

AK LEGISLATURE FINANCE COMMITTEES FILES 2007-2008 3340

SEC. 116

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

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**SEC. 116. LOAN GUARANTEES.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

And the Senate agree to the same.

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

*Managers on the Part of the House.*

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

*Managers on the Part of the Senate.*

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DOR

SPRING 2007

EXEC. SUMMARY

## 2. Executive Summary

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

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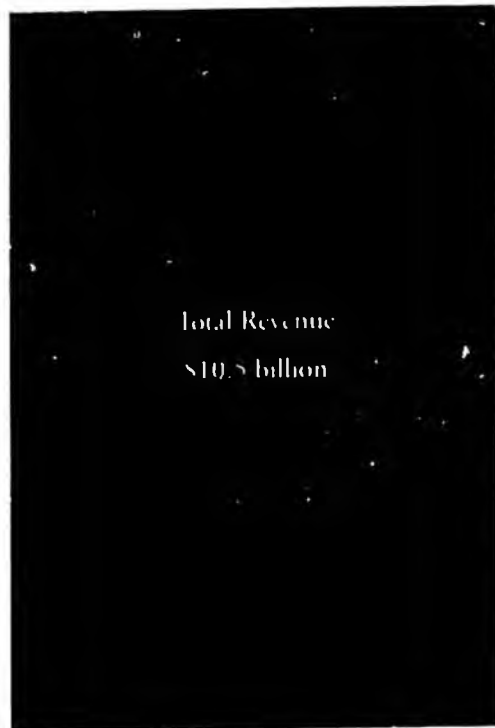


Figure 2-2. Total Governmental Revenue by Major Component, FY 2006 and Forecasted FY 2007-2008  
(\$ million)

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

Figure 2-2. Continued

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

<sup>(1)</sup> FY 2008 has \$86.7 million production tax credit outstanding.

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

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

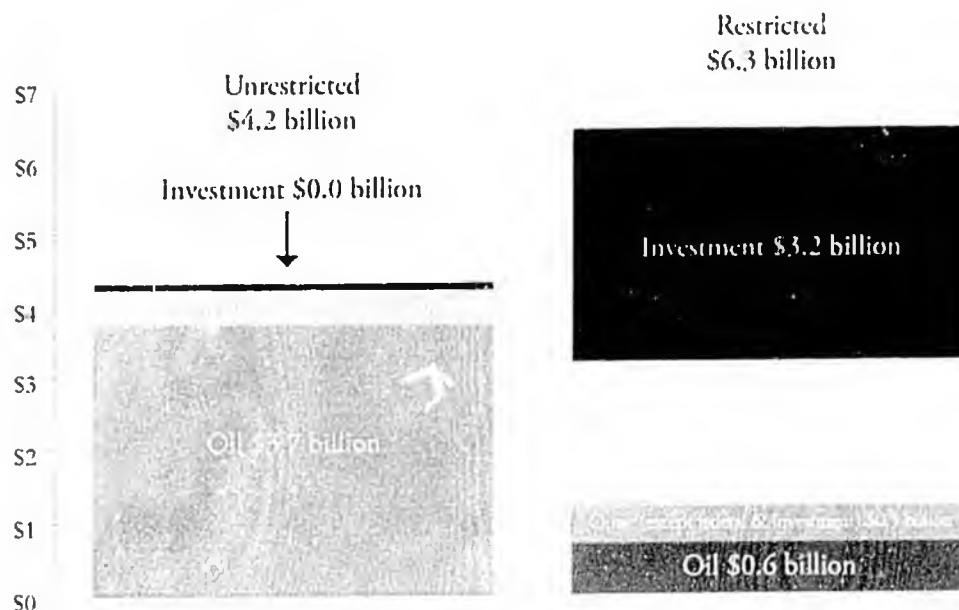


Figure 2-4. Total Governmental State Revenue, FY 2006 and Forecasted FY 2007-2008 (\$ million)

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

<sup>(1)</sup> FY 2008 has \$86.7 million production tax credit outstanding.

