.

HJR 9-CONST AM: APPROPRIATION/SPENDING LIMIT



ALASKA GASLINE PORT AUTHORITY
Presentation to House Finance Committee
March 17, 2004



- To enable the development of Alaska's North Slope gas to the maximum benefit of all Alaskans.
- To bring Alaskan natural gas to North American markets at long-term competitive prices.
- To bring the benefits of a tax-exempt structure to a North Slope gas project.
- To support all routes to commercialize Alaskan natural gas except an "over the top" route through the Mackenzie Delta.



- **Alaska Gasline Port Authority**
- **Bechtel Corporation – technical and development support**
- **Taylor DeJongh – financial analysis and formation**
- **O'Melveny and Myers – development counsel**
- **Walker and Levesque, LLC – general counsel**



- IRS granting of federal income tax exemption
- Completed project development plan; engineering, procurement and construction plan; project cost estimate and alternatives analyses
- Completed economic and financial models
- MOU with Crystal Energy (California)
- MOU negotiations with US West Coast and Alaska gas purchasers
- Submittal of Application under the Stranded Gas Development Act

Alaska Gas Development Project

Application under AS 43.82

**Alaska Stranded Gas Development
Act**



Executive Summary

Project Description:

Three component gas distribution system which includes:

- *a pipeline from Prudhoe Bay to Valdez for West Coast LNG,*
- *a line from Delta Junction to the Canada Border*
- *and a line from Glennallen to existing Southcentral gas grid.*

Executive Summary

Cost Estimate:

<i>Gas Conditioning Plant:</i>	<i>\$4.3 Billion</i>
<i>Pipelines:</i>	<i>\$10.15 Billion</i>
<i>LNG Plant and Port Facilities:</i>	<i>\$3.7 Billion</i>
<i>LPG Extraction Facility:</i>	<i>\$.5 Billion</i>
<i>Soft Costs:</i>	<i><u>\$7.4 Billion</u></i>
<i>Total Project Cost:</i>	<i>\$26.05 Billion</i>

Executive Summary

Annual Revenue Benefits Resulting From Tax Exempt Structure of the Port Authority:

<i>Producers -</i>	<i>\$4.255 Billion</i>
<i>State of Alaska -</i>	<i>\$1.356 Billion</i>
<i>Municipalities -</i>	<i>\$299 Million</i>

Executive Summary

Unique Benefits of Port Authority Project Structure:

