

AK LEGISLATURE FINANCE COMMITTEES FILES 2007-2008 3211

23

# State Revenue, AGIA Rates: No Looping, No Full in-fill



- Without rolled-in rates it is *likely neither* 2<sup>nd</sup> nor 3<sup>rd</sup> expansion occur. If they don't:  
 $[AGIA \text{ revenue}] - [L48 \text{ FERC revenue}] =$

## State NPV<sub>5</sub> difference, \$2007 (billion)

	<u>Case A</u>	<u>Case B</u>	<u>Case C</u>	<u>Expected</u>
	State gas first	State gas 2nd	State gas last	<u>Value</u>
\$3.50	1.71	1.67	2.18	1.85
\$5.50	5.63	5.57	6.28	5.83
\$7.00	8.51	8.45	9.27	8.75

# Producer Upstream Returns

Base case cost = \$20.5B



	<b>NPV<sub>10</sub> (\$B)</b>	<b>IRR</b>	<b>P/I</b>	<b>NPV<sub>10</sub> per BOE</b>
<b>\$4.00</b>	<b>6.1</b>	<b>39.7%</b>	<b>4.3</b>	<b>\$0.74</b>
<b>\$5.50</b>	<b>12.1</b>	<b>62.9%</b>	<b>7.5</b>	<b>\$1.46</b>
<b>\$7.00</b>	<b>17.8</b>	<b>79.2%</b>	<b>10.5</b>	<b>\$2.15</b>

Prices are real, \$2007, escalating at 2%/year

# Worst-Case Producer Effects of AGIA Rates



- The following shows Producer upstream investment measures given the three expansions under the “worst case” of no producer gas in any of the expansions.

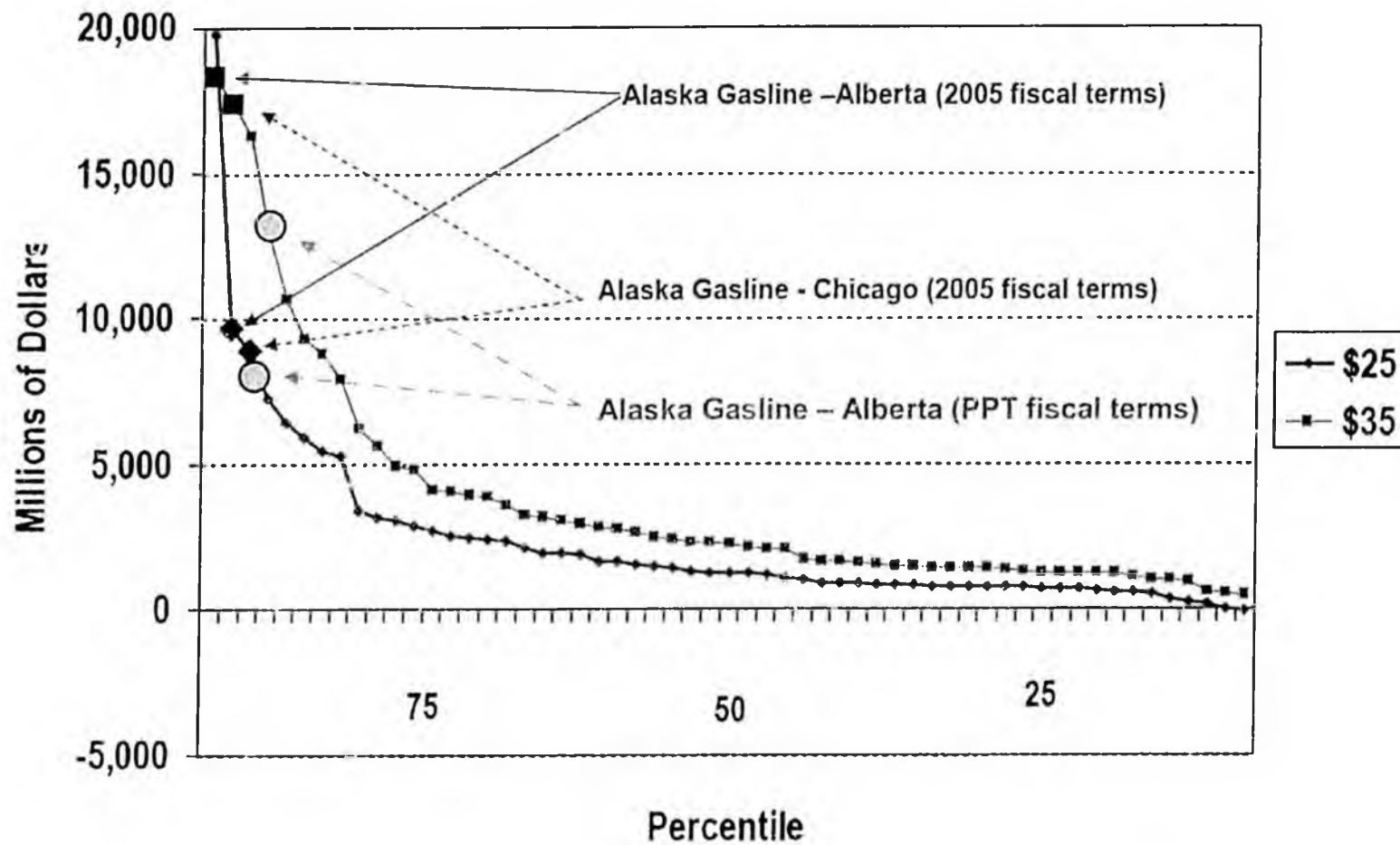
	<u>NPV<sub>10</sub> (\$B)</u>	<u>IRR</u>	<u>P/I</u>	<u>NPV<sub>10</sub> per BOE</u>	<u>% Δ NPV</u>	<u>Δ IRR</u>	<u>% Δ P/I</u>
\$4.00	5.8	39.6%	4.1	\$0.70	-5.4%	-0.10%	-4%
\$5.50	11.7	62.8%	7.3	\$1.41	-3.3%	-0.10%	-3%
\$7.00	17.4	79.0%	10.3	\$2.10	-2.3%	-0.13%	-2%

Prices are real, \$2007, escalating at 2%/year

# Project Comparison

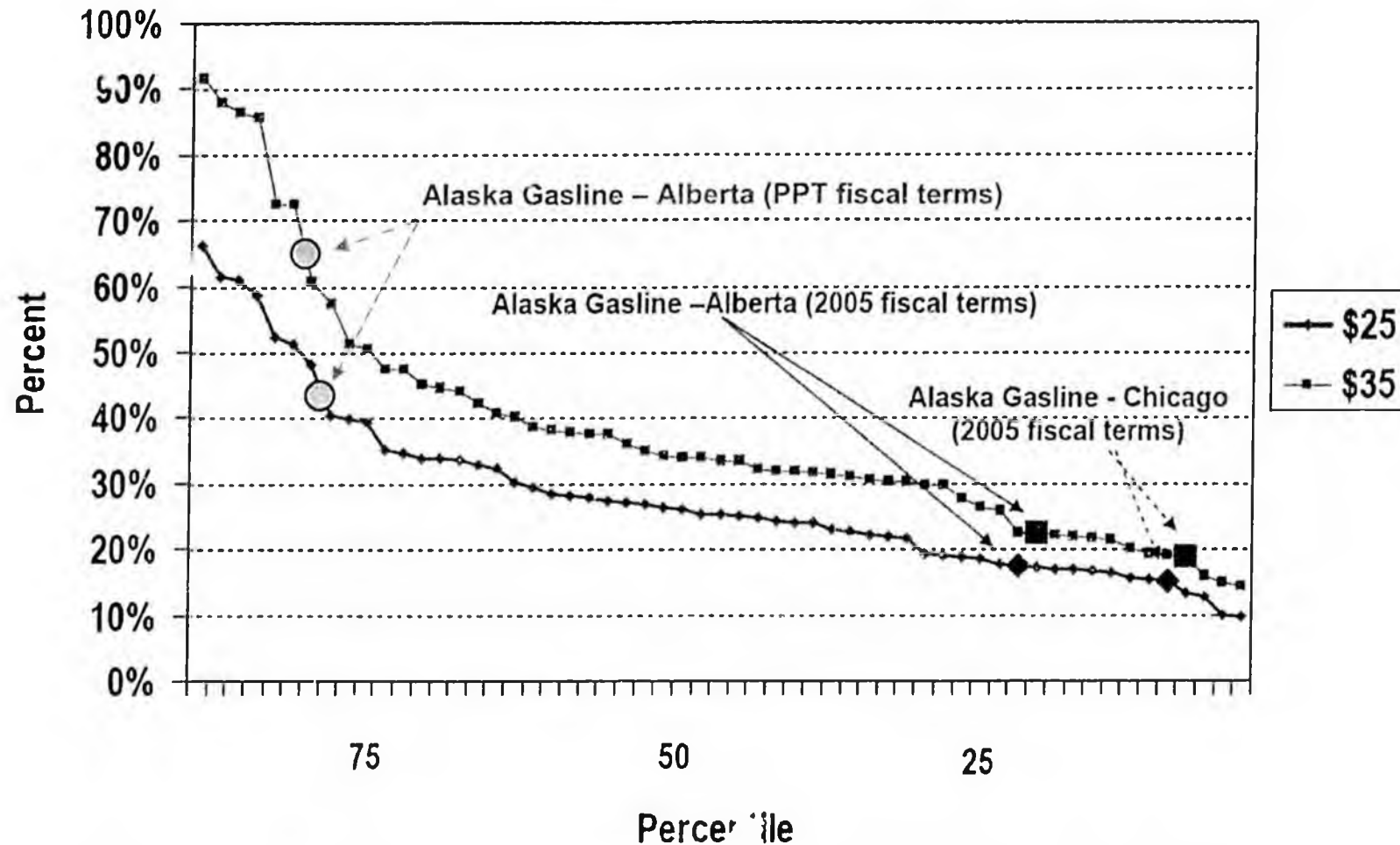
## Producer Net Cash Flow (NPV10)

### (\$35 and \$25 oil and 6/1 oil/gas ratio)



Project comparison data from EconOne presentation to LB&A Committee, 6/14/06. EconOne data 21  
 assumes 100% Producer pipeline ownership; upstream return data assumes 0% pipeline ownership.

