

SCOMM

128:8

Vision:

Natural Gas Business And Gas Trading Hub/Principles For ANS Gas

Presentation To:

Alaska House Oil And Gas Committee

Juneau, Alaska, March 13, 2001

Alaska Senate Resources Committee

Juneau, Alaska, March 14, 2001

Pacific Rim Leadership Development
Ken Thompson, President



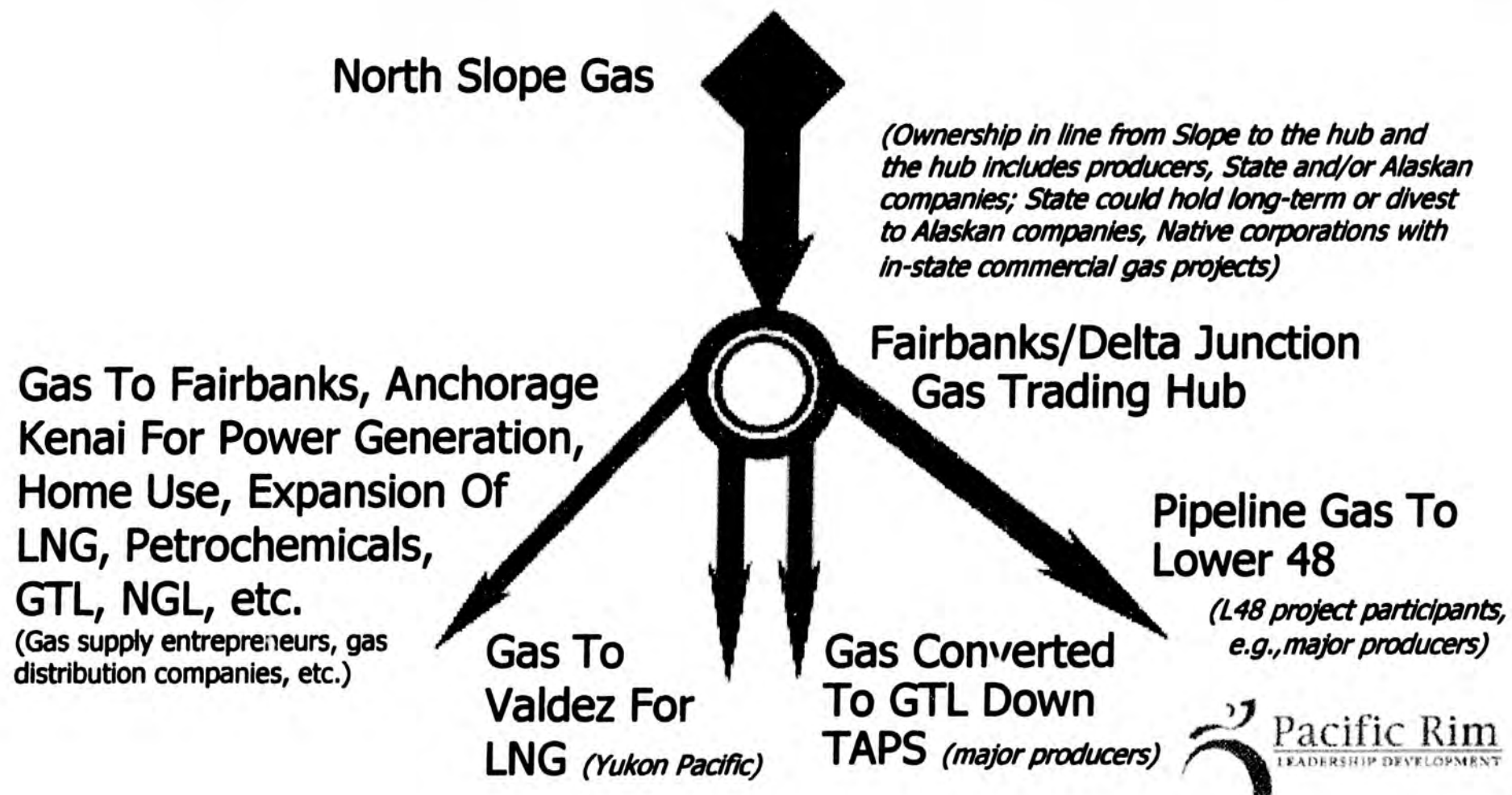
Gas Business Vision: Introduction

- Producers completing studies to create their gas "vision"
- State should proactively complete its separate studies to create a "vision" that's best for Alaskans long-term
- State could make big mistakes by waiting for the producers to finish their "vision", then State reacts
- Producers' and State's perspectives will differ