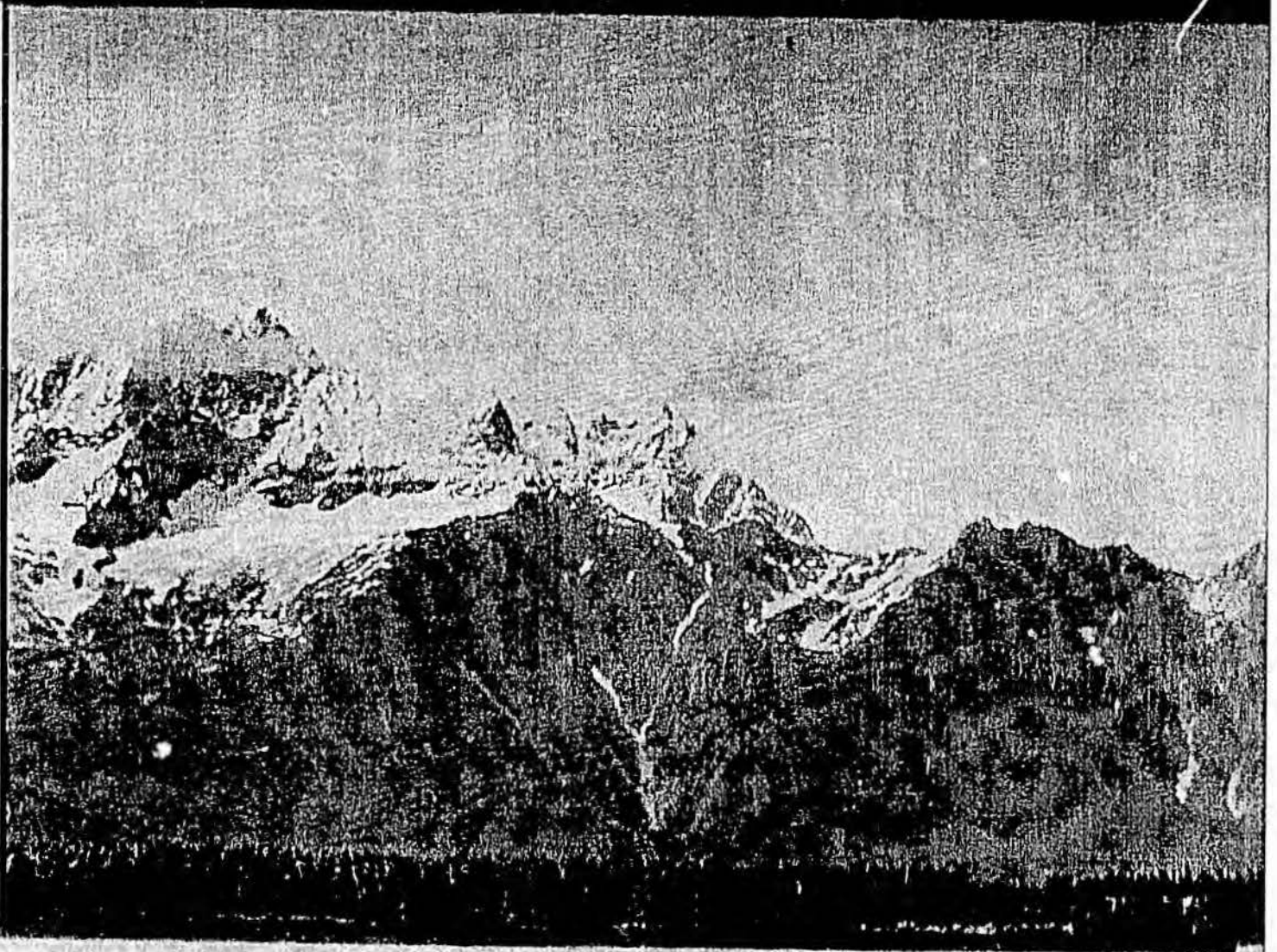
- *Exemption from federal income tax that provides additional benefits to project stakeholders including: State of Alaska, municipalities, in-state off-take purchasers producers and pipeline operators*
- *Competitive access to pipeline capacity*
- *Guarantee gas supply for in-state use*
- *Maximum market diversification*

Tax Revisions Needed for Project Economics

- › *Municipal:* *None*
- › *State:* *None*
- › *Federal:* *None*

Legislation Needed to Improve Project Economics

- › *Municipal:* *None*
- › *State:* *None*
- › *Federal:* *None*



AGPA
ALASKA GAMING PORT AUTHORITY

**APPLICATION OF
THE ALASKA GASLINE PORT AUTHORITY TO
THE STATE OF ALASKA,
FOR APPROVAL UNDER A.S. 43.82
THE ALASKA STRANDED GAS DEVELOPMENT ACT**

February 27, 2004.



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2. Alaska Municipal Port Authority Act
3. Port Authority Enabling Ordinances
4. IRS Ruling
5. Pedro Van Meurs Opinion
6. Alaska State Constitution
7. Crystal Energy MOU
8. Project EPC Schedule

**Application of the Alaska Gasline Port Authority to
the State of Alaska, Department of Revenue
Under the Alaska Stranded Gas Development Act**

The Alaska Gasline Port Authority (Port Authority) submits this application pursuant to the Alaska Stranded Gas Development Act, AS 43.82.010. By submitting this application, the Port Authority expresses its intent to secure Alaska North Slope natural gas supplies, enter into contracts with natural gas, LNG and LPG purchasers both intrastate and for export, obtain financing for and contract to construct and operate a gas pipeline for the transportation of North Slope natural gas to market.

