

**ALASKA LEGISLATURE**

**2459**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004**

25

17. protect its assets, services, and employees by purchasing insurance or providing for certain self-insurance retentions; an authority may also maintain casualty, property, business interruption, marine, boiler and machinery, pollution liability, and other insurance in amounts reasonably calculated to cover potential claims against the Authority or a municipality for bodily injury, death or disability, and property damage that may arise from or be related to Authority operations and activities.

Such powers shall be exercised subject only to such restrictions upon the manner of exercising such powers as are imposed under this Ordinance and the Act. The Authority shall have such additional powers as may be necessary or convenient to effect the purposes of this Ordinance or as may be provided in the Act, as it may hereafter be amended and supplemented.

#### **Section 7. Governing Board.**

Each Original Municipality shall appoint three (3) members to the Board, each serving in his or her individual capacity as a member of the Board. Each member of the Board shall serve for a term of four (4) years. Any appointment to fill an unexpired term shall be for the remainder of such unexpired term. The terms of office specified above shall be applicable unless the term of office of the respective member is terminated as hereinafter provided.

Each member of the Board shall be a registered voter, reside within the State of Alaska, and serve at the pleasure of the governing body of the original Municipality by whom such member was appointed. The term of office of any member of the Board appointed by an original Municipality may be terminated at any time by a majority vote of the governing body of such original Municipality which appointed such member.

Members of the Board shall be entitled to receive reimbursement for any expenses actually incurred in connection with serving as a member of the Board, if the Board shall determine that such expenses shall be reimbursed and there are unencumbered funds available for such purposes.

#### **Section 8. Bylaws.**

The Board shall adopt appropriate bylaws necessary or convenient for the conduct of its function and purposes.

**Section 9. Meetings of the Board.**

The manner, time and conduct of meetings of the Board shall be as set forth in the Bylaws.

**Section 10. Officers; Duties.**

The Board shall appoint such officers as shall be set forth in the Bylaws, including, but not limited to, a chief executive officer as provided in the Act.

**Section 11. Bonds; Indebtedness.**

The Authority shall have power to issue Bonds in accordance with the provisions of the Act for the purpose of raising funds necessary to carry out its powers under this Ordinance and to enter into appropriate agreements or leases to secure said Bonds.

The Authority shall also have the power to issue any other form of indebtedness authorized by the Act in accordance with the provisions of the Act for such purposes.

**Section 12. Operation of the Project.**

The Authority shall provide for the operation and maintenance of the Project.

**Section 13. Contributions and Advances; Payment of Costs.**

Contributions or advances of public funds and of personnel, equipment or property may be made to the Authority by the Participating Municipalities for any of the purposes of this Ordinance. Payment of public funds may be made to defray the cost of any such contribution. Any such advance may be made subject to repayment and in such case shall be repaid in the manner agreed upon by the respective Participating Municipality and the Authority at the time of making such advance.

**Section 14. Accounts and Reports.**

The Authority shall establish and maintain such funds and accounts as may be required by good accounting practice and by any provision of any resolution of the Authority securing Bonds. The books and records of the Authority shall be open to inspection at all reasonable times by each Participating Municipality and their respective representatives. Within ninety (90) days following the end of each fiscal year of the Authority, the Board shall distribute to the mayor and governing body of each Participating Municipality a report describing the operations and financial condition of the Authority during the preceding fiscal year.

**Section 15. Development Plan.**

Prior to commencement of the Project, the Authority shall deliver to each Participating Municipality a development plan with respect to the acquisition, construction and installation of the Project. The Authority shall be prohibited from undertaking the construction or acquisition of a project unless the project appears in a development plan submitted to and approved by the governing body of the municipality or municipalities participating in the Authority.

**Section 16. Dissolution.**

The Authority shall cease to exist and be dissolved upon the termination thereof as provided in Section 4 of this Ordinance. Upon dissolution of the Authority, the assets of the Authority shall be distributed to all the Participating Municipalities as provided in Section 29.35.610 of the Act.

**Section 17. Sharing of Net Revenues.**

All net revenues derived by the Authority from the Project, after payment of maintenance and operation costs, capital expenditures, debt service and other costs and expenses related to the operation of the Project or of the Authority and after establishment and funding of such reserves as the Authority shall deem necessary or appropriate, shall be shared with the State and all municipalities, regardless of membership in the Authority, in accordance with the following formula:

(1) Municipalities that have real or personal property located within their taxing jurisdiction that is exempt from taxation because it is owned by the Authority, shall receive annually a Payment In Lieu of Tax (PILT) equal to two percent (2%) of the original cost of construction or acquisition of that property within their taxing boundaries. The value each year of the property qualifying for the PILT shall be its original cost plus subsequent capital costs added to those facilities in each municipality. This does not include the costs incurred for maintenance.