# Project Comparison Internal Rate of Return (IRR) (\$35 and \$25 oil and 6/1 oil/gas ratio)

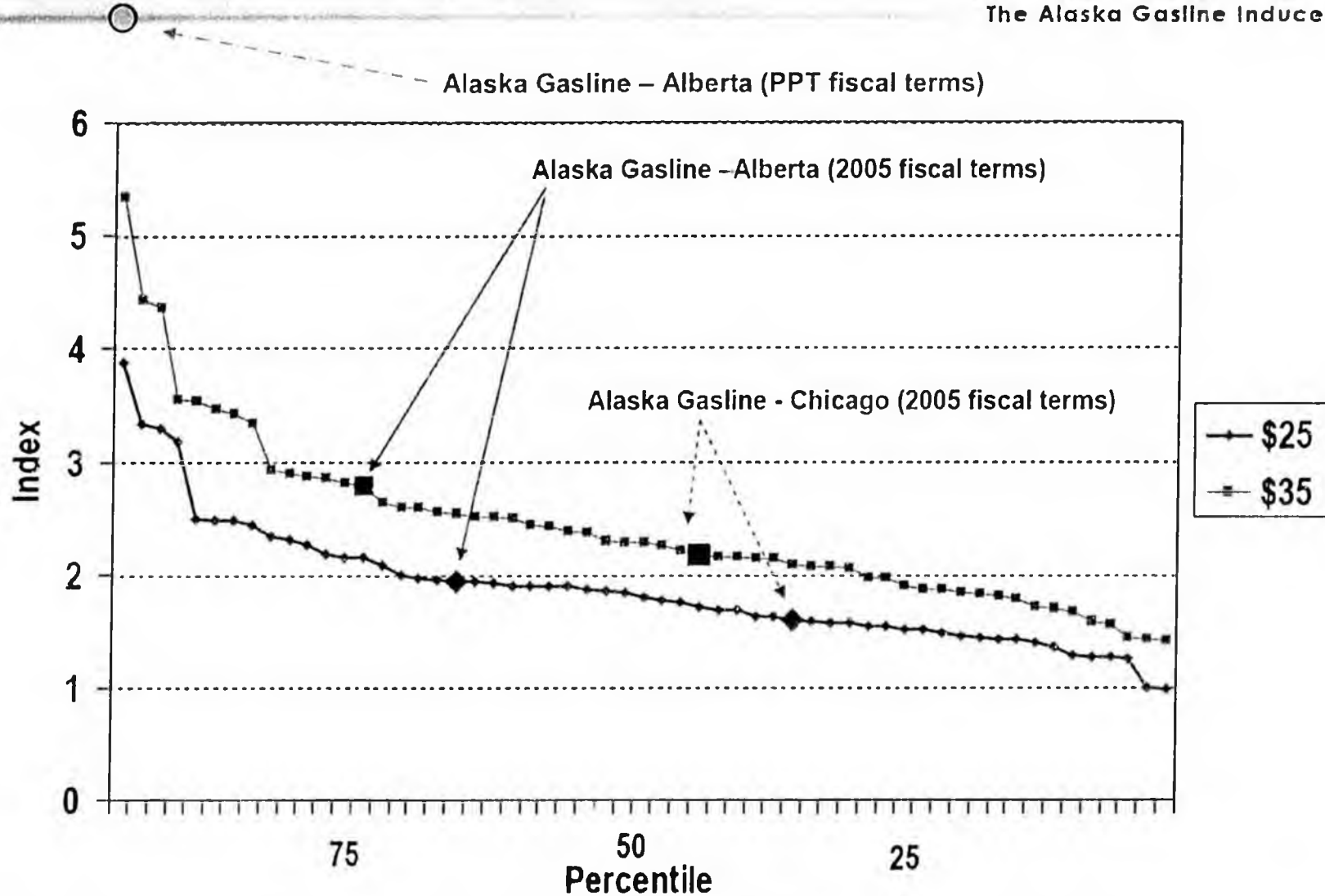


Project comparison data from EconOne presentation to LB&A Committee, 6/14/06. EconOne data assumes 100% Producer pipeline ownership; upstream return data assumes 0% pipeline ownership. 22

# Project Comparison

## Profitability Index Ratio (PIR10)

### (\$35 and \$25 oil and 6/1 oil/gas ratio)

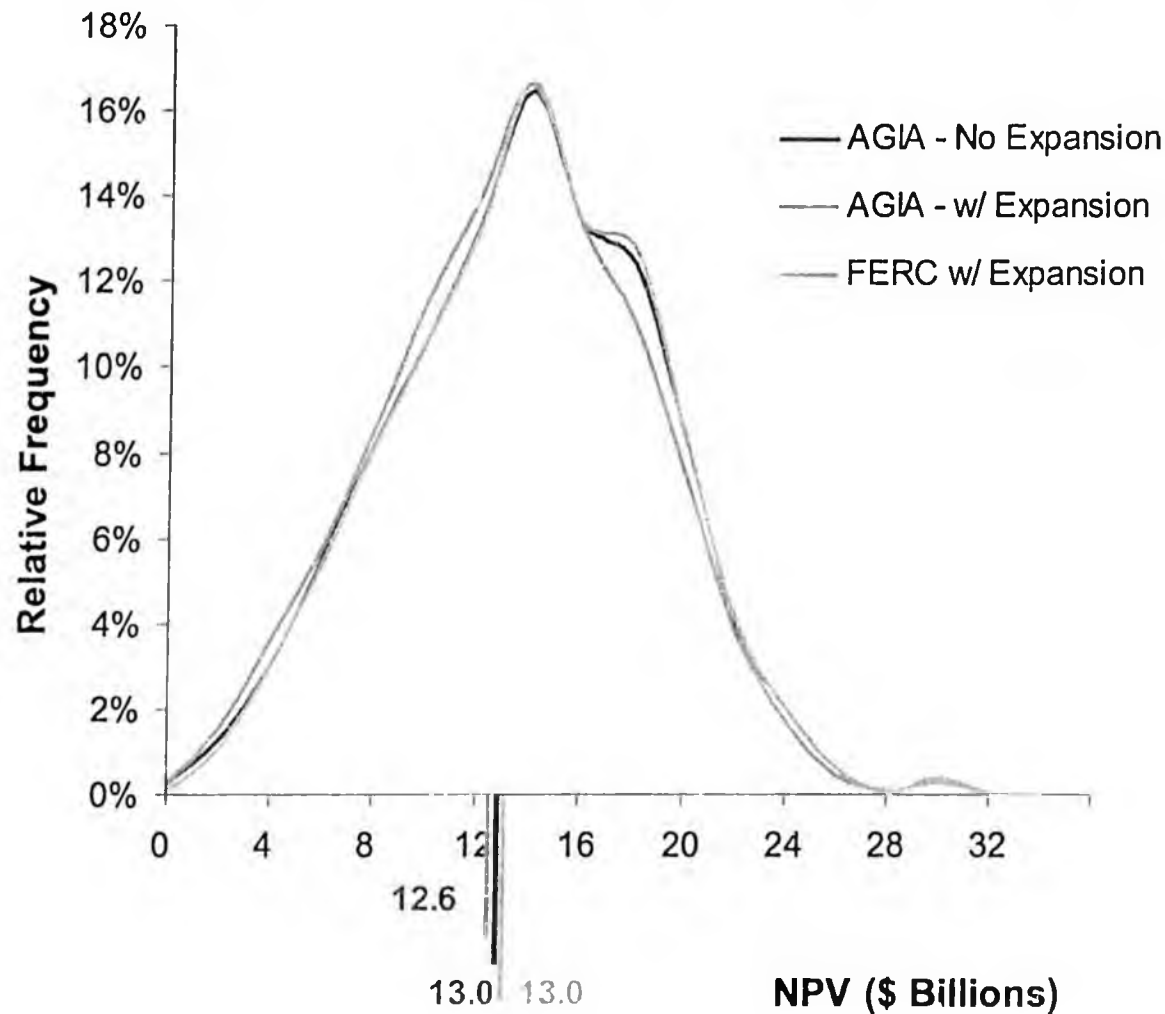


Project comparison data from EconOne presentation to LB&A Committee, 6/14/06. EconOne data assumes 100% Producer pipeline ownership; upstream return data assumes 0% pipeline ownership.