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

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

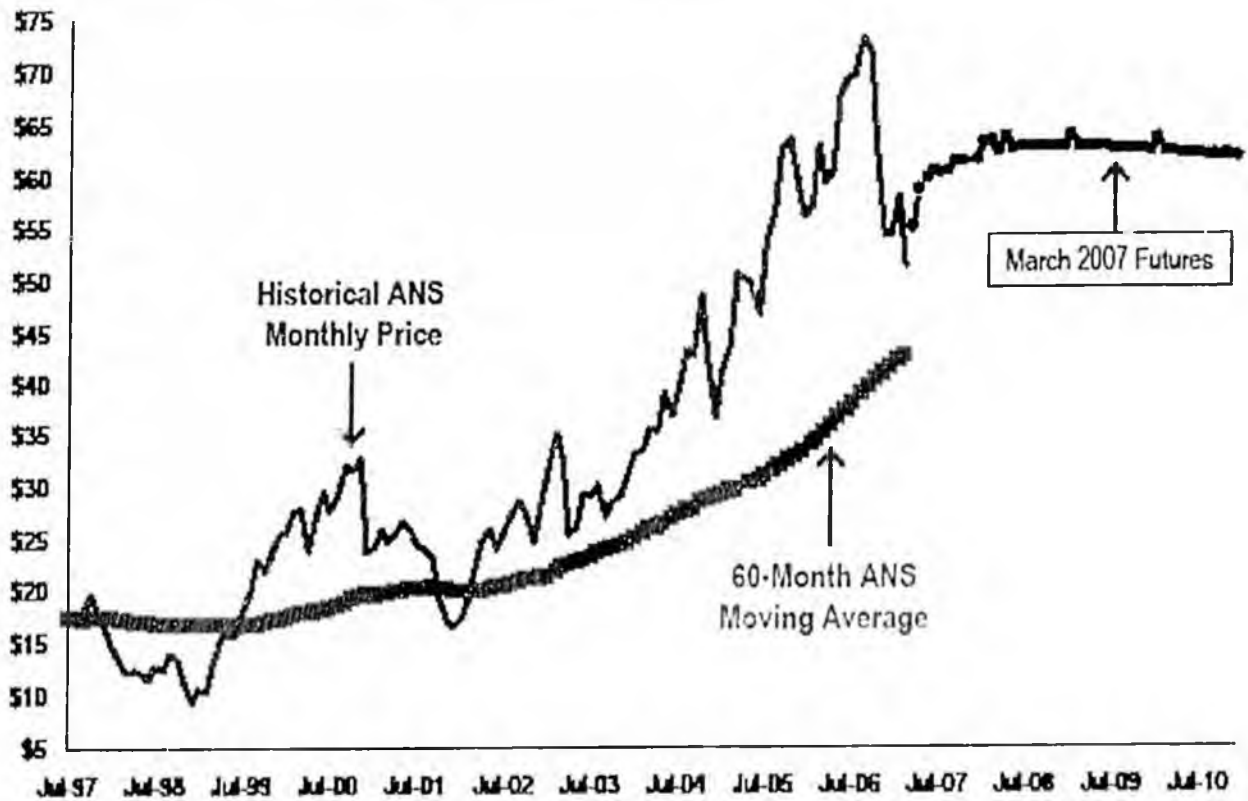
Figure 2-5. Continued

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

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

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

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