(2) The balance of the net revenues following the PILT payments described above shall be distributed as follows:

- (a) Sixty percent (60%) shall be distributed to the State of Alaska;
- (b) Thirty percent (30%) shall be distributed to municipalities as follows:

(i) each municipality shall receive an annual pro rata payment based upon their population, as established by the Alaska Taxable for that year, with each municipality receiving a minimum payment of Fifty Thousand Dollars (\$50,000).

(ii) each municipality within a borough shall receive a pro rata payment based upon the percentage that their prior year's general fund operating budget is to the general fund operating budget of the borough. The balance remaining shall be paid to the borough. The minimum annual payment shall also apply to municipalities within a borough.

(c) Ten percent (10%) shall be divided equally among the Original Municipalities of the Authority who became members prior to December 31, 1999.

**Section 18. Severability.**

Should any part, term or provision of this Ordinance be decided by the courts to be illegal or in conflict with any law of the State, or otherwise be rendered unenforceable or ineffectual, the validity of the remaining parts, terms or provisions shall not be affected thereby.

**Section 19. Amendment of Ordinance.**

This Ordinance may be amended by the governing board of each Original Municipality then participating in the Authority, but only with the prior approval of the Board.

**Section 20. Section Headings.**

All Section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Ordinance.

**Section 21. Amendment of Law.**

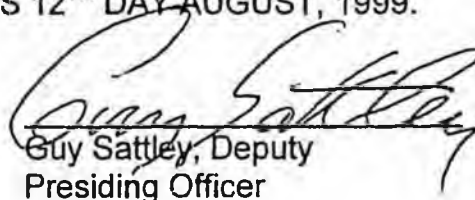
All references in this Ordinance to specific statutes shall be construed to refer to those statutes as may be amended or recodified from time to time.

**Section 22. Election.**


The appropriate officers, employees, representatives and agents of the Fairbanks North Star Borough are hereby authorized and directed to do everything necessary or desirable to the calling and holding of the election and to otherwise carry out the provisions of this Ordinance. This election shall be held on October 5, 1999.

**Section 23.** This ordinance shall take effect immediately upon passage and approval.

PASSED AND APPROVED THIS 12<sup>TH</sup> DAY AUGUST, 1999.

  
Guy Sattley, Deputy  
Presiding Officer

ATTEST:

  
Mona Lisa Drexler, CMC/AAE  
Municipal Borough Clerk

Ayes: Veazey, Parr, Webb, Young, Prax, Beck, Cummings, Sonafrank, Sattley  
Noes: None

CITY OF VALDEZ, ALASKA

ORDINANCE NO. 99-11

ORDINANCE OF THE CITY OF VALDEZ PROVIDING FOR  
THE CREATION OF THE ALASKA GASLINE PORT  
AUTHORITY PURSUANT TO THE MUNICIPAL PORT  
AUTHORITY ACT AS AUTHORIZED IN AS 29.35.600 ET  
SEQ.

WHEREAS, Article VIII, Section I, Constitution of the State of Alaska, provides that it is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest; and

WHEREAS, development of Alaska's natural gas reserves is of critical importance to the financial well-being of the State of Alaska and of its citizens; and

WHEREAS, development of Alaska's natural gas reserves has been delayed for many years because of, among other things, the lack of a pipeline or other economically viable method for transporting natural gas to market. Private interests have been unable to finance or construct such a pipeline; and

WHEREAS, public ownership of a natural gas pipeline offers some advantages over private ownership. Income from pipeline operations would be exempt from federal income tax. Interest on bonds issued to finance pipeline construction would, to some extent, be exempt from federal income tax; and

WHEREAS, the seller of the gas must be an entity that can credibly deliver gas to the purchasers. No such entity currently exists. Private entities alone cannot finance or construct the pipeline on an economically viable basis; and

WHEREAS, Alaska law permits one or more municipalities to create a Port Authority that could credibly deliver natural gas to purchasers. The Port Authority would have the power to finance and construct the pipeline and related facilities, and to purchase and sell natural gas.

NOW, THEREFORE, BE IT ORDAINED by the People of the City of Valdez, Alaska, as follows:

**Section 1. Definitions.**

Unless the context otherwise requires, the terms defined in this Section 1 shall for all purposes of this Ordinance have the meanings herein specified.

**Act** - The term "Act" shall mean the Municipal Port Authority Act, Alaska Statutes Section 29.35.600 et seq.

**Authority** - The term "Authority" shall mean the Alaska Gasline Port Authority created by this Ordinance.

**Board** - The term "Board" shall mean the governing board of the Authority.

**Bonds** - The term "Bonds" shall mean bonds or other obligations of the Authority authorized and issued pursuant to the Act, including each and all series of bonds, and shall also include, except where the context shall require otherwise, any other form of indebtedness of the Authority authorized, issued or incurred pursuant to the Act.