# Worst-Case Producer Effects of AGIA Rates - NPV



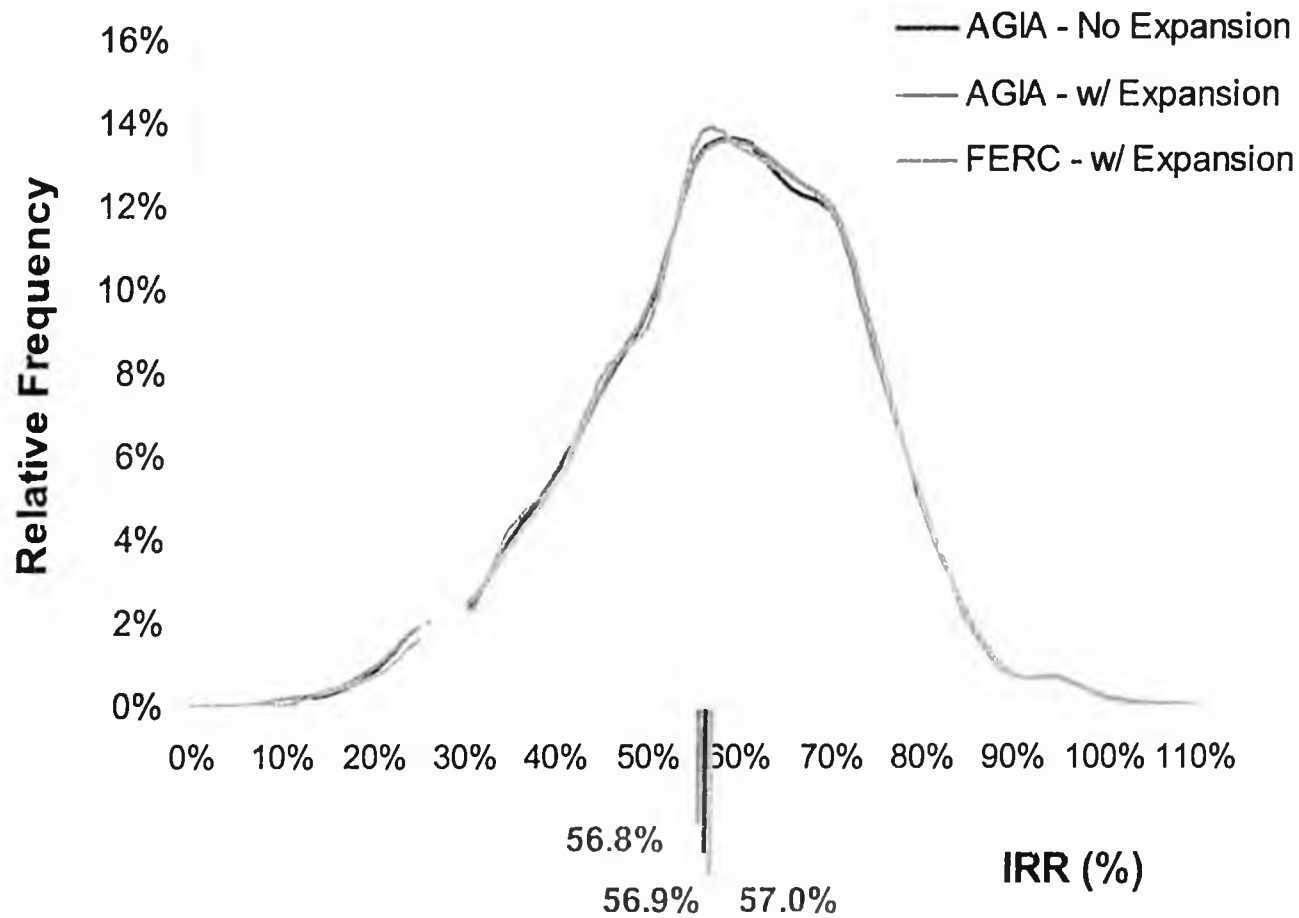
Frequency Distribution Producer Upstream NPV<sub>10</sub>



# Worst-Case Producer Effects of AGIA Rates - IRR



### Frequency Distribution Producer Upstream IRR

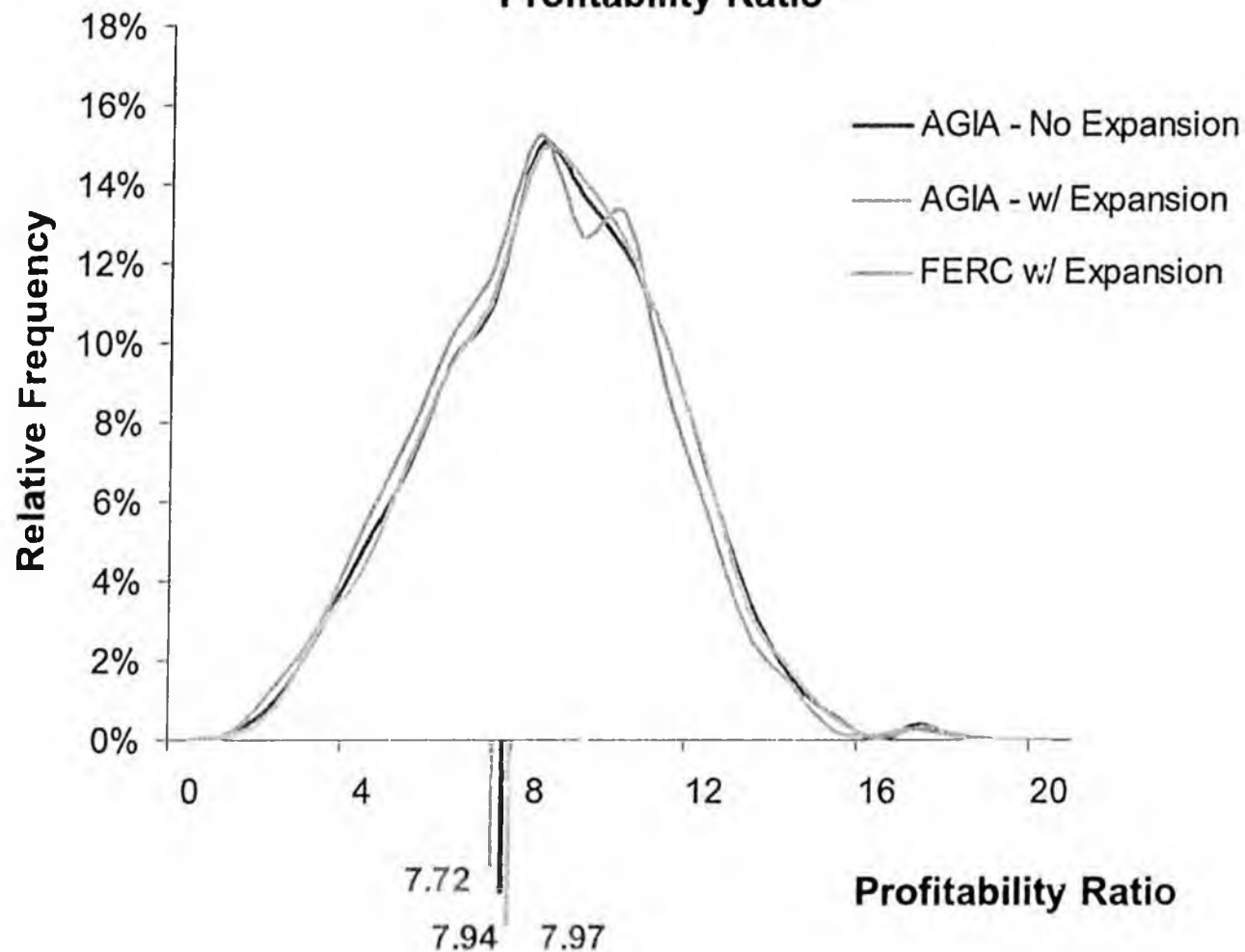


# Worst-Case Producer Effects of AGIA Rates – P/I



The Alaska Gasline Inducement Act

### Frequency Distribution Producer UpStream Profitability Ratio



# Summary



- AGIA rolled-in rates promote competition, exploration and development.
- Given uncertainties, AGIA's rolled-in rates are clearly in the state's monetary interest.
- Protests notwithstanding, the objective evidence indicates that AGIA's rolled-in provisions cost the Producers only modestly and are unlikely to affect initial investment decisions.

AGIA

The Palin-Parnell Administration presents

AGIA

The Alaska Gasline Inducement Act  
House Finance

4/30/07

# Overview of “FERC issues”



- FERC’s new mandatory expansion authority
  - Not a panacea
- AGIA’s rolled in rate provisions
  - In harmony with FERC policy
- “Negotiated” versus “Recourse” rates
  - AGIA requires that negotiated rates do not thwart the possibility of rolled-in rates, and helps foster meaningful pipeline access

# FERC's authority to order expansions is problematic



ANGPA Sec. 105—FERC can mandate expansion only if FERC finds that several criteria are first met, including:

- 1) No “rate subsidy”
- 2) No adverse effect on “financial or economic viability” of project
- 3) No adverse effect on “overall operations” of project
- 4) Cannot diminish the “contract rights of existing shippers to previously subscribed certificated capacity
- 5) Find that adequate downstream capacity exists or will exist

## Section 105 provisions invite litigation

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- The statute is unprecedented and has not been tested in court.
- The Section 105 criteria are potentially ambiguous, and fertile ground for litigation.
- Litigation necessarily involves:
  - 1) Delay
  - 2) Uncertainty
- The duration of delay is likely to be measured in years, not months

# AGIA avoids Section 105



- AGIA requires the licensee to:
  - 1) Regularly test the market for new capacity;
  - 2) Expand in reasonable engineering increments;
  - 3) Expand under commercially reasonable terms
- AGIA thus avoids uncertainty/delay of litigation.

# FERC Rolled-in Rate Policy In Alaska



- 2004 ANGPA mandate to FERC:
  - Open season regulations should: “promote competition in the exploration, development and production of Alaska natural gas.” (§103(e)(2)(b)).
- FERC’s implementation of that directive:
  - “incremental pricing of expansion could put expansion shippers at a significant rate disadvantage compared with initial shippers, and accordingly could discourage exploration, development and production of Alaska natural gas.” (Order 2005 at ¶ 123)

# FERC Rolled-in Rate Policy In Alaska



- FERC's Open Season regulations provide a rebuttable presumption in favor of rolled-in rates.
- This departure from lower-43 policy was in recognition of Alaska's unique circumstances.
  - "Our existing lower-48 states policy favoring incremental rates for expansions does not apply in the case of an Alaska natural gas project. There is likely to be only one Alaska pipeline so there will be little or no opportunity for competition between pipelines." (Order 2005 at ¶ 123).