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

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

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

(1) Includes NGLs

(2) Includes West Niakuk

(3) Includes Qannik

(4) Includes Fiord-Kuparuk

(5) Includes Nanuk-Kuparuk

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

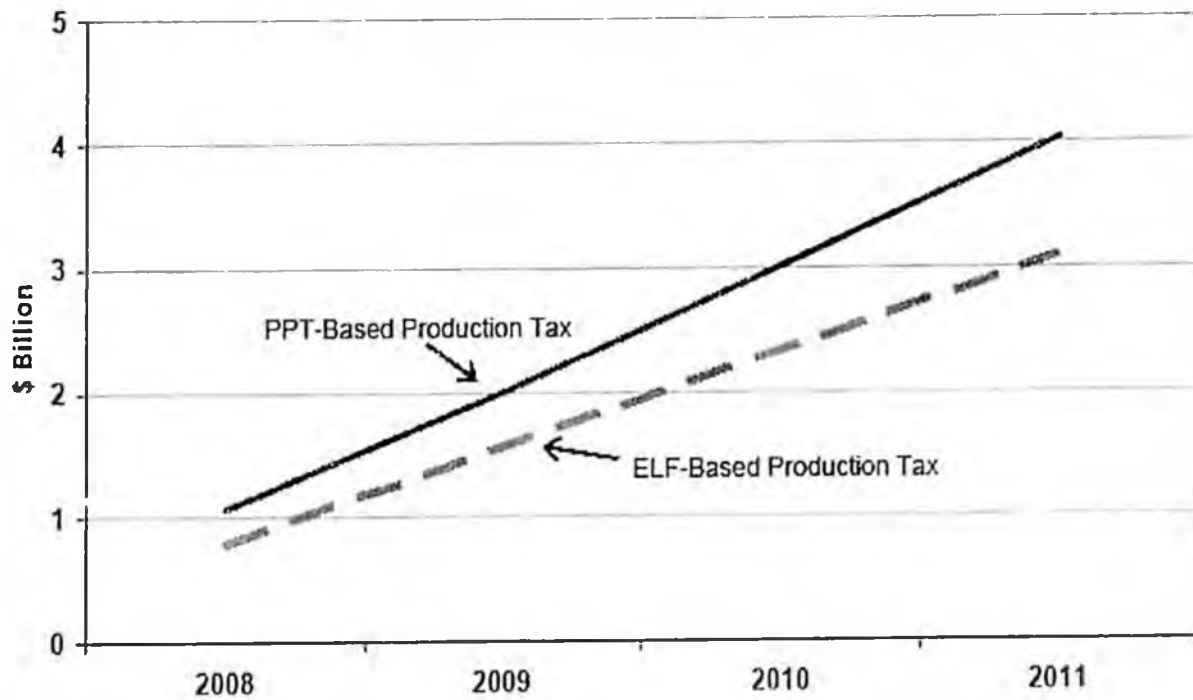


Figure 2-12. PPT Credits Claimed and Used in 2006 (\$ million)