**Bylaws** - The term "Bylaws" means the bylaws of the Authority as adopted by the Board pursuant to the Act and Section 8 of this Ordinance.

**Original Municipality** - The term "Original Municipality" shall have the meaning given such term in Section 5 of this Ordinance.

**Participating Municipality** - The term "Participating Municipality" shall mean each Original Municipality and each municipality which joins and participates in the Authority as provided in the Act.

**Project** - The term "Project" shall mean the acquisition, construction, financing, installation and improvement of a port facility in the Port of Valdez, including associated and related facilities for the conditioning, transportation, liquefaction, storage and shipping of natural gas and other commodities to, at and from such facility. "Project" shall include conditioning plants, compression stations, pipelines, spur lines, and liquefied natural gas facilities, and shall also include the acquisition and purchase of natural gas and related commodities (or rights thereto) and all permits, licenses and related rights necessary or convenient for the operation of any of the facilities described above.

**Sponsor** - The term "Sponsor" shall mean each of the City of Valdez, the Fairbanks North Star Borough, North Slope Borough and the Municipality of Anchorage upon adoption by such municipality of this Ordinance or an ordinance parallel to this Ordinance, as appropriate.

**State** - The term "State" means the State of Alaska.

**Section 2. Purpose: Boundaries.**

This Ordinance is adopted pursuant to the Act to provide for the creation of the Authority as a port authority and public corporation of the Participating Municipalities.

The boundaries of the Authority shall be coterminous with the boundaries of the Participating Municipalities.

**Section 3. Creation of Authority.**

Upon approval of the voters of one or more of the Sponsors, there shall be created pursuant to the Act and this Ordinance a port authority to be known as the "Alaska Gasline Port Authority." As provided in the Act, the Authority shall be a public corporation separate and apart from the Participating Municipalities. The debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of the Participating Municipalities.

**Section 4. Term.**

The Authority shall be established and come into existence upon the approval of the voters of any one or more of the Sponsors and shall continue in existence and effect until the later of (i) such time as the Bonds and the interest thereon shall have been paid in full, and (ii) dissolution of the Authority upon the vote of the Board.

**Section 5. Participation of Municipalities.**

Each Sponsor shall join and participate in the Authority upon (1) adoption of this Ordinance or an ordinance parallel to this Ordinance, as appropriate, and (2) either (a) approval of such ordinance by the voters of such municipality or (b) otherwise satisfying prior to December 31, 1999, the requirements set forth in the Act relating to joining a port authority. Only sponsors who join the Authority by December 31, 1999, shall be considered Original Municipalities.

**Section 6. Power; Restriction Upon Exercise.**

The Authority shall have the power to acquire, by purchase, lease, contribution, condemnation or otherwise, real property and personal property for the Project, and to construct and improve, or cause to be constructed and improved, and to maintain and operate all or part of the Project; subject, however to the conditions and restrictions heretofore and hereinafter in this Ordinance contained.

The Authority is authorized, in its own name, to do all acts necessary or convenient for the exercise of said power for said purposes, including but not limited to, any of the following:

1. sue and be sued;
2. have a seal and alter it at pleasure;
3. acquire an interest in a project as necessary or appropriate to provide financing for the project, whether by purchase, gift, or lease;
4. lease to others a project acquired by it and upon the terms and conditions the Authority may consider advisable, including, without limitation, provisions for purchase or renewal;
5. sell, by installment sale or otherwise, exchange, donate, convey, or encumber in any manner by mortgage or by creation of another security interest, real or personal property owned by it, or in which it has an interest, including a project, when, in the judgment of the Authority, the action is in furtherance of the Authority's purposes;
6. accept gifts, grants, or loans, under the terms and conditions imposed under the gift, grant, or loan, and enter into contracts, conveyances or other transactions with a federal agency or an agency or instrumentality of the state, a municipality, private organization, or other person;
7. deposit or invest its funds, subject to agreements with bondholders;
8. purchase or insure loans to finance the costs of projects;
9. provide for security within the boundaries of the Authority;
10. enter into loan agreements with respect to one or more projects upon the terms and conditions the Authority considers advisable;
11. acquire, manage, and operate projects as the Authority considers necessary or appropriate to serve the authority's purposes;
12. assist private lenders to make loans to finance the costs of projects through loan commitments, short-term financing, or otherwise;