This pipeline will consist of an overland gas pipeline from Prudhoe Bay, Alaska to tidewater at Valdez that will run parallel to the existing Trans-Alaska Oil Pipeline, with a line from Delta Junction to the Canada Border near Beaver Creek, Yukon Territory. Additionally, a line will be built from Glennallen, Alaska into the Matanuska-Susitna Valley, (approximately 125 miles) to connect with the existing South Central natural gas grid to provide gas to the Matanuska-Susitna Valley, Anchorage and the Kenai Peninsula (Project).¹

As required under AS 43.82.130, the Port Authority submits for consideration and approval to the Department of Revenue, along with this application, the required project plan. The Port Authority requests a determination by the Commissioner of the Department of Revenue that the proposed project plan is a qualified project plan within the requirements of AS 43.82.130.

¹ Exhibit 1 - AGPA Project Presentation Book

I. Introduction

The Alaska Gasline Port Authority is a municipal port authority established on October 5, 1999, in accordance with the Alaska Municipal Port Authority Act (AS 29.35.600), et. seq. (Port Authority).² The Port Authority was formed by the municipalities of the North Slope Borough, Fairbanks North Star Borough and the City of Valdez.³ An election was held in each of those municipalities and the percentage of voter approval for the formation of Port Authority averaged approximately 80%. Shortly following its formation, the Port Authority submitted to the IRS an application for a private letter ruling establishing that all income to the Port Authority would be tax exempt. On January 24, 2000, the IRS issued the requested private letter declaring that income to the Port Authority would be exempt from federal income taxes.⁴ According to petroleum economist and consultant Dr. Pedro Van Meurs, this IRS ruling provides \$10-20 billion in additional benefits to the Port Authority Project,⁵ Therefore, the Port Authority Project requires no dependence upon Federal legislation to provide tax incentives or price floors. Further, the amount of this benefit exceeds any State and Municipal tax breaks that could conscionably be negotiated to improve the economics of an otherwise taxable gas pipeline project. The Port Authority will request an additional IRS ruling prior to the beginning of the construction of the Project, as is typically required, to reflect modifications in the Project since its original submittal to the IRS in 1999.

² Exhibit 2 – Alaska Municipal Port Authority Act

³ Exhibit 3 – Establishing Ordinances

⁴ Exhibit 4 – IRS Ruling

⁵ Exhibit 5 – Pedro Van Meurs Letter

Project Cost Estimate

The Port Authority engaged the services of Bechtel Corporation to provide a comprehensive hard-dollar, not-to-exceed price for the Project. The initial Project consisted of a gas pipeline from Prudhoe Bay to run parallel to the Trans-Alaska oil pipeline, to an LNG liquefaction terminal in Valdez, utilizing existing permits. The Project has since been modified to include the addition of a line through Canada, which greatly increased the debt service coverage ratio as will be explained further in this application. Further, the Project includes a line from Glennallen to approximately Sutton to connect with the existing Southcentral natural gas grid in an addendum to the project cost estimate.⁶

Economic Model

In conjunction with work done by Bechtel Corporation, the Port Authority engaged the services of Taylor-DeJongh to develop an economic model incorporating the work performed by Bechtel Corporation. Taylor-DeJongh is an organization of internationally acclaimed energy financial advisors headquartered in Washington, D.C., with offices worldwide, and has, in some capacity, been involved in most of the international LNG projects financed around the world over the past 10 years.⁷ See www.taylor-dejongh.com.