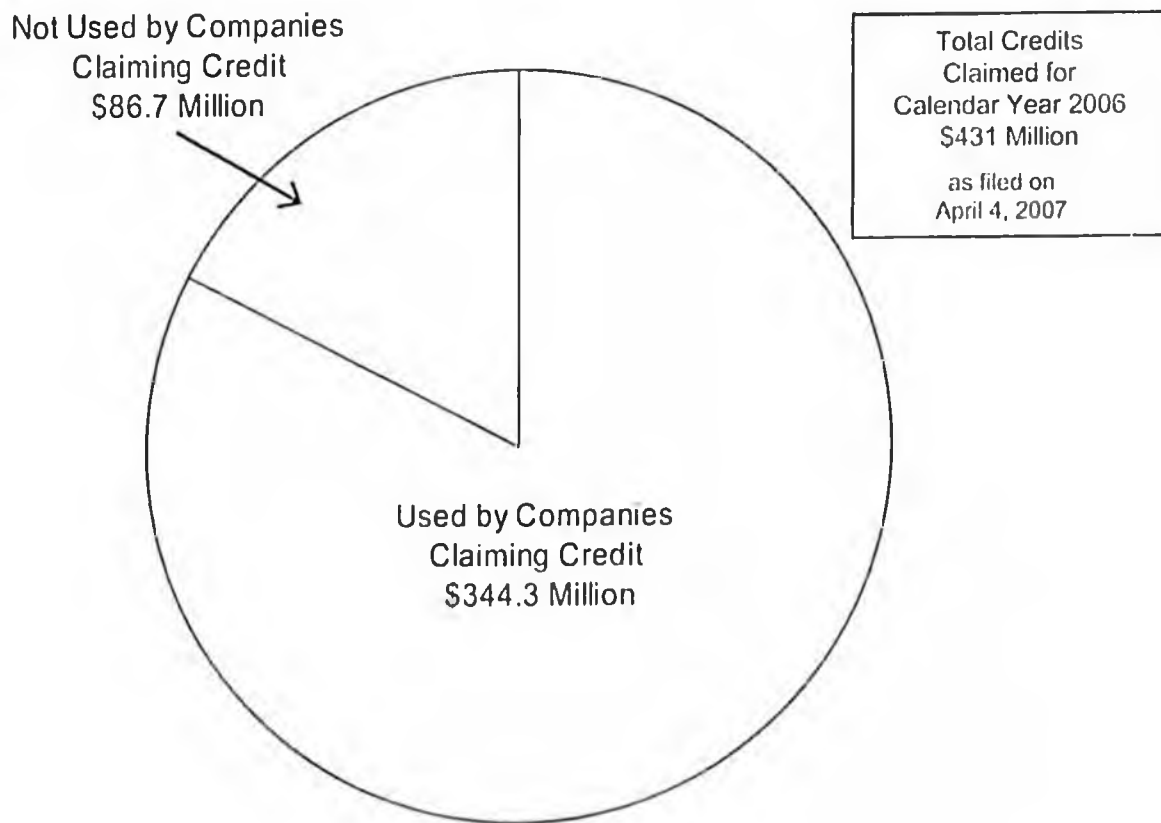


Figure 2-13. Total Unrestricted General Purpose Revenue, FY 2006 and Forecasted FY 2007-2017  
(\$ million)

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

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

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

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

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

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

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

110 FERC 61.095

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 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.

111 FERD 61.332

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

18 CFR Part 157

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

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

(Issued June 1, 2005)

AGENCY: Federal Energy Regulatory Commission.

ACTION: Final Rule; Order on Rehearing.

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

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

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

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

## II. Presumption of Rolled-in Rates for Expansions

### A. Final Rule - § 157.39

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

### B. Rehearing/Clarification Requests

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

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

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

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

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

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

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

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

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

C. Commission Response

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

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

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

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

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

### III. Late Bids

#### A. The Final Rule - § 157.34(d)(2)

52. Order No. 2005 added a new provision in the Final Rule, section 157.34(d)(2), that a project sponsor must consider any bids tendered after the expiration of the open season by qualified bidders, and may reject them only if they cannot be accommodated due to economic, engineering, or operational constraints, in which case the project sponsor must provide a detailed explanation for the rejection. The Commission explained that this requirement is designed to allow reasonable access to those shippers who may not be ready to participate during the established open season period, and at the same time provide the sponsor with flexibility in the timing of its open season.

#### B. Rehearing/Clarification Requests

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

# CONTRACTUAL COMMITMENTS

LEG. SVCS

MEMO

5/9/07

**Contractual Commitments**

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

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

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

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

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

*for BP 20(A) on-line total*

CDP 243768



*from Exxon Mobil 2003 10(K)*

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

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

**2002**

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

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

**Commitments**

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

Payments Due by Period

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

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

Notes:

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

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

#### Guarantees

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

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

# LEGAL SERVICES

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

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FAX (907) 465-2029  
Mail Stop 3101

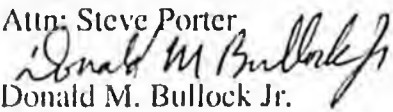
State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

May 9, 2007

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

**TO:** Senator Bert Stedman  
Attn: Steve Porter

**FROM:**   
Donald M. Bullock Jr.  
Legislative Counsel

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

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

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

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

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

Do you know what is otherwise provided in AS 43.90.150?

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

Senator Bern Stedman

May 9, 2007

Page 2

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

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

DMB:lmb  
07-119.lmb

Enclosure

PUBLIC  
TESTIMONY

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

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

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

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

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

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

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

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

The common objectives are:

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

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

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

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

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

*Wes Nason*

# BEACON

OCCUPATIONAL HEALTH  
AND SAFETY SERVICES

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

[www.beaconohss.com](http://www.beaconohss.com)

## Senate Finance Testimony on SB 104 April 30, 2007

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

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

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

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

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

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

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

Thank you for your time.  
Best regards,  
Mark Hylan

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**Dowland Bach Corp**

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[www.dowlandbach.com](http://www.dowlandbach.com)

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

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

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

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

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

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

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

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

Good Evening,

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

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

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

Why do I say this?