# FERC Rolled-in Rate Policy In Alaska



- A rate increase is not necessarily a subsidy.  
(see, order 2005-A at ¶ 50).  
“An alternative ...definition of subsidization could be whether the expansion rate is no higher than the actual initial rate or of an initial rate without built in subsidies.” (Order 2005-A at ¶ 49)
- FERC left open the question of whether to allow rolled-in rates to a level that is no higher than the initial rate without subsidies.
- Total Government contributions (“built in subsidies”) reduce rates by more than 15%

# Government Rate Contributions: Summary

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- Government contributions total about 25¢, and reduce initial rates from \$2.25 to \$2.00
- Initial rates are therefore subsidized by government by about 12.5%
- But owners of Gas Treatment Plant also get a Federal Investment Tax Credit
- If this subsidy is included then total government subsidies exceed 15%

# FERC Process

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“A pipeline company

**PROPOSES**

But the FERC

**DISPOSES.”**

(an old industry adage)

# FERC Process

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- AGIA does not intrude on FERC's authority
- AGIA requires the licensee to **PROPOSE** rolled-in rates
- FERC will **DISPOSE**
- AGIA prevents Producers from negotiating rates with themselves (or others) that preclude collection of rolled-in rates

# “Negotiated” versus “Recourse” rates

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## Recourse rates:

Old fashioned, cost-based, just and reasonable rates established in FERC rate proceedings.

All shippers must have access to recourse rates as an alternative to negotiated rates (*i.e.*, recourse rates are a “lifeline”).

# “Negotiated” versus “Recourse” rates

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## Negotiated Rates

Negotiate rates are just that: Negotiated

Virtually anything can be negotiated

Negotiated rates are now the norm for new pipeline capacity in the Lower-48

**FERC regulates recourse rates, not negotiated rates**

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**FERC sets recourse rates through regulatory process**

**Shipper and pipeline set negotiated rates through commercial process**

## **AGIA's restrictions on negotiated rates**

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AGIA requires commitment by licensee not to enter negotiated rate contracts that preclude rate increases due to roll-in of expansion costs up to 15% above original negotiated rates.

By spreading expansion costs over all billing determinants, AGIA ensures that rolled-in rate treatment can – as a practical matter – be offered to expansion shippers.

**Appendix**  
**Negotiated rate example**  
**(Rockies Express)**

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Rockies Express Open Season Notice (for zone 3 “end-to-end” service):

1. Estimated “recourse rate:” \$1.427.
2. Negot. rate (fixed rate, non-Anchor shipper): \$1.094
3. Negot. rate (adjustable (depending on price of steel), non-Anchor shipper):  
From \$1.04 to \$1.14

**Appendix**

**Negotiated rate example  
(Rockies Express)**



Negotiated rates are for life of contract  
(minimum 10 years).

No risk of rate change due to cost overruns,  
changes in volume commitments, cost of  
capital, etc.

## Appendix

# Breakdown of Effects of Government Contributions on Rates

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The Alaska Gasline Inducement Act

- **Base rate:** All government contributions included
  - For a pipeline into Alberta, tariff = **\$2.00**
- **Federal loan guarantee:** reduces cost of debt
  - Without loan guarantee, tariff rises to **\$2.10**
- **Accelerated depreciation:** 7-year vs. 15-year
  - With 15-year depreciation tariff rises to **\$2.19**
- **AGIA contribution:** \$500 million reduces rate base
  - Without AGIA contribution, tariff rises to **\$2.25**

## Appendix

### Base Case Assumptions for Rates to Alberta



- Base rate assumes the following government subsidies:
  - Federal loan guarantee (assumed here to reduce debt costs by 0.75%)
  - Accelerated 7-year tax depreciation (part of Federal enabling legislation)
  - AGIA contribution of \$500 million (50% until open season, 80% after)
- And assumes further:
  - 70/30 debt/equity ratio
  - 14% ROE
  - 6.5% cost of debt
  - 30 year depreciation schedule
  - 25-year FT contracts
  - Cost input price escalation at 2%/year
  - Pipeline cost to Alberta of \$20.5 billion (\$2007)
  - Rates calculated on a levelized cost of service basis

## Appendix

# Federal Loan Guarantee: Value is Scenario-dependent

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### Alaska Natural Gas Pipeline

- Value of [federal] loan guarantee offers significant benefits

150-200 bp savings

Presentation from Goldman Sachs to State of Alaska on June 3, 2004  
"Partnering and Risk Allocation Strategies for the Alaska Natural Gas Pipeline"  
Assumes creative use of loan guarantees to achieve maximum benefits

- Federal Loan Guarantee could reduce taxable yields by approximately 50 basis points.

Presentation from JP Morgan to Legislative Budget and Analysis Committee, June 16, 2004  
"Interim Hearings: Alaska Natural Gas Pipeline Issues"  
Assumes underlying credit rating of A, at most 60% debt

"...application of the DOE Guarantees to Alaska LLC's debt will probably lower the cost of borrowing with respect to such debt by approximately 50 to 100 basis points, depending on market conditions."

Dept. of Revenue, SGDA Contract FIF

110 FERC ¶ 61,095  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

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

Docket No. RM05-1-000

ORDER NO. 2005

FINAL RULE

(Issued February 9, 2005)

1. The Federal Energy Regulatory Commission is amending its regulations to establish requirements governing the conduct of open seasons for capacity on proposals to construct Alaska natural gas transportation projects. This Final Rule fulfills the Commission's responsibilities to issue open season regulations under section 103 of the Alaska Natural Gas Pipeline Act (the Act), enacted on October 13, 2004.<sup>1</sup> Section 103(e)(1) of the Act directs the Commission, within 120 days from enactment of the Act, to promulgate regulations governing the conduct of open seasons for Alaska natural gas transportation projects, including procedures for allocation of capacity. As required by section 103(e)(2) of the Act, these regulations (1) include the criteria for and timing of any open season, (2) promote competition in the exploration, development, and production of Alaska natural gas, and (3) for any open seasons for capacity exceeding the initial capacity, provide for the opportunity for the transportation of natural gas other than from the Prudhoe Bay and Point Thomson units.

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<sup>1</sup> Public Law 108-324, October 13, 2004, 118 Stat. 1220.

### G. Rate Treatment for Expansions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

126. Anadarko states that the open season regulations must prohibit pipelines from bundling ancillary services with transportation. In particular, Anadarko is concerned that sponsors might include in a tariff and an open season the bundled cost of a gas conditioning plant that would extract CO<sub>2</sub> despite the fact that such extraction would not be required of gas from many new Alaska gas fields which likely will be of pipeline quality. MidAmerican/AGTA and Enbridge agree that the open season process should preclude applicants from tying receipt of capacity to taking ancillary services, such as gas conditioning, treating, or processing. TransCanada simply states that it has no objection to proscription of tying.

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

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

## Tanana Chiefs Conference AGIA Project Labor Agreement Resolution

- Whereas, Tanana Chiefs Conference represents forty two sovereign Alaska Native Tribes whose tribal lands include the majority of right of way for any and all of the proposed southern route gas line projects being presently considered, and
- Whereas, Tanana Chiefs Conference represents a large potential workforce of underutilized tribal members, both male and female, skilled and non-skilled, and
- Whereas, Tanana Chiefs Conference has a sincere desire to build the capacity and skill levels of that workforce to help address village infrastructure construction projects and bring increased economic opportunity to its tribal members both now, and in the future, and
- Whereas, Tanana Chiefs Conference and some of its sub-regions and tribes have negotiated project, tribal and other collective bargaining agreements with some of the construction unions, mainly with the Laborers Union and Operating Engineers, with very positive outcomes, and
- Whereas, As a result, Tanana Chiefs Conference has seen a marked increase in participation by its tribal members with regards to job opportunities, training programs and apprenticeship programs along with pension plan participation and medical plan participation above and beyond IHS coverage, and
- Whereas, Tanana Chiefs Conference is fully supportive of Alaska Native hire and Alaska Local hire on whatever gasline project is finally decided upon, and
- Whereas, Tanana Chiefs Conference members supports construction project agreements that along with skills training, pension plans, and medical plans will deliver enforceable Alaska Native, and local, hire language for the construction of whatever gasline project is decided upon, and
- Whereas, Tanana Chiefs Conference does not want to repeat what happened during the Trans Alaska Pipeline System Project regarding Alaska Native preference opportunities by not being a part of a comprehensive Project Labor Agreement at the project's inception, and
- Whereas, Governor Palin's AGIA bill calls for a negotiated Project Labor Agreement for whatever gasline project is finally decided upon, and
- Whereas, Tanana Chiefs Conference has recognized that in light of applicable case law, the best vehicle to define real Alaska residency and real Alaskan Native status to ensure

preference and participation for its tribal members on any proposed gasline project is through a Project Labor Agreement,

Therefore Be It Resolved;

That the Tanana Chiefs Conference supports the Governor Sarah Palin's AGIA plan amendments as long as there is a Project Labor Agreement that contains as one of its tenants, enforceable project participation preference for qualified Alaska Native employees in numbers and percentages that are generally reflective of the population demographics of the State of Alaska at the time the project begins,

A black and white photograph of a vast, flat Alaskan landscape under a bright sky. A large, bright sunburst or lens flare effect is centered in the upper half of the image, creating a dramatic, high-contrast scene. The terrain appears to be a mix of low hills and open fields.