⁶ Exhibit 1, pg. 6-10 - Bechtel Project Cost Estimate

⁷ Exhibit 1, pg. 5 - Taylor DeJongh Economic Model

Financing

Financing for the Port Authority gas pipeline would be similar to other municipally financed projects in that it would be 100% project financed with no private ownership or equity interest. This is a key element to the Port Authority Project as any private investment would nullify the Port Authority's extremely valuable IRS tax exempt status. Upon examination and advice by Merrill Lynch, in order to finance and obtain 100% debt financing, the Port Authority Project would need to have a minimum of 1.7 debt service coverage ratio (DSCR). As the initial model developed by Taylor-DeJongh in 2000 did not result in the required 1.7 minimum DSCR, the Port Authority explored options to increase the debt service coverage ratio. As will be fully developed in this application, the addition of a line to Canada greatly increased the DSCR. The shared cost of 550 miles of pipeline (Prudhoe Bay to Delta Junction) and the shared cost of the very expensive gas conditioning plant (GCP) on the North Slope greatly improved the economics of the Project. The Port Authority Project has also been designed to transport propane and butane down the line. The transport and sale of these liquids improves project economics by approximately \$1.75 billion per year.

As a result of the over 55,000 work hours by Bechtel developing a hard-dollar, not-to-exceed price for the Project, which includes substantial contingencies and Taylor-DeJongh's economic models, the Port Authority is confident that the Y-line concept with a line to the Canada border from Delta Junction and a line into the existing Southcentral Alaska natural gas grid, is the

most financially beneficial project to Alaska.⁸ As is set forth in more detail in the exhibits of this application, the Y-line concept, with approximately 2.6 billion cubic feet of gas per day (2.6 Bcfd) to Valdez and 3.1 Bcfd from Delta Junction to the Canada border, generates a potential well head price of \$1.48 (generating over \$4.255 billion annually for the producers), and potential revenues to the State of Alaska and Alaska municipalities of \$1.5 billion annually; assuming a natural gas price in Chicago of \$3.75/MMBtu and an LNG price of \$2.75/MMBtu at Valdez.⁹ The Port Authority Project scenario also sets in place the basic infrastructure for optimization of in-state distribution of gas, allowing not only lower cost, clean burning energy, but the potential for continued and expanded petrochemical industry throughout Alaska.

In addition to obtaining a ruling of federal income tax exempt status from the IRS, a hard-dollar / turn-key price from Bechtel Corporation and an economic model from Taylor-DeJongh that confirms the Project financing feasibility, the Port Authority has entered into its first MOU with a company that has applied for permits to construct and operate an LNG receiving terminal off the coast of California. The Port Authority's Project infrastructure, the Y-line and the inclusion of propane and butane, returns the greatest well-head price for the gas and the greatest financial benefit to all Alaskans from Alaska's natural gas reserves.

A basic element of the Port Authority Project is the inclusion of a Project revenue distribution to all municipalities in Alaska providing a stable community

⁸ Exhibit 6 – Alaska State Constitution Article VIII, sec. 1&2

⁹ It important to note that these benefits will be available from a project that is not being financed or guaranteed by the producers or the State of Alaska.

dividend that may be used for funding of capital projects, basic services and improved quality of life.

Allowing for maximum competition in the development of Alaska North Slope natural gas is in the best interest of Alaska. The Port Authority is committed to assuring no undue restrictions of access to gas pipeline capacity for producers of ANS gas.

The Port Authority welcomes an opportunity to fully discuss this application with the Commissioner of the Department of Revenue or appointed designees.

Additional information about this application and inquiries about the Alaska Gasline Port Authority should be directed to:

William M. Walker
Walker & Levesque, LLC
731 N Street
Anchorage, AK 99501
278-7000
bill-wwa@ak.net
www.alaskagaslineportauthority.com

Alaska Stranded Gas Development Act

Legislative Intent

It is the intent of the legislature that

- (1) in awarding contracts under the Alaska Stranded Gas Development Act, a qualified sponsor or qualified sponsor group and contractors of the qualified sponsor group may develop and enter into project labor agreements with appropriate collective bargaining organizations for each project for which a contract is entered into; and***
- (2) each contract for payments in lieu of taxes and for royalty adjustments entered into under the Alaska Stranded Gas Development Act contain a provision by which the contract may be reopened by any party to the contract; the subject matter of the reopening may be dealt with through the use of arbitration proceedings agreed on by the parties.***

In accordance with the legislative intent as stated in the amended reauthorization of the Alaska Stranded Gas Development Act, the Port Authority recognizes the benefit of negotiated project labor agreements in its goal to maximize Alaskan participation in a stranded gas pipeline project.