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

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

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

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

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

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



## NORTHWEST TECHNICAL SERVICES

Testimony regarding Senate Bill 104

April 30, 2007

By

Mary E. Shields, General Manager  
Northwest Technical Services

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

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

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

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

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


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

Testimony: Senate Bill 104  
April 30, 2007  
Page Two

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

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

Kind regards,



Mary E. Shields  
General Manager

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

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

**DO THE DEAL NOW**

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

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

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

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

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

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

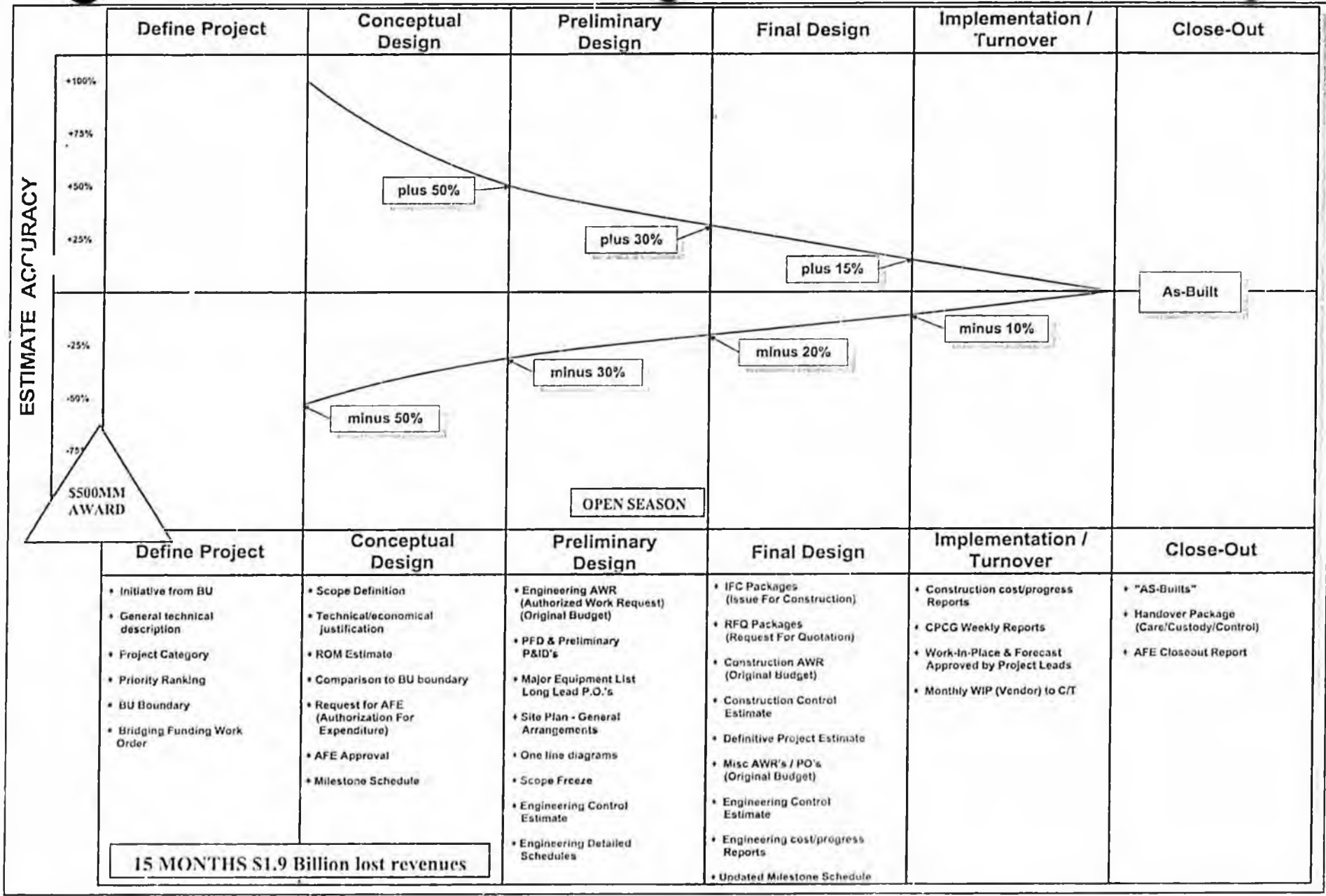
You already have two to three years of testimony. Take the good stuff from the last three years, incorporate it in AGIA and send it to the Governor for her approval. Begin negotiations.