 - Producers must focus on discounted present value, rates-of-return
 - State must focus on 50 years of socio-economic benefit to the state
- What proactive "vision" for the State should be examined?
- Find win-win with producers

Gas Business Vision: Recommendations

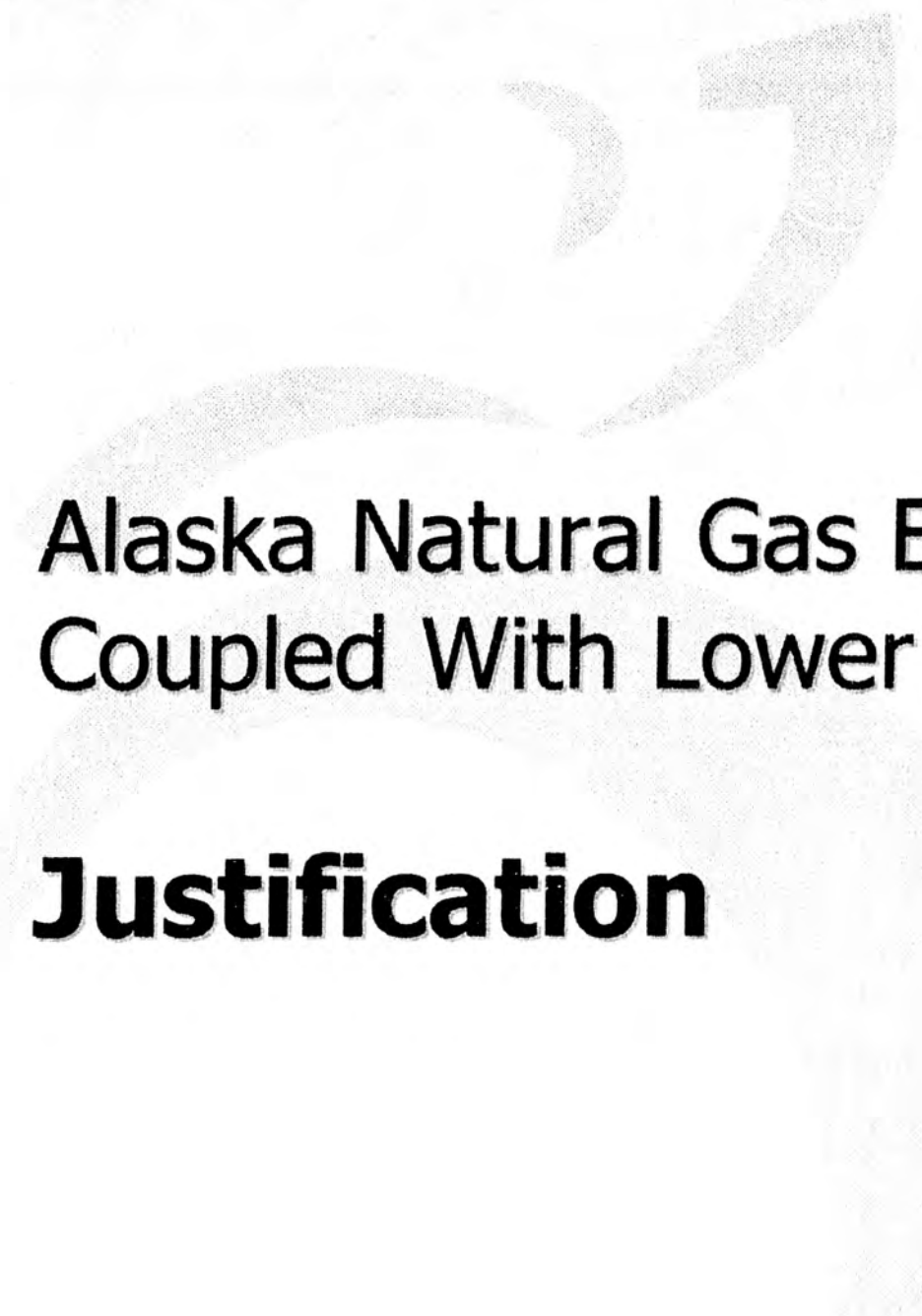
- Gas pipeline traversing Alaska
- "Natural gas hub" near Fairbanks or Delta Junction:
physical facilities *and* contractual system
- State retain 12.5% royalty share of gas "in kind"
- State (or Alaskan companies) invest at least 12.5% share
in the gas pipeline from Slope to hub and hub facilities
- State formulate policies/regulations for clear and
transparent valuation/pricing of gas at the hub