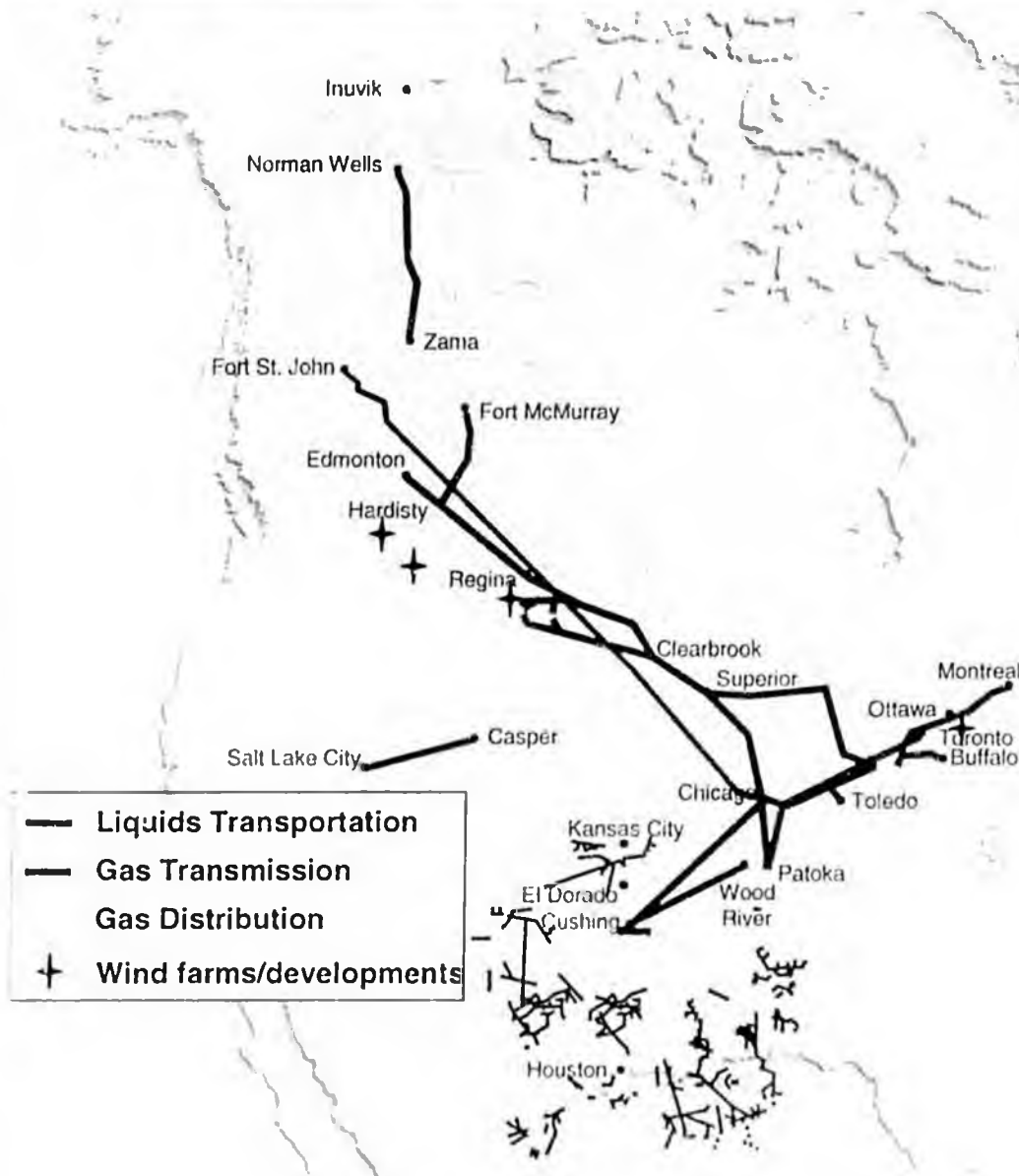
# Alaska Natural Gas Pipeline House Finance Committee

May 1, 2007

Ron Brintnell

Director, Gas Development

# Enbridge Overview

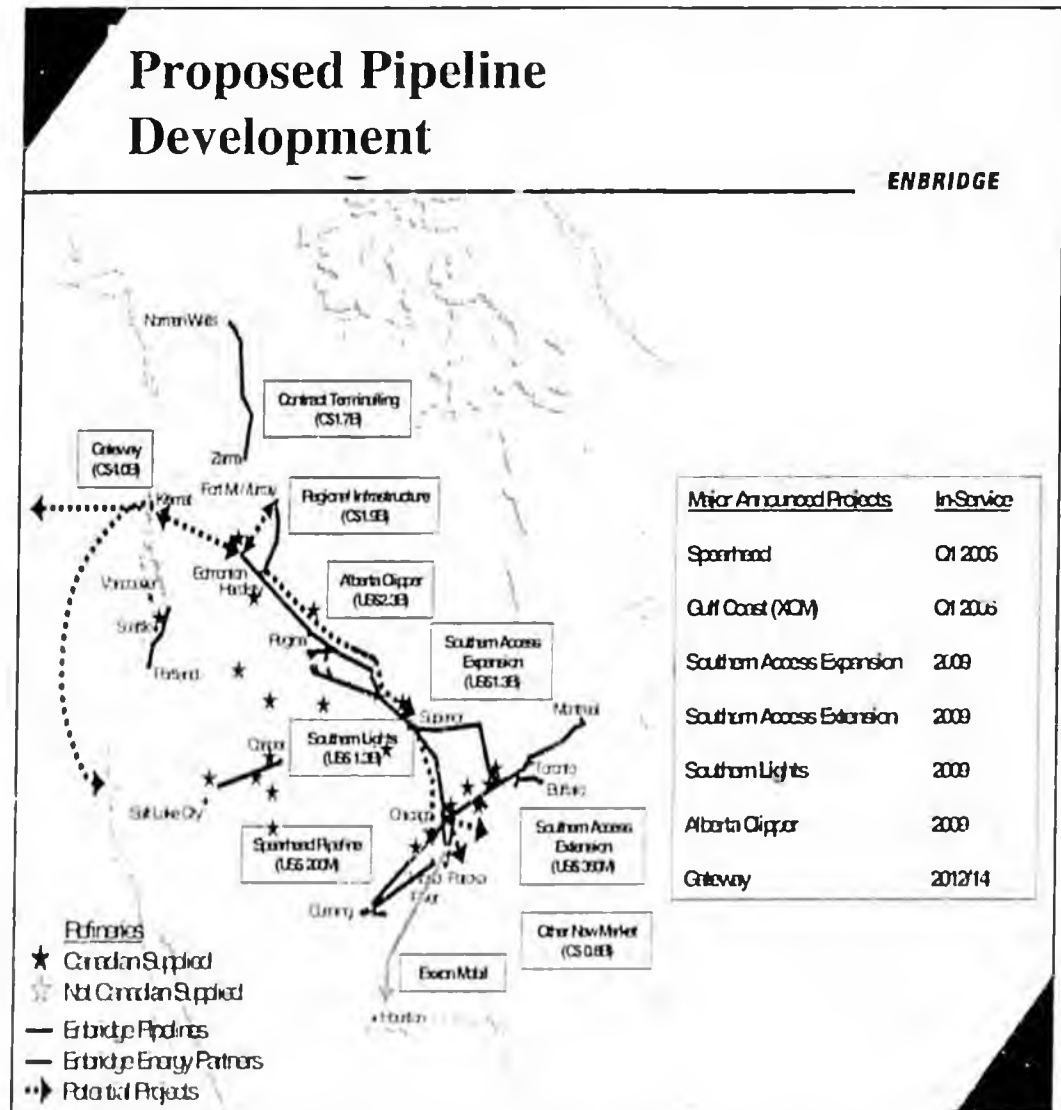


- Interest in 50,000 miles of pipelines
- Own and operate world's longest liquid petroleum pipeline
- Deliver 70% of WCSB crude oil production
- Deliver half of deep water Gulf of Mexico natural gas production
- Canada's largest natural gas local distribution company
- Employ 4,900 people
- One of the *Global 100 Most Sustainable Corporations in the World*

# Unparalleled Experience in Recent Pipeline Development



- \$15 billion over the next 10 years
  - Unmatched recent experience managing labor, construction, procurement, environment, regulatory and cost-control challenges
  - Today's development environment is substantially different than 10 years ago
- Alliance Pipeline
  - Technical and commercial similarities



# Alliance Pipeline



**CERTIFICATE**  
Dec. 3, 1998

**File Application**  
July 3, 1997

**Public Hearing**  
Jan. 1998      May 1998

**Draft CSR**  
June 30, 1998

**Final CSR**  
Sep. 30, 1998

**Preliminary Submission**  
Dec. 31, 1996

Dec. 24, 1996  
File Application

Dec. 24, 1997  
Draft EIS

Aug. 24, 1998  
Final EIS

Sep. 17, 1998  
**CERTIFICATE**

Apr. 1, 1997  
Preliminary  
(non-environmental)  
Determination



# Moving the Project Forward Requires Producer Alignment



- **No producers No pipeline !**
- **Project is too risky - too big, too complex, too expensive - to move forward without producers**
- **Potential gas buyers see *no producers as no progress***
  - Buyers' dilemma, switch to coal, go off-shore or wait for Alaska?