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



**BE LEADERS  
PLEASE  
DO THE DEAL NOW**

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



15 MONTHS \$1.9 Billion lost revenues

EST. WHERE PRODUCERS ARE NOW



LYNN C. JOHNSON  
PRESIDENT



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

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

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

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



# UDELHOVEN

Oilfield System Services Incorporated

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

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

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

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

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

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

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

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

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



# UDELHOVEN

Oilfield System Services, Incorporated

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

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

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

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

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

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

Thank you.

James Gilbert  
President

[jjgilbert@udelhoven.com](mailto:jjgilbert@udelhoven.com)  
<http://www.udelhoven.com>

## Testimony to the Alaska State Legislature April 30, 2007

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

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

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

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

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

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

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

Hillary McIntosh  
(907) 350-6247



# THE ALLIANCE

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

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

## SENATE FINANCE TESTIMONY

On SB 104  
April 30, 2007

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

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

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

First and foremost, the Alliance wants a gas project.

Second, we want a gas project.

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

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

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

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

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

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

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

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

Thank you.

DRAFT

For the record my name is Jerry McCutcheon

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2

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

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

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

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

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

Members of the Senate Finance Committee.

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

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

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

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

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

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

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

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

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

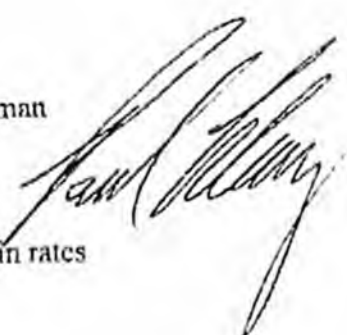
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Board Certified in Clinical Neuropsychology  
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Phone (907) 274-8200  
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May 8, 2007

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



MAY 08 2007

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

***Mandatory Gasline Expansion;***

*and*

***Rolled-in Rates***

in the bill as proposed by Governor Palin.

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

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

Thank you for supporting AGIA with rolled-in rates.



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MAY 07 2007

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

P.O. BOX 84437 FAIRBANKS, ALASKA 99708

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

[www.naacpfairbanks.org](http://www.naacpfairbanks.org) [virgie@mosquitonet.com](mailto:virgie@mosquitonet.com)

Ms. Virgie M. Dunlap-King, President

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

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

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

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


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

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

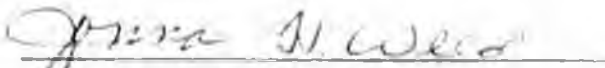
Whereas, the Fairbanks Chapter of the NAACP fully supports Alaska hire local hire, and opportunities for Alaskan minority workers in the Alaskan construction industry,

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

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

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

Sworn before me on the 21<sup>st</sup> day of April, 2007

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

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MAY 07 2007

To the Chair,

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

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

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

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

John Brown  
Operating Engineers  
Local 302

May 8, 2007

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MAY 09 2007

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

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

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

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

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

Respectfully,

Bob Hinkel  
President  
Hinkel Investment Company

Bill Adair  
President  
Bullwinkle's

Chad Moore  
Uresco

Marc Langland  
CEO  
Northrim Bank

Sam Brice  
President  
Brice Inc.

Joe Ralston  
General, USAF (Ret)

Rex Wilhelm  
President  
Alaska Commercial Company

Ken Williamson  
President  
Delta Alaska Wholesale

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

Ron Duncan  
President  
GCI

Helvi Sandvik  
President  
NANA Development Corp.

Pete Sorenson  
President  
World Wide Movers

Anthony Drabek  
President & CEO  
Natives of Kodiak, Inc.

Marvin Davis  
President  
Longass Business Center, Inc

Phil Smsarenko  
Sr. Advisor  
Nordic Calista Services

Larry S. Cash  
President & CEO  
RIM Architects

Randy Feero  
General Manager Juneau  
FSA

Randy Johnson  
President  
Tyler Rental Inc.

William Tatsuda  
President  
Tatsuda's Supermarket, Inc.

Roger L. Hames  
President  
Hames Corporation

Michael B. Salazar  
Former Mayor KGB

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

William E Brooks  
President  
Arctic Bee Construction

Robert W. Everts  
President  
Everts Air Cargo

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

Gary Baugh & Barbara Baugh

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

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

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

Carl Brady  
Chairman  
Brady & Company

Harvey D. Harms  
Alaska Trophy Safaris, Inc.