13. charge fees or other forms of remuneration for the use or possession of projects in accordance with the agreements described in this section, other agreements relating to the projects, covenants, or representations made in bond documents relating to the projects, or regulations of the authority relating to the projects;
14. exercise the powers of eminent domain and declaration of taking within its physical boundaries under AS 29.35.030 to acquire land or materials for authority purposes;
15. defend and indemnify a current or former member of the board, employee, or agent of the Authority against all costs, expenses, judgments, and liabilities, including attorney fees, incurred by or imposed upon that person in connection with civil or criminal action in which the person is involved as a result of the person's affiliation with the Authority if the person acted in good faith on behalf of the Authority and within the scope of the person's official duties and powers;
16. purchase insurance to protect and hold harmless its employees, agents, and board members from an action, claim, or proceeding arising out of the performance, purported performance, or failure to perform in good faith, of duties for, or employment with the Authority and to hold them harmless from expenses connected with the defense, settlement, or monetary judgments from that action, claim, or proceeding; the purchase of insurance is subject to the discretion of the board; insurance purchased under this paragraph may not be considered compensation to the insured person; and
17. protect its assets, services, and employees by purchasing insurance or providing for certain self-insurance retentions; an authority may also maintain casualty, property, business interruption, marine, boiler and machinery, pollution liability, and other insurance in amounts reasonably calculated to cover potential claims against the Authority or a municipality for bodily injury, death or disability, and property damage that may arise from or be related to Authority operations and activities.

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The appropriate officers, employees, representatives and agents of the City of Valdez are hereby authorized and directed to do everything necessary or desirable to the calling and holding of the election and to otherwise carry out the provisions of this Ordinance. This election shall be held on October 5, 1999.

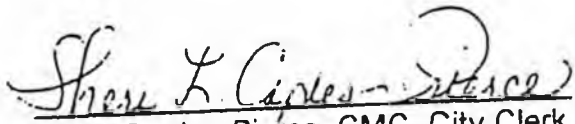
**Section 23.** This ordinance shall take effect immediately upon passage and approval.

PASSED AND APPROVED BY THE COUNCIL OF THE CITY OF VALDEZ, ALASKA, this 19th day of July, 1999.

CITY OF VALDEZ, ALASKA

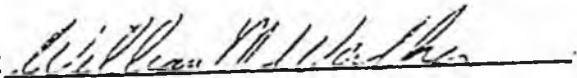
By: David C Cobb  
David C. Cobb, Mayor

ATTEST:

  
Sheri Caples-Pierce, CMC, City Clerk

APPROVED AS TO FORM:

WALKER WALKER  
WENDLANDT & OSOWSKI, LLC  
Attorneys for the City of Valdez

By:   
William M. Walker

1st Reading: July 6, 1999  
2nd Reading: July 19, 1999  
Adoption: July 19, 1999  
Ayes: 4  
Noes: 0  
Not Voting: 0  
Absent: 3 (Moore, Shirrell, Nielsen)



Exhibit

4

**Internal Revenue Service**

Department of the Treasury

Index Number: 103.02-01

Washington, DC 20224

Travis C. Gibbs  
c/o O'Melveny & Myers LLP  
400 South Hope Street  
Los Angeles, California 90071-2899

Person to Contact:  
David E. White I.D. #50-07793  
Telephone Number:  
(202)622-3980  
Refer Reply To:  
CC:DOM:FI&P:5/PLR-118656-99  
Date: JAN 24 2000

**LEGEND:**

Authority = Alaska Gasline Port Authority  
State = Alaska  
Date 1 = October 5, 1999  
A = Fairbanks North Star Borough  
B = North Slope Borough  
C = City of Valdez  
Port = Port of Valdez, Alaska  
Location = North Slope of Alaska

Dear Mr. Gibbs:

This letter is in response to your request for a ruling that based on the definition of the term "political subdivision" in § 1.103-1(b) of the Income Tax Regulations, the Authority qualifies as a political subdivision of the State.

**Facts and Representations**

You make the following factual representations. The Authority was created on Date 1 pursuant to State law by the local governmental units A, B, and C. The Authority was created to provide for the development of ports in the State for transportation-related commerce. In accordance with this purpose, the Authority will

undertake various improvements and additions to certain existing port facilities located, and will construct new port facilities to be located, at the Port, and will acquire and develop the facilities necessary for the transportation, in state use, and sale of natural gas that is currently stranded at the Location (the "Project").

As a result of the availability of natural gas through the Project, the cost of electricity to the State's residents will be substantially reduced. Excess gas not used in-state will be available for other uses.

The Authority is governed by a board of directors appointed by its member governmental units A, B, and C. The Authority has the power to acquire, by purchase, lease, contribution, condemnation, or otherwise, real and personal property for the Project. State law provides that the Authority has the same power of eminent domain as that possessed by A, B, and C. Specifically, the Authority may commence eminent domain actions, in its own name, in the appropriate court of the State to acquire land or materials within its physical boundaries for Authority purposes, and may take possession of the property upon commencement of the proceedings.