In further accordance with legislative intent and to the extent permitted by its financing documents, the Port Authority commits to include a provision by which the contract may be reopened by any party to the contract.

**ALASKA STRANDED GAS DEVELOPMENT ACT
AS 43.82.010 – Purpose**

- (1) encourage new investment to develop the state's stranded gas resources by authorizing establishment of fiscal terms related to that new investment without significantly altering tax and royalty methodologies and rates on existing oil and gas infrastructure and production;**

As a subdivision of government, the Alaska Gasline Port Authority Project will be exempt from taxation. Therefore, the Port Authority does not seek any changes in the current tax and royalty methodologies and rates. However, the Port Authority recognizes the significant economic impact to Alaskan communities relative to the gas pipeline project and will negotiate in good faith with the Commissioner of the Department of Revenue a contract for payment in lieu of taxes (PILT). In addition to a negotiated PILT, the Port Authority project provides for gas pipeline revenue sharing to include all Alaska municipalities.

- (2) allow the fiscal terms applicable to a qualified sponsor or the members of a qualified sponsor group, with respect to a qualified project, to be tailored to the particular economic conditions of the project and to establish those fiscal terms in advance with as much certainty as the Constitution of the State of Alaska allows;**

As exhibited within this application, the very favorable economic benefits enjoyed through the tax exempt status and project specifics of the Port Authority

gas pipeline project require no tailoring of the fiscal terms with regard to the State tax and royalty rates and methodologies. Currently these rates are set out in Alaska Statute and will not be subject to uncertainty relative to this Project.

(3) maximize the benefit to the people of the state of the development of the state's stranded gas resources.

In every aspect of the development of this Project, the Alaska Gasline Pipeline Authority has held as its singular objective to maximize the benefit of the commercialization of Alaska North Slope natural gas to not only the residents of the member communities but to all Alaskans.

II. **AS 43.82.100 – Qualified Project**

AS 43.82.100 sets forth specific requirements for consideration as a qualified project. The Port Authority responds that criteria as follows:

1. ***AS 43.82.100 (1) requires that in order to be a qualified project, the project principally involves***
 - (A) the transportation of a natural gas pipeline to one or more markets, together with any associated processing or treatment;***

The Port Authority Project, which is more fully described in Exhibit 1 of this application, intends to transport natural gas from Alaska's North Slope via pipeline to potential markets in North America through Canada along the Alcan highway.

- (B) the export of liquefied natural gas from the state to one or more other states or countries; or***

The Port Authority Project provides for a 2.6 Bcfd LNG and LPG project from Valdez to markets along the West Coast of the United States and Pacific Rim Countries.

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

The Port Authority project also provides for a gas pipeline from Glennallen to connect with the Southcentral gas grid, providing infrastructure for new and continuing in-state distribution of gas.

2. ***AS 43.82.100 (2) would produce at least 500,000,000,000 cubic feet of stranded gas within 20 years from the commencement of commercial operations***

While the Port Authority's Project model produces potentially six different volume scenarios ranging from a single 2.6 Bcfd line to Valdez to multiple 6 Bcfd Y-line scenarios with lines to Canada and the Matanuska-Susitna Valley, its minimum sized Project would consist of approximately 2.6 Bcfd throughput. With this projected minimum throughput, the Project would cause the production of well over 500 bcf of stranded gas within the 20-year requirement set forth in AS 43.82.100(2).

3. ***AS 43.82.100 (3); is capable, subject to applicable commercial regulations and technical and economic considerations, of making gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project.***

The Port Authority's mission is to commercialize Alaska North Slope gas to the maximum benefit of all Alaska. In compliance with that mission, the Port Authority's project includes making gas available at commercially reasonable rates to communities along the route from Prudhoe Bay to Valdez and a line from Glennallen into the Matanuska-Susitna Valley to connect with the Southcentral natural gas grid, thereby making gas available to the residents and business of the Matanuska-Susitna Valley, Anchorage and the Kenai Peninsula.