# Moving the Project Forward Don't Just Focus On The Pipeline



- **As drafted, AGIA is unlikely to produce significant commercial results.**
- **AGIA introduced as a catalyst to expedite the construction of a natural gas pipeline**
- **AGIA focus is on the pipeline and not entire project which requires Producer alignment**
- **AGIA adds unnecessary regulatory complexity**
  - **FERC process well defined and effective**

# Moving the Project Forward Promote, Don't Stymie Innovation



- **Absolute requirements may result in not having the opportunity to evaluate creative solutions that add value in different ways**
- **This is not a standard RFP project**



# Canadian Oil Sands Development Valuable Lessons



- Investment of \$125 billion
  - Significant new employment, tax revenue, long term growth
  - Extensive new pipeline development

## Industry Capital Spending Cdn \$billions



The oil & gas industry will invest over \$40 billion in capital in Canada in 2006

Northern Canada				
'03	'04	'05E	'06F	
\$0.3	\$0.3	\$0.5	\$0.5	

International				
'03	'04	'05E	'06F	
\$5.5	\$10.4	\$5.0	\$6.8	

Oil Sands				
'03	'04	'05E	'06F	
\$5.0	\$6.2	\$8.5	\$8.8	

WCSB				
'03	'04	'05E	'06F	
\$21.4	\$24.5	\$27.0	\$29.0	

East Coast Offshore				
'03	'04	'05E	'06F	
\$2.2	\$1.9	\$1.0	\$1.7	

Note:  
Spending in Canada excludes spending associated with mergers & acquisitions.  
International are acquisitions net of divestitures.

- Resulted from proactive progressive political vision that facilitated development
  - Worked cooperatively with industry
  - Generating greater returns for all

## Canadian and U.S. Crude Oil Pipeline Alternatives



- Asia
- California
- Anacortes

Growing oil sands production will require new pipeline capacity to existing and expanded markets



# Moving the Project Forward

## Understand What Is Achievable



- Binding shipper commitment is required prior to spending significant \$'s on regulatory applications
  - Not commercially prudent to assume producers will show, or that gas can be “acquired”
  - Risk too high even with government cost sharing
- Even binding shipper/pipeline agreements will have conditions including:
  - An acceptable FERC Certificate
  - Acceptable Financing
  - Shipper resolution of Alaska state taxation issues
  - Defined project milestones / timing
- An unconditional commitment to proceed will not happen
  - Regulatory certificates may have conditions making project uneconomic
  - Events between application and certificate could make project uneconomic

# Moving the Project Forward Understand Canada



## **No company has the exclusive right to build a pipeline to ship Alaskan gas in Canada**

- 2 Options to Permit the Project Through Canada

### **NPA**

Northern Pipeline Act passed in 1977

Socio-economic baseline impact developed late 1970s

Certificates of Public Convenience and Necessity issued to Foothills Pipeline to build the Can portion of the Alaska Natural Gas Transportation System proposal.

Enshrines a 30-year old project never undertaken that has now significantly changed

### **NEB – CEAA**

Modern, efficient and transparent regulatory process

Dove-tails with FERC

Consistent with NAFTA

Contemporary, well understood processes:

First Nations participation

Environmental assessments and practices

Economic benefits through open competition

# Moving the Project Forward Understand Canada



“As we move forward, I am guided by **five principles** that I believe can be **applied to all pipeline decisions:**

- First, they **must not interfere with market forces.** We will **let the market decide.**
- Second, our decisions must be **supportive of a modern regulatory regime**
- Third there must be a **project management approach**
- Fourth, the **pipelines must support Aboriginal economic development**
- Finally, decisions **must ensure that Canadian benefits are realized**”

Honourable Jim Prentice

Minister of Indian Affairs and Northern Development

Presentation to Canadian Energy Pipeline Association Annual Dinner

May 2006

# Moving the Project Forward

## Final Thoughts



### **Enbridge believes:**

- Outstanding fiscal issues are the project's "elephant in the living room."
- An unconditional commitment to advance the project is not achievable
- AGIA will best serve Alaskans if it allows for the creativity and innovation that drives the market place.
- Government financial assistance is not essential
- Government can achieve key goals without adding to regulatory process
- Canada will be ready for this project
- Alaska should ensure that it does not create a process that is all about process

## Alaska Natural Gas Pipeline

### Enbridge Inc.'s assessment of issues pertaining to the Canadian portion of the Alaska Pipeline

#### Background Of The Northern Pipeline Act ("NPA")

In the mid-1970's the United States and Canada suffered from significant energy shortages and security concerns. The two countries agreed that greater energy supply and security could be achieved through the development and construction of a pipeline that would transport natural gas from Alaska's North Slope through Canada to the lower 48 states. This agreement was embodied in an exchange of diplomatic letters between Canada and the United States (collectively, the "Treaty"), which set out the size and pressure of the pipeline, the fiscal regime that was to apply and the route along which the pipeline was to be built.

In 1978 the Government of Canada passed the NPA in order to facilitate the planning and construction of the pipeline that Canada and the United States had agreed to in the Treaty; in fact, the Treaty is included as Annex I to the NPA.

In Enbridge's view, the NPA is specific to the pipeline contemplated in the agreement between Canada and the U.S. set out in the Treaty; indeed, the definition of "pipeline" in the NPA means "the pipeline for the transmission of natural gas from Alaska across Canada along the route set out in Annex I [the Treaty] to the Agreement..." Accordingly, the definition of "pipeline" in the NPA cannot be separated from the pipeline referred to in the Canada-U.S. agreement. They are one and the same.

It is important to recognize that this is all that the NPA does. It is not an omnibus statute dealing with the development of northern pipelines generally or even a general statute dealing with the transportation of Alaskan gas through Canada. Equally importantly, the NPA does not make any changes to the powers of Canada's National Energy Board ("NEB") to consider alternative international pipelines from Alaska into or through Canada.

In 1978, in contemplation of the construction of "the pipeline", several Certificates of Public Convenience and Necessity ("CPCNs") were issued pursuant to the NPA. Under the terms of the Treaty the pipeline was to be finished by 1983. However, because of changing economic circumstances, only the "Pre-build" portions of the project defined in the Treaty were built.

#### No Party Has Exclusive Rights To Build A Pipeline In Canada To Transport Alaskan Gas

There is no reference in the NPA (or in any other piece of Canadian legislation that we are aware of) that prohibits the development of an alternative pipeline to ship Alaskan gas through Canada.

Enbridge does not dispute that the rights granted under the NPA are exclusive, but those rights do not preclude progressing another project under the National Energy Board / Canadian Environmental Assessment Act.

#### The NPA Is Project Specific

The NPA was passed in order to give effect to the Treaty. The Treaty contemplates a very specific pipeline project, right down to specifying the fiscal regime, the route to be followed and the operating pressures and the diameter of pipe to be used. Reference to the pipeline specified in the Treaty is then used in the NPA to define the term "pipeline" for the purposes of the NPA. In Enbridge's view, the CPCNs are not a general authorization for the construction of "a" pipeline

from Alaska through Canada - the CPCNs are at most a partial authorization for the construction of the pipeline specified in the Treaty.

The project currently envisioned is not the pipeline specified in the Treaty. For example, the Treaty specifies a pipeline with an initial capacity of 2.4 bcfd, while current proposals contemplate an initial capacity of about 4.5 bcfd. The Treaty specifies 54" diameter pipe while current proposals contemplate 48" or 52" diameter pipe. The Treaty specifies 1120 psi pressure. Current proposals contemplate 2500 psi. In addition current proposals contemplate a different termination point and include liquids in the gas stream. In short, the current proposal is significantly different than the pipeline approved in the CPCNs.

Absent formal amendments, it is questionable whether variations could occur under the Treaty. History supports this view. For example in 1978 the Governments of Canada and the United States believed it necessary to execute an amendment to the Treaty when they decided to change the pipe diameter from 56" to 54".

In addition it should be noted that historically the NPA has not covered all necessary facilities. For example, the NPA did not apply to the decompression / recompression facility that was installed in the late 1990's at Empress Alberta, as part of the Pre-build system. That facility was approved under the NEB process.

#### CPCNs

While there is no "sunset clause" or expiry date in the NPA, it should be noted that such legislation in Canada rarely includes expiry dates.

CPCNs can lapse if not exercised in a timely fashion, or if other factors have intervened.

In this particular case:

- (i) The CPCNs are subject to conditions, including Schedule III of the NPA

Construction of the project cannot start tomorrow. Under Schedule III of the NPA, a number of conditions need to be satisfied before the CPCNs can be relied upon.

One of the conditions (s.13) of Schedule III requires the filing of contracts between producers and shippers and between shippers and the company (the holder of the CPCNs). This makes shipper support critical to the holder of the CPCNs.

The conditions in Schedule III also include the requirement to apply for and receive all necessary regulatory approvals required for the work (s.17). Such approvals would include, for example, land use permits, water use permits, fisheries authorizations, navigable waters authorizations and timber cutting permits in the Yukon, British Columbia and Alberta.

The Northern Pipeline Agency, which administers the NPA, does not issue these necessary regulatory approvals; they are issued under any number of other Canadian Acts, including the Canadian Environmental Assessment Act and the Yukon Environmental and Socio-economic Assessment Act. Under the NPA, each approval would require its own panel. Unlike a modern NEB process, the NPA offers no opportunity to coordinate federal and provincial environmental reviews and does not include the statutory advantages of modern regulatory schemes. The NPA and the Northern Pipeline Agency have no authority to override provincial jurisdiction in environmental matters.

- (ii) The CPCNs were granted in an era of limited environmental review

The environmental review that was completed when the CPCNs were originally granted would not, in Enbridge's view, meet current standards for environmental reviews. Indeed, when the original environmental review was done it was completed under an Environmental Assessment Review Panel ("EARP"), a process that has since been replaced by processes under the Canadian Environmental Assessment Act. At the time, the EARP panel recommended rejection of certain routes and concluded that it did not have enough information on which to make a decision. As Enbridge understands it, it was only when the federal government finally overrode the panel and ordered it to reconsider its rejection of certain routes that approval was achieved.

Stricter standards are in place today.

- (iii) The CPCNs were granted prior to Canadian courts establishing rules requiring consultation with First Nations whenever activities take place in their traditional or treaty lands.

Canada's recognition and protection of the rights of its aboriginal people has changed. From the early 1980's a series of court decisions have recognized and upheld the constitutional rights of Canada's First Nations to be consulted in a comprehensive manner whenever development activities are proposed within their traditional lands or treaty areas.