The Authority's revenues will be derived primarily from the sale of natural gas to municipalities within the State and to other purchasers, which are expected to include governmental and private entities. These revenues will be used first generally to pay operating expenses and debt service and to fund necessary reserves for operation of the Project. Any net income will be shared with the State and all of its municipalities for use in their respective governmental purposes. Upon dissolution of the Authority, its assets will be distributed to its member governmental units.

In addition to contributions from the participating governmental units, the Authority is authorized to issue bonds or any other form of indebtedness to raise funds to finance the Project.

### Law and Analysis

Section 103(a) of the Internal Revenue Code provides, in part, that except as provided in subsection (b), gross income does not include interest on any state or local bond. Section 103(c)(1) provides that the term "state or local bond" means an obligation of a state or political subdivision thereof.

Section 1.103-1(b) provides that the term "political subdivision" denotes any division of any state or local governmental unit that is a municipal corporation or that has been delegated the right to exercise part of the sovereign power of the unit. As thus defined, a political subdivision of any state or local governmental unit may or may not, for purposes of this section, include special assessment districts so created, such

as road, water, sewer, gas, light, reclamation, drainage, irrigation, levee, school, harbor, port improvement, and similar districts and divisions of these units. Rev. Rul. 78-276, 1978-2 C.B. 256, states that the term "political subdivision" has been defined consistently for all federal tax purposes as denoting either (1) a division of a state or local government that is a municipal corporation, or (2) a division of such state or local government that has been delegated the right to exercise sovereign power.

In determining whether an entity is a division of a state or local governmental unit, important considerations are the extent the entity is (1) controlled by the state or local government unit, and (2) motivated by a wholly public purpose. Revenue Ruling 83-131, 1983-2 C.B. 184.

The three generally acknowledged sovereign powers are the power to tax, the power of eminent domain, and the police power. See *Commissioner v. Estate of Alexander J. Shamberg*, 3 T.C. 131, (1944) *acq.*, 1945 C.B. 6, *aff'd* 144 F.2d 998 (2d Cir. 1944), *cert. denied*, 323 U.S. 792 (1945). It is not necessary that all three powers enumerated in *Shamberg* be delegated. Rev. Rul. 77-164, 1977-1 C.B. 20; Rev. Rul. 77-165, 1977-1 C.B. 21. However, possession of only an insubstantial amount of any or all sovereign powers is not sufficient. All of the facts and circumstances must be taken into consideration including the public purposes of the entity and its control by a government.

Indicia that the Authority is governmentally controlled are: (1) the Authority is governed by a board of directors appointed by its member governmental units A, B, and C; (2) the Authority's net revenues inure to the benefit of the State and its municipalities; and (3) the Authority's assets will be distributed to its member governmental units upon dissolution. The Authority is motivated by a wholly public purpose.

Under State law the Authority is granted broad powers of eminent domain within its physical boundaries. The Authority is authorized to commence actions in the appropriate court of the State to enforce this right and will be able to take possession of property upon commencement of the condemnation proceedings rather than after judgment. These exercises of the power of eminent domain are commensurate with a substantial exercise of that power.

### Conclusion

Based solely on the representations made and the definition of the term "political subdivision" in § 1.103-1(b), we conclude that the Authority is a political subdivision. Accordingly, the Authority is not required to file federal income tax returns or pay federal income tax on its income.

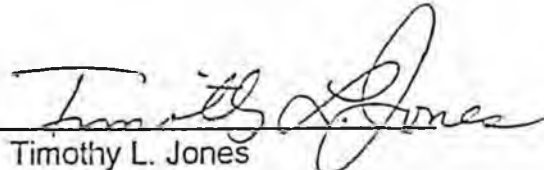
Except as specifically stated above, no opinion is expressed regarding the consequences of this transaction under any provision of the Code or regulations thereunder.

This ruling letter is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Sincerely yours,

Assistant Chief Counsel  
(Financial Institutions & Products)

By:



Timothy L. Jones  
Assistant to the Chief, Branch 5

Enclosure:

Copy of § 611C purposes

cc: District Director, Pacific - Northwest District (Seattle)  
Attn: Chief, Examination Division

Employee Plans & Exempt Organizations  
Field Compliance Division  
Attn: Joseph P. Grabowski, CP:E:EO:T:4  
Room 6236

Exhibit

5

AIDE MEMOIRE  
MEETING WITH ALASKA GASLINE PORT AUTHORITY

March 30, 2000

Dr. Pedro van Meurs

INTRODUCTION

The consultant met on March 17 and 18 with Mr. Bill Walker of the Alaska Gasline Port Authority and their legal counsel of O'Melveny & Myers.

A document (Index Number 103.02-01) was provided to the consultant containing an opinion of the Internal Revenue Service indicating that the Authority would not be required to file federal income tax returns or pay federal income tax on its income.

It was explained to the consultant that this opinion would typically also mean that there would be no State corporate income tax as well.