Trading Hub and Natural Gas Business Vision With Future Multiple Markets Access



Gas Business Vision: Next Steps

- 2001: Resolution supporting principles of natural gas business in Alaska in conjunction with L48 gas line
- 2002-03:
 - 1) Regulations for clear, transparent netback pricing
 - 2) Rules for clear, transparent access for in-state use
 - 3) Rules for clear, transparent access for overseas markets
 - 4) State finalize decision of investment in line, gas "in kind"
- 2004-2006+: State attract investors for hub and/or spur lines, in-state distribution, city infrastructure, value added processing
- 2007: "GAS TO CASH" for Alaska, Alaskan companies, Alaskans!!!



Alaska Natural Gas Business Coupled With Lower 48 Gas Line

Justification

Gas Pipeline Traversing Alaska

- Lower 48 market appears best currently, but cyclical
- Northern route holds Alaska gas "hostage" to one cyclical market long term
- Southern route along TAPS route and Alaska highway provides access to future multiple markets
 - Alaska internal markets
 - Asia, West Coast U.S.
- State and Producers will see different calculations for northern vs. southern routes
 - Producers must focus on discounted present value, rates-of-return
 - State must focus on 50 years of socio-economic benefit to the state
- Find win-win solution for route traversing Alaska

Natural Gas Trading Hub/Contracts

- Physical system and *contractual system*

Physical system

- Valves, manifolds that allow future pipelines to “plug in”
- Construct initially with pipeline hub near Fairbanks or Delta Junction to facilitate future markets’ access
- *Alternative:* spur lines to select markets

Contractual system (must happen even if physical hub does not)

- Trading hubs fundamental to physical gas distribution but also for clear, transparent trading and price valuation
- Numerous trading hubs in the Lower 48, Canada, UK, Europe, progressing in Asia

Natural Gas Trading Hub (continued)

- Assess regulations, guidelines, policies at such hubs for trading and netback pricing; institute at Alaska hub
- U.S., EU's Gas Directive, UK's Natural Gas Trading Arrangements are examples of regulations
- Formulate rules up front for access to in-state markets
- Access negotiations tougher later, when gas is flowing
- Precedence of NS facility access issues are negative

"Plug Into The Hub"

State Retain 12.5% Share "In Kind"

- Lease agreements allow royalty payment or taking gas "in kind"
- Allows state to market its own gas to validate best market pricing being obtained
- State could choose to contract to third party gas marketing firm (e.g., Williams Energy, Enron)
- State's 12.5% share of gas is substantial at 250-500 MMCFD if total production is 2-4 BCFD
- State's volumes could facilitate in-state use and new business creation for economic impact

State Invest 12.5% Share In Line/Hub

- State investment/transport in line from Slope to hub
- State contract with pipeline or Alaskan company for operational management of its investment share
- Best mechanism to accurately know and have input on transportation costs and operations
- Clear, transparent operating costs for valuation at hub
- State hold investment long term or divest to Alaska companies, Native corporations with in-state uses
- *Alternative:* if state does not invest, select Alaskan companies to invest 12.5% to transport State's gas
- Keeps more profits in state!

State Mandate Valuation/Pricing Policies

- Precedents in Lower 48, UK NG Trading