- (iv) The NPA and the CPCNs are inconsistent with modern international trade agreements

The NPA pre-dates the North American Free Trade Agreement ("NAFTA") and was not exempted from the application of NAFTA when NAFTA was brought into force in 1994.

Schedule III of the NPA, which sets out the conditions which must be met prior to being able to rely on the CPCNs, requires (in Article 10) that Canadian content be maximized as far as practicable and that maximum advantage be taken of opportunities provided by the pipeline to establish and expand suppliers in Canada that can make a long term contribution to the Canadian industrial base. A report must be submitted specifying how the requirement will be complied with. This requirement is not discretionary, but mandatory.

Enbridge is advised that preferential requirements for Canadian products and services are contrary to NAFTA. In addition, Enbridge understands that the Canadian content preferences specified under the NPA could violate Canada's World Trade Organization obligations under Article III of the General Agreement on Tariffs and Trade ("GATT").

The pipeline will be the largest infrastructure project in North America. Accordingly, the economic stakes for suppliers are huge. If one were to accept the position that the NPA provides an exclusive opportunity to the holder of the CPCNs that is not available to other NAFTA investors, it could be argued that the NPA violates the provisions under Article 1102 of NAFTA. This opens the door for claims by other NAFTA investors.

Enbridge believes the Canadian Government would need to seek an exemption from the United States for the NPA to avoid the potential for litigation under NAFTA, but disputes under GATT may be unavoidable.

Rights-of-way ("ROW")

In B.C. and Alberta, right-of-way acquisition under either the NPA or an NEB process would start from the same point in the process. While there are existing map notations in B.C. and Alberta, map notations are not interests in land and allow no automatic right to be converted into a ROW.

To Enbridge's knowledge, the only ROW which exists is in the Yukon. That ROW only allows for investigatory activities such as geological investigations and surveying; it does not allow for construction. Construction cannot occur without prior written consent of the Canadian Federal Cabinet Minister designated for that purpose by the Canadian cabinet. It is unlikely that the Minister would approve construction prior to all the requirements set out in Part III of the NPA being met.

**AGIA Testimony May 1<sup>st</sup> & 2<sup>nd</sup>, 2007. Prepared by David Gottstein**

**Hello Mr. Chairman and members of the committee, my name is David Gottstein, and I along with Former Governor Walter Hickel, Co-Chair the group Backbone. Thank you for the opportunity to testify before you today.**

**I also thank you for your efforts in working through the details of AGIA. What I would like to focus on today is perhaps the broad issues that sometimes get lost in the details.**

**Backbone is in support of AGIA and its major components because it provides for a competitive process, creates material incentives, and attempts to provide for the maximum benefit to the residents of Alaska. Even a recent Dittman poll indicates that the public, by more than two to one, believe the \$500 million incentive package is worthwhile.**

**My biggest caution to you today is to be very very careful as to who you listen to. What we know undeniably is that the representatives of the North Slope producers are paid to persuade and convince you that what is good for them is good for the State. It is simply paid advertising without any checks and balances. As a result, much of what they say must be challenged.**

**Let me offer some examples. They say that only the producers are capable of financing and building a pipeline of this magnitude. That couldn't be further from the truth, and we trust that Alaska's leaders are smart enough not to believe it.**

**Even if the likes of TransCanada, Mid-America and Sempra weren't already at our doorsteps, each fully capable and experienced enough to bring the appropriate parties to the table with a bona-fida bid, the private equity markets alone have over a trillion, yes that is a trillion dollars of money under management constantly looking for deals.**

**And with the forecasted price of gas and the Federal loan guarantees, they, along with the investment banking community will be chomping at the bit to get a piece of such an investment grade investment opportunity. So don't let the Producer's spin doctors convince you otherwise. The only thing that is necessary to get a pipeline financed and going is access to a sufficient quantity of gas to make it economical. Pt. Thomson and our royalty gas alone does that.**

**In football it's touchdowns, in baseball it's runs, in the North Slope producers attempt to control the process, maintain a monopoly grip, and own the pipeline, it's propaganda and influence peddling. This is a standard practice all over the world when it comes to big companies and big profit opportunities. If they can't control it, they want to stop the process, or at least slow it down as much as possible.**

**Let's dispel another fabrication; That the AGIA process is an exclusive one. As I read it, it is come one come all, and is not exclusive at all. The main beauty of AGIA is that it is a defined competitive process that will result in a pipeline sooner rather than later. It will provide more to our residents, as it will attract a more vibrant bidding pool that by definition will require more from the winning participants. AGIA doesn't preclude the chosen licensee from enriching their pipeline proposal by adding additional participants and aspects after a successful bid, as long as it doesn't mean less for the State.**

**The State has so much at stake, and is in a powerful position to choose what is in the best interests of our state, that it would be a shame to abdicate that in favor of what is truly an exclusive non-competitive process of dealing just with the producers just because the foxes say they know what is best for the henhouse.**

**Do we really want to repeat the mistake of putting our fiscal future in the hands of those with a long and proven history of**

**overcharging on the oil pipeline, and only paying up when the court of last resort rules so, or after a successful negotiation for a fraction of the dollars at stake, as a result of a political settlement? Can we really take what the Producers say seriously when they won't even attempt to engage in any truly honest and meaningful dialogue?**

**But it gets worse. They keep saying they own the gas. They don't. They have strong economic rights to produce the gas conditioned upon certain performance requirements. All you have to do is reference our constitution and the Mineral Leasing Act setting forth our rights and obligations to understand that.**

**The sincerity in which these hyperboles are put forward has me believe that the presenters believe it, because their bosses want them to believe it. When in fact, we own the resources, and when our tenant violates the lease, we not only have a right, but a duty to wrestle control back of our vast gas resources and make them available to a hungry nation.**

**But there's more; The North Slope producers, through a slight of hand amendment gimmickry are attempting to accomplish with amendments what they are failing to accomplish with their aforementioned propaganda, by asking you to provide for non-conforming bids and or to require their upstream participation. This would put them right back in control of our destiny.**

**I think your esteemed colleague Representative Doogan might have said it best about the Producer's attempt to build a pipeline when he said "If they wanted to build one, they'd be building one. They are immensely profitable companies. The federal government is offering loan guarantees. And they control the most important chip in the entire game, the North Slope gas that makes a pipeline possible. They have everything**

**they need to build a pipeline. They aren't building one. The only logical conclusion is that they don't want to build one."**

**I believe Representative Doogan is right, or at least the three producers won't be able to get together and agree to a project to move forward anytime in the foreseeable future. The North Slope producers were offered everything imaginable under the Stranded Gas Act, and still chose defiance. The people spoke in the last election, recognizing the Murkowski plan represented a huge giveaway. Why should we think if we offer them less, they will do more now?**

**We are in a game of chicken with the North Slope Producers, and we lose if we don't have the backbone to secure access to our gas and offer it in a free market and open process. The nanosecond that a line is approved, I believe the producers will participate, rather than being left out of one of the biggest investment opportunities in U.S. history, risk losing their leases due to obvious non-performance, or face the wrath of Congress for their intransigence. We urge you to limit amendments to ones that increase the likelihood of a successful open season process rather than ones that tilt in favor of Producer control.**

**The sad thing is that the corporate heads of the North Slope producers are spending all their time trying to lean us back to their own exclusive sole-source process, instead of trying to be competitive. They are gambling that propaganda is a cheaper way to get what they want than the cost of being competitive. In a time when our legislative and public processes are subject to heightened Federal judicial scrutiny due to the potential of conflicts of interest, let's prove them wrong. Let's pass AGIA with the few meaningful amendments that in your wisdom will increase the chances of a good pipeline and route sooner than later. Don't force a special session, and thereby increase the risk of failure to act. Thank you for your time and the opportunity to comment.**

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

Thank you for inviting us to testify here today.

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

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

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

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

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

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

And we don't have to build a canal!

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

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

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

And it's going to change the world.

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

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

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

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

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

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

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

But they don't own the gas.

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

So let's get started.

Governor Sarah Palin's plan is a good one.

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

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

It means revenues for state government.

...gas for our homes...

...gas for our businesses...

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

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

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

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

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

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

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

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

Any Canadian route has to resolve...

... "First Nation" land claims.

Treaty problems.

A long, expensive route.

Legal issues among competing Canadian interests.

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

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

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

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

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

It means an energy source for our villages and cities.

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

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

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

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

So had all the others except Atlantic Richfield.

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

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

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

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

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

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

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

And the people are behind her.

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

The people of Alaska want a gasline now.

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

Thank you.