The Alaska Gasline Port Authority is contemplating being the owner of the LNG project from the lease boundary on the North Slope to the loading point FOB Valdez. This means that the tax exemption would apply to the conditioning of the gas, the pipe line transportation and the liquefaction and loading of the LNG on tankers.

The Alaska Gasline Port Authority indicated that they would not be involved in the production of the gas or the shipping by LNG tankers.

The consultant was asked to provide his views on the impact on the economics of the project based on these conditions.

VIEWS OF THE CONSULTANT

An exemption from federal and state corporate income tax would have a very beneficial impact on the rate of return of the Alaska LNG project, assuming a project structure can be realized in which the exemption would indeed apply.

The consultant carried out previously analysis for the State of Alaska on an Alaska LNG project involving a capacity of 14.5 million tons, a 30 year cashflow, a CIF price in the Far East of \$ 3.50 per MMBtu and 3% escalation of costs and prices. Total project investments were estimated between \$ 12 and \$ 15 billion.

The previous conclusion was that the project costs need to be reduced considerably in order for the project to be economically viable. Assuming costs can be reduced, fiscal restructuring would enhance the possibilities of the project.

Based on the above total project configuration, the net benefit of the tax exemptions may range in the order of magnitude of \$ 10 to \$ 20 billion on an undiscounted current dollar basis.

The net tax benefit on a total project basis will depend very much on how the benefit is distributed between the producers, consumers, the Alaska Gasline Port Authority and other parties. For instance, the tax benefit would be at the lower end of the above mentioned range if this benefit would be used:

- to lower the "toll" between the lease boundary and the FOB export point and to increase in the lease boundary price, or
- to lower the CIF price to consumers in Asia in order to make the introduction of a large volume of gas feasible in the near future.

The tax exemption could strengthen the economics of the project considerably, provided the Alaska Gasline Port Authority:

1. finds a way to lower the overall costs of the project,
2. is able to create with other parties a financial and organizational configuration in which the project can proceed, and
3. is able to create conditions under which this exemption can be effectively used to the benefit of the total project.

A handwritten signature in black ink, appearing to be "J. M. [unclear]", written over a horizontal line.

Exhibit

6

## **Constitution of the State of Alaska**

### **Section 8.1 - Statement of Policy.**

It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.

### **Section 8.2 - General Authority.**

The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people.

Exhibit

7



## Memorandum of Understanding

This Memorandum of Understanding ("MOU") is entered into as of January 14, 2004 by and among the Alaska Gasline Port Authority (AGPA) and Crystal Energy LLC (Crystal).

### RECITALS:

**Whereas**, the North Slope of Alaska has proven reserves of 33 TCF of natural gas which cannot currently be marketed outside the North Slope because there is no pipeline to transport it;

**Whereas**, the AGPA was formed by Valdez, the North Slope Borough and the Fairbanks North Star Borough pursuant to the laws of the State of Alaska to enable the development of Alaska's North Slope gas by constructing or causing to be constructed a natural gas pipeline from the North Slope to Valdez where the natural gas will be liquefied and transported to North American and Asian markets;

**Whereas**, the AGPA has the intention to construct, own and or have access to and use of, and maintain and operate and/or cause to be maintained and operated, facilities in the State of Alaska including, without limitation, production and natural gas processing facilities, gas pipeline, natural gas liquefaction plant facilities, storage tanks, utilities, jetty, berthing and loading facilities and all ancillary facilities (as all such facilities may be constructed, modified, or expanded from time to time), (the "Alaska LNG Project") for the purpose of selling liquefied natural gas ("LNG");

**Whereas**, Crystal and/or its designated affiliates, intends to construct and operate an LNG regasification receiving terminal located off-shore of Ventura, California which is currently expected to be constructed with a nominal capacity of one billion cubic feet per day (1.0 Bcf/d) and include, without limitation, regasification facilities, gas conditioning, utilities, berthing and unloading facilities, and all ancillary facilities and associated pipeline infrastructure necessary to deliver regasified LNG to market (the "Crystal LNG Project");

**Whereas**, Crystal is undertaking discussions with interested parties, including the AGPA to develop a portfolio of short term and long term LNG supply from multiple LNG supply projects for delivery to the Crystal LNG Project commencing 2007; and.

**Whereas**, the AGPA and Crystal wish to jointly evaluate the feasibility of the Parties entering into a definitive LNG purchase and supply agreements for long term supply of LNG from the Alaska LNG Project to the Crystal LNG Project in California.