III. AS 43.82.110 – Qualified Sponsor or Qualified Sponsor Group

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

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

The Port Authority will own a 100% equity interest in the Project as is required in order to maintain the Port Authority's tax exempt status.

- (2) **meets one or more of the following criteria:**
 - (A) ***owns a working interest in at least 10 percent of the stranded gas proposed to be developed by a qualified project;***
 - (B) ***has the right to purchase at least 10 percent of the stranded gas proposed to be developed by a qualified project;***
 - (C) ***has the right to acquire, control, or market at least 10 percent of the stranded gas proposed to be developed by a qualified project;***
 - (D) ***has a net worth equal to at least 33 percent of the estimated cost of constructing a qualified project;***
 - (E) ***has an unused line of credit equal to at least 25 percent of the estimated cost of constructing a qualified project.***

Pursuant to AS 38.05.183, the Port Authority intends to make application to the State of Alaska for the State of Alaska's twelve and one-half percent (12.5%) of royalty gas. The Port Authority intends such an application to be part and parcel of this application which exceeds the threshold requirement of 10 percent set forth above.

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

Because the Port Authority intends to acquire 12.5 percent of the stranded gas on the North Slope under AS 38.05.183, the royalty share of the State of Alaska's gas on the North Slope, it also intends to market that same gas as the owner of the gas and has entered into an MOU for the sale of that gas into the California market.¹⁰ The Port Authority also intends to acquire additional gas supply through commercial negotiations with the producers, and if required will utilize its authority allowed under AS 29.35.620.

¹⁰ Exhibit 7 - Crystal Energy MOU

IV. AS 43.82.130 – Qualified Project Plan

The Port Authority's Project plan provides for a 56-inch line from Prudhoe Bay to Delta Junction (approximately 550 miles) with a 46-inch line from Delta Junction to Valdez (approximately 256 miles) and a 46-inch line to the Canada border (approximately 185 miles). Additionally, the Port Authority Project includes a line from Glennallen into the Matanuska-Susitna Valley (approximately 125 miles) to connect with the existing Southcentral Alaska gas grid.

Under the Port Authority's base case, the line would transport approximately 3.1 Bcfd of gas to the Canada border with approximately 2.6 Bcfd of gas to Valdez.

The Port Authority's cost assumptions are extremely conservative, assuming no benefit from existing equipment and facilities present on the North Slope.

Gas conditioning plant (8.7 Bcfd capacity) <i>(assumes no benefits from equipment at existing plant on North Slope)</i>	\$4.3 billion
Pipeline:	\$9.9 billion
> 6 Bscfd from Prudhoe Bay to Delta Junction	
> 2.678 Bscfd delivered to Valdez from Delta Junction	
> 3.161 Bscfd delivered to Canada border from Delta Junction	
LNG Plant and Port Facilities:	\$3.7 billion
> Three trains – 15 million tons LNG per year	
> Train 1 completed in 49 months	
> Trains 2 & 3 completed in 6-months intervals	
LPG Extraction Facility:	\$0.5 billion
Total EPC Cost:	<u>\$18.4 billion</u>

The Port Authority has also taken into consideration and included all possible contingencies and soft-costs associated with this Project. Because the

Port Authority cannot consider a cost over-run scenario, the direction to Bechtel Corporation was to provide a hard dollar cost estimate to include all contingencies. While the Port Authority recognizes that this creates a cost estimate which is substantially higher than some cost estimates performed by other entities, the Port Authority also believes these cost estimates can be further refined. At this point however, EPC and the soft-costs of the Project consist of the following:

EPC	\$18.4 billion
Owner's Contingency	\$0.9 billion
Insurance	\$0.2 billion
Development Costs	\$0.1 billion
Working Capital	\$0.5 billion
Owner Costs, Line Pack	\$0.1 billion
Interest During Construction	\$4.4 billion
Financing and Underwriting Fees	\$0.2 billion
Debt Service Reserves Fund	\$1.0 billion
 	<hr/>
Total Project Cost	\$25.8 billion

By combining a gasline to the Lower 48 with a gasline to an LNG project, the cost estimate of the gas transportation down each branch of the line will be lowered by approximately 30%. The total shared cost savings, consisting of the construction cost savings plus the soft cost savings is approximately \$3 billion for each branch of the line for a total of \$6 billion for the LNG and gas pipeline portions of the Project.