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

Wilson Hughes  
Executive Vice President & General  
Manager  
GCI

Ed Rasmuson  
Retired

Dave Cruz  
President  
Cruz Construction Inc.

Thomas Martin  
President  
Northland Services, Inc.

Jim Jansen  
President & CEO  
Lynden Inc.

Bob Gerondale  
Operations Manager  
Construction Machinery Ind.

Sherron Perry  
President  
Fairweather, Inc.

Chris Swalling  
President  
Swalling & Associates, P.C.

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

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

Bruce E. Gagnon  
Attorney

Shane Langland  
President  
Eagle Enterprises

Dean McKenzie  
President  
Alaska West Express

Ken Privratsky  
Vice President  
Horizon Lines

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

Doug Minert  
President  
Food Services of America

James St. George  
President  
STG Inc.

Joseph M. Beedle  
Chairman, Chief Lending Officer  
Northrim Bank

Ken Lambertsen  
General Manager  
Univar

Jeanne St. John  
Vice President  
Lynden Logistics

Bernie Karl  
President  
K&K Recycling Inc.

Daniel E. Brewster  
Vice President  
Bering Pacific Construction

Roger Aldrich  
Co-Managing Member  
Residential Mortgage LLC



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Tel (907) 586-1325 • Fax (907) 463-5480 • www.akml.org

MAY 10 2007

May 4, 2007

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

Dear Governor Palin,

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

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

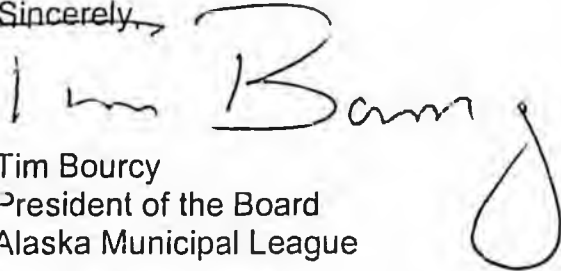
Our members will all be directly impacted by any legislation dealing with the gas line. We have discussed at length our position on the concepts currently under debate in the Legislature and we take this statement of our position quite seriously, as it will affect everyone in the State. All of AML's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

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

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

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

Sincerely,

A handwritten signature in cursive script that reads "Tim Bourcy". The signature is written in black ink and is positioned to the right of the word "Sincerely,". A horizontal line is drawn under the word "Sincerely," and extends to the left.

Tim Bourcy  
President of the Board  
Alaska Municipal League

cc: Commissioner Tom Irwin  
Commissioner Pat Galvin  
25<sup>th</sup> Alaska Legislature

May 10, 2007

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

Dear Co-Chairs and Members of the Finance Committee,

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

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

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

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

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

Yours in economic prosperity,



Wayne A. Stevens  
President/CEO



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CHAMBER  
OF COMMERCE

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

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

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

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

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

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

MISC.

# Alaska State Legislature

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



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

## Senate Judiciary Committee

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

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

#### Article 1.

##### **Inducement to Construction of a Natural Gas Pipeline**

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

#### Article 2.

##### **Alaska Gasline Inducement Act License**

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

##### Section 13.90.110 Construction Inducement:

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

##### Section 13.90.120 Request for Applications:

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

Section 13.90.130 Application Requirements:

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

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

Section 13.90.150 Proprietary Information and Trade Secrets:

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

Section 13.90.160 Notice, Review and Comment:

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

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

Section 13.90.180 Notice to Legislature:

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

Section 13.90.190 Legislative Approval:

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

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

Section 13.90.210 Amendment or Modification of Project Plan:

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

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

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

Section 13.90.240 Abandonment of Project:

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

Section 13.90.250 Gasline Inducement Act Coordinator:

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

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

### Article 3.

#### Resource Inducement

##### Section 13.90.300 Qualification for Resource Inducement:

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

##### Section 13.90.310 Royalty Inducement:

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

##### Section 13.90.320 Gas Production Tax Exemption:

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

##### Section 13.90.330 Inducement Vouchers:

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

### Article 4.

#### Miscellaneous Provisions

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

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

##### Section 13.90.120 Statute of Limitations:

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

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

##### Section 13.90.140 Licensed Project Assurances:

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

Section 13.90.150 Assignments:

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

Article 5.

General Provisions

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