Now, therefore, based on the foregoing, the Parties agree as follows:

### 1. Sales and Purchase Agreement

Crystal and the AGPA desire to negotiate one or more sales and purchase agreements (SPA) for the sale by the AGPA and purchase by Crystal of the LNG equivalent of between One Hundred Million cubic feet per day (100,000 mcf/d) and Eight Hundred Million cubic feet per day (800,000 mcf/d) of natural gas on a ratable basis for a period of no less than fifteen years (the "LNG Volume") commencing from the date of commencement of commercial operation of the Alaska LNG Project, but in no event later than January 1, 2012.

### 2. Exclusive Arrangement – AGPA

During the term of this MOU, AGPA shall not directly or indirectly, solicit, initiate or entertain inquiries or proposals from any other person or entity which, if concluded, could reasonably be expected to result in its inability to sell and deliver the LNG Volume to Crystal with delivery commencing from the date of commencement of commercial operations of the Alaska LNG Project, provided Crystal is able to successfully advance development of the Crystal LNG Project to support commencement of operations by January 1, 2012.

### 3. Exclusive Arrangement – Crystal

During the term of this MOU, Crystal shall not directly or indirectly, solicit, initiate or entertain inquiries or proposals from any other person or entity which, if concluded, could reasonably be expected to result in its inability to purchase and receive the LNG Volume, from the AGPA provided that;

- (a) the AGPA is able to successfully advance development of the Alaska LNG Project to support commencement of operations by January 1, 2012, and
- (b) Crystal and Alaska LNG are successful in working together to conclude purchase and sale contracts for the Crystal LNG Project's LNG requirements for the period prior to commercial operation of the Alaska LNG Project (Interim Supply).

### 4. Co-Operation

The Parties will cooperate with each other and work in good faith in connection with the transactions contemplated by this MOU in order to ensure that all facilities and arrangements contemplated by the SPA and conditions precedent to the respective obligations of the Parties set forth in the SPA, including without limitation any governmental licenses, approvals, authorizations, and permits, are accomplished and satisfied on or before the respective dates set forth therein. During the term of the MOU, the Parties will in a spirit of mutual co-operation and good faith:

- a. Evaluate the development schedules of the respective projects to determine the feasibility of entering into definitive agreements;
- b. Evaluate the technical feasibility of their respective projects with the intent of developing a mutually beneficial delivery schedule for LNG;

- c. Provide reasonably technical and market support to each other to enable the Parties to evaluate the proposed transaction,
- d. Government to Government support and cooperation in meetings with the CA State government and
- e. Exchange financial information, plans and/or concepts that may provide mutually beneficial financing options for the projects.

#### 5. Letter of Intent

The Parties will negotiate and execute a detailed Letter of Intent ("LOI") prior to December 31, 2004, outlining the key terms and conditions, including conditions precedent, of a sale and purchase agreement ("SPA") for the Proposed Transaction which will detail interalia:

- a. Dates for first LNG deliveries and Interim Supply plans;
- b. Acceptable credit support requirements for the transaction;
- c. LNG volume pricing and term provisions;
- d. The delivery basis of the transaction (CIF and/or FOB basis);
- e. The Parties rights to discharge LNG at alternative ports;
- f. Quantity of natural gas to be supplied during the term of the SPA;
- g. The Parties take or pay and deliver or pay obligations;
- h. LNG/Gas specifications (must meet California requirements); and
- i. Taxes and charges.

#### 6. Interim Supply

The AGPA will support Crystal in its endeavors to secure an interim sale and purchase agreement covering the purchase and sale of a volume of LNG during any period subsequent to the commencement of commercial operation of the Crystal LNG Project but prior to commencement of commercial operation of the Alaska LNG Project ("Interim Supply").

#### 7. Termination of MOU

This MOU shall remain in effect until the earlier of (a) its termination by mutual agreement of the Parties or (b) the failure of the Parties to have executed and delivered the LOI on or before December 31, 2004. Upon termination, none of the Parties shall have any further rights or obligations under this MOU to any other Party, except in respect of any right or obligation under this MOU which is expressed to apply after the termination of this MOU and any rights or obligations which have accrued in respect of any breach of any of the provisions of this MOU to any Party prior to such termination.

8. Public statements and releases and Confidentiality

The Parties shall not make or permit or authorize the making of any press release or other public statement or disclosure concerning this MOU or its contents without the prior written consent of the other Parties, other than as required by law or an order of a court of competent jurisdiction or the requirements of a regulatory or governmental body, wherever situated. In the event of any such required disclosure, the disclosing Party shall give the other Parties as much advanced notice of such disclosure as possible. Except as provided above, the Parties shall not disclose the terms and conditions of this MOU or the transactions contemplated hereby to any third party (other than the employees, lenders, counsel and accountants of such Party and its parent and affiliate companies who have a need to know the information contained herein). The parties agree they will execute a more comprehensive confidentiality agreement no later than February 15, 2004 to cover confidential information to be disclosed to each other in the process of implementing this MOU.