In further support of the conservative nature of the Port Authority's Project cost estimate, the calculations included an 8-10% escalation built into the components of the EPC costs, \$1.8 billion in contractors contingency, and a \$928 million owner contingency for cost overruns not covered by the EPC contractor.

The Port Authority model also includes a \$1 billion debt service reserve to support 6 months of debt service if necessary.

V. NATURE AND SOURCES OF FINANCING

The financing structure consists of zero private equity and would be on a project financed basis. The base case assumes a 100% senior debt financing although there is a potential for several forms of equity-like participation in the form of subordinated debt; off-taker pre-purchase financing, subordinated payment for gas and payment for permits, etc. However, in all debt finance scenarios, the Project must maintain a very healthy debt service coverage ratio (DSCRs). Based on current market conditions, the financing will consist of approximately 24% tax exempt bonds, 45% taxable bonds, and 15% from export banks and 16% from commercial banks.

VI. Purchase Price of Gas

While typically a project of this nature does not come with a well-head guarantee of price for gas, the Port Authority's economic model provides for a guaranteed minimum payment of 30 cents per MMBtu base price for purchased feed gas. Payment above that 30 cents would come from the net back each year beyond the operating cost and debt service requirement. In the Port Authority's base case, the total purchase price for gas is 30 cents per MMBtu (base price) plus an additional \$1.18 per MMBtu (additional net back) for a total of \$1.48 at the well head.

VII. Base Case Assumptions and Results

The Port Authority's base case, including all assumptions are set forth in detail in Exhibit 1, pages 15-18.

VIII. Benefits of Port Authority Financing and Tax-Exempt Status

The exemption from federal income tax frees up cash - \$113 million per year in the early years, increasing to over \$1 billion in later years – which may be used to increase producer netback, pay debt, be distributed to Project participants, and/or be distributed to other stakeholders. The Port Authority has the ability to issue tax-exempt bonds for a portion of the debt which lowers debt service payments by approximately \$280 million per year. In its economic model, the Port Authority assumes only a portion of the port facilities would qualify for tax exempt financing. While the Alaska Railroad bonds may be available for 100% tax exempt financing, until an IRS Ruling on that issue is received, the Port Authority remained consistent with its conservative approach and did not include that benefit in the model.

IX. Additional Benefits of the Y-Line

Additional benefit of the shared costs of the Y-line Project is set forth in detail in Exhibit 1, pages 24 and 39 through 45.

The Port Authority summary of the AGPA model sensitivity case results, sets forth the 6 cases consisting of:

- 1) A single 2.6 line to Valdez;
- 2) 4 Bcfd single line through to the Canada border;
- 3) 4.5 Bcfd line to the Canada border;
- 4) 3.1 Bcfd line to the Canada border;
- 5) 6 Bcfd Y-split Y-line to Canada (approximately 3 to Canada and 3 to Valdez);
- 6) 2+4 Y-split with 2 Bcfd to Valdez and 4 Bcfd to Canada

This summary, found in Exhibit 1, page 25 compares in detail all economics of the six scenarios.

X. Timeframe for Project Completion

The Port Authority vision in the completion of this Project, following the entering into MOU's to supply LNG into the California market is, in the 2010 range. A specific construction time table set forth in Exhibit 8.

XI. Sources of Supply

Proven 35 trillion cubic feet (tcf) of natural gas in Alaska's north slope. Additional estimates from the various government sources increase that by an additional 150 tcf. These estimates are more than necessary to provide the required gas for this project.