# **Alaska Natural Gas Pipeline Project**

## **Testimony on AGIA**

### **House Finance Committee**

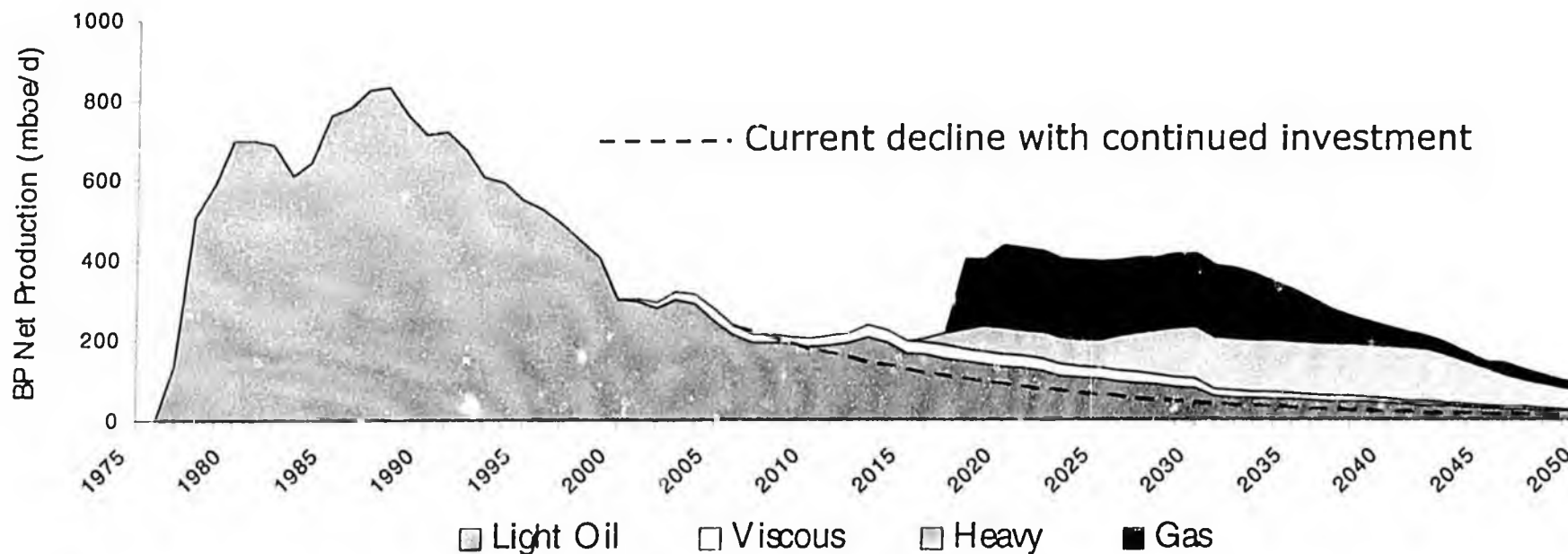
May 1, 2007





# An Opportunity...and a Challenge

- BP wants and needs a successful gas pipeline



- Project remains commercially challenged

# BP Disagrees with Administration's Economics



- Project is not "wildly profitable"
  - Can't separate upstream economics from midstream commitments
  - Economics must be based on the complete project
  
- Firm transportation commitments must be accounted for in project economics
  - Upstream pays for the midstream
  - Without FT there is no project
  
- Long-term cash generation is highly important
  - Cash flow well beyond 10 years remains vital
  
- Need common understanding of project to determine best way forward

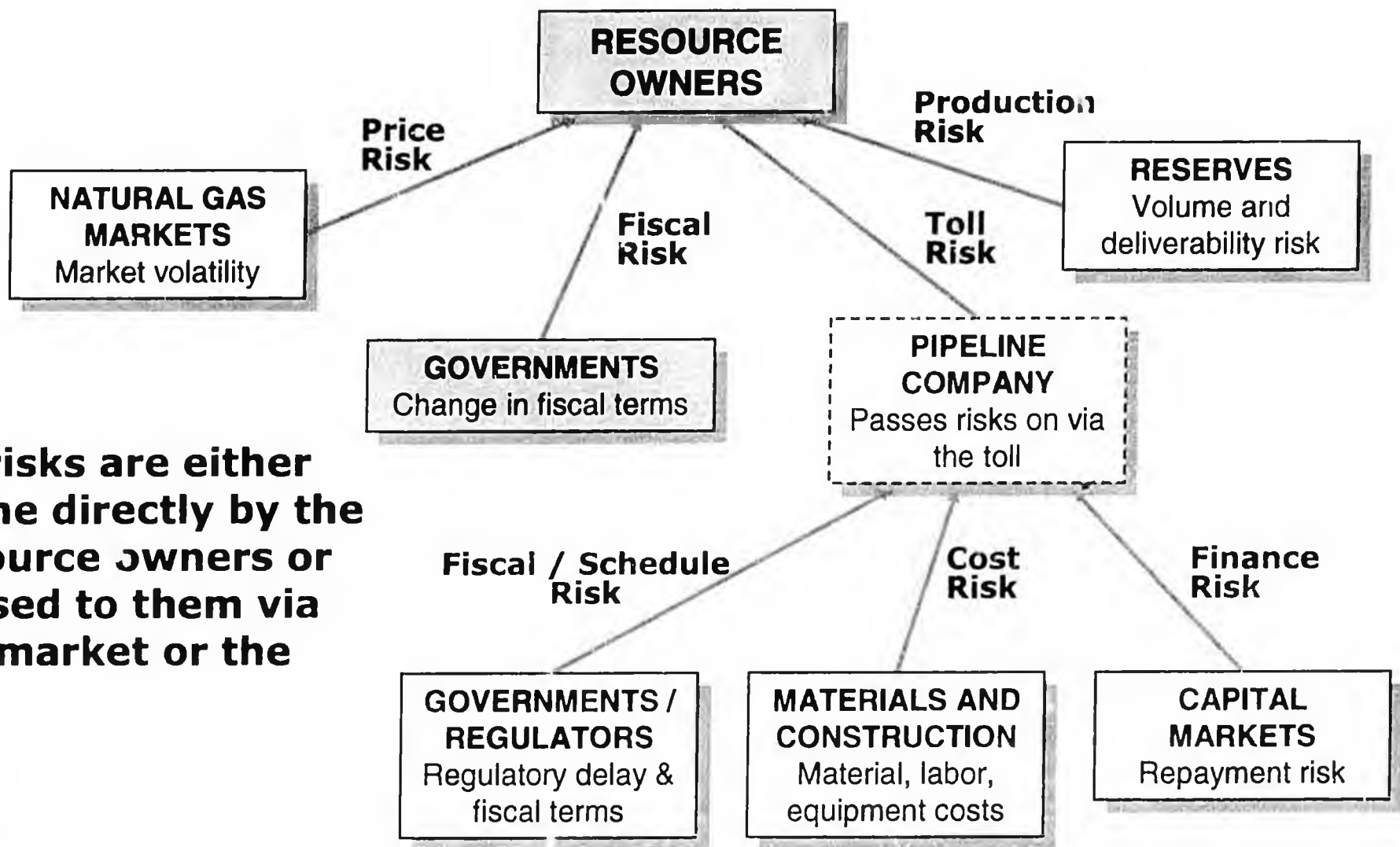


## What is so important about FT?

- Firm Transportation commitments (FT) by the resource owners are needed for a gas pipeline company to get financing
  - "No customers, no credit, no pipeline" (TransCanada)
  - "No producers, no pipeline" (Enbridge)
  
- FT is a binding financial obligation
  - not simply "committing gas to a pipeline"
  
- Requires multi-billion dollar commitments by resource owners
  - Assuming 4.5 bcfd, \$3.50/mcf, 25 year term.....**\$144 billion**
  
- Long term commitments represent real risk
  - Two risks:
    - Price risk (over time, market price will not cover FT cost *and* produce an acceptable return on the investment)
    - Supply risk (will not have sufficient gas to use the FT commitment over time)
  - Risk is borne by those making the commitments



# Project Risk Resides with the Resource Owners



**All risks are either borne directly by the resource owners or passed to them via the market or the toll.**

**➔ Those bearing a risk are commercially motivated to manage that risk**



## BP Messages on AGIA

- AGIA needs significant modification to result in a successful project
- As drafted, BP will not be able to submit a bid under AGIA
- As drafted, it is difficult to envision circumstances that would allow BP to make a firm transportation commitment to a licensed project under AGIA

Why?...

- Negotiated rate protection unavailable upon expansion
  - Subsidization of competitors is commercially unreasonable
  - Resource terms insufficient to justify FT commitment
- BP intends to bid if AGIA is appropriately modified

# Key Concerns Preventing BP Bid Under AGIA

## In the order they appear in HB-177



- .130(2)(B) / .210 – “Detailed” description of design requires substantial customer consultation, engineering
  - FERC Order 2005 requires “good faith estimate”
- .130(2)(C-D) – Can’t “demonstrate” economic viability
  - “nobody can say today whether this project is economic or not” (Mid-American Energy); need bottoms-up cost and revenue estimate
- .130(7) - Requires subsidization of competitors & eliminates negotiated rate protections
  - contrary to ANGPA & FERC rules
  - imposes unreasonable commercial risk
- .130(13) - Commitment to reserve capacity for in-state delivery points, regardless of open season outcome
  - imposes unreasonable commercial risk
  - not consistent with FERC Order 2005 [157.34(c)(8)]
- .150(a) - Release of proprietary information to competitors after license award creates huge exposure

# Key Concerns Preventing BP Bid Under AGIA

## In the order they appear in HB-177



- .200(a) - Must accept FERC certificate despite conditions
  - could add significantly to project cost
- .200(b) - Must sanction project within one year of FERC certification, regardless of cost
  - failure to sanction results in loss of all data to state (engineering, design, contracts, permits, etc.)
- .230(a)(2) / .210 - In breach if substantial deviation from plan set out in application
  - Unless it increases NPV, is ordered by AOGCC or isn't foreseeable
  - FERC, BLM, municipal agencies, Canada, etc. could require changes to project specs outside state control
- .240(c) - Effectively no way to abandon an uneconomic project; licensee subject to damages
- .310 - .320 - Fiscal terms insufficient; risk of no FT customers
  - "no customers, no credit, no pipeline" (TransCanada)



## How AGIA can help deliver a successful project

- Address areas of key concern listed on prior slides
- Allow applicants to respond to State's objectives
  - Prescribing solutions up front will not result in the best project
- Avoid exclusivity to ensure a pipeline gets built
  - Even as amended, AGIA creates exclusivity
  - Federal model encourages competition in the marketplace
- Address fiscal terms to encourage FT commitments needed for a successful project
  - Allow resource owners to make offer in bid
- Allow due process of appeal, remove potential Order 2004 conflict, other clarifying edits