9. Expenses

Each Party will bear its own costs and expenses incurred in connection with the negotiation of this MOU and the Definitive Documents.

10. Non-binding Nature of MOU

This MOU is intended to advance discussions among the Parties and is not to be construed to create any legally binding obligations or commitments on any Party, except as otherwise provided in Sections 2, 3 and 8 above.

11. Execution in counterparts.

This MOU may be executed in one or more counterparts each of which shall be deemed an original and all of which shall be deemed one and the same MOU.

IN WITNESS WHEREOF, the Parties have executed this MOU as of the date first above written.

Crystal Energy LLC

By: William T. Perkins III

Name: William Perkins III

Title: President

Alaska Gasline Port Authority

By: Bert Cottle

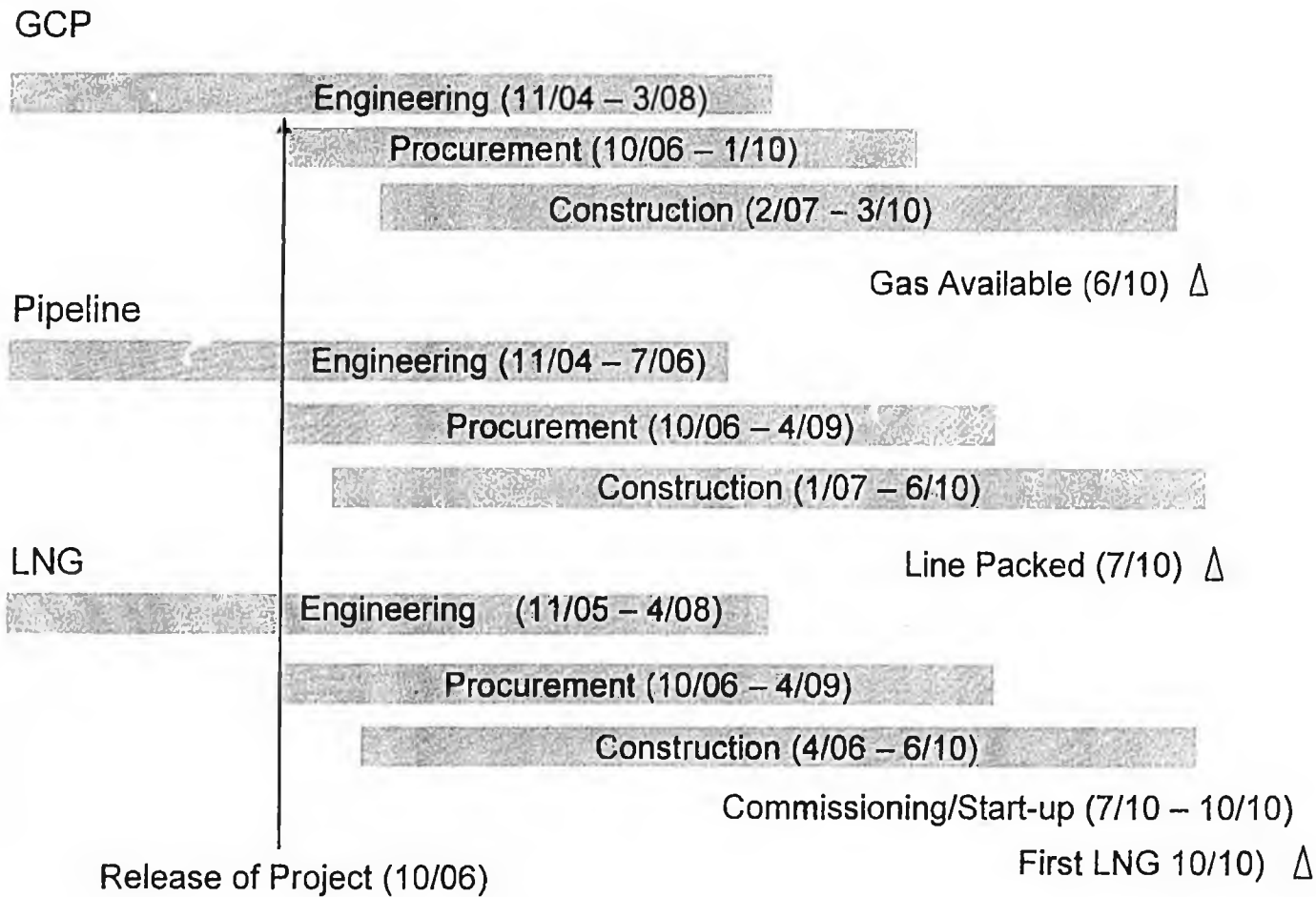
Name: Bert Cottle

Title: Chairman

Exhibit

8

# Project EPC Schedule



**4/5/04**

**PERS/**

**TRS**

**HFIN**

**FILE**

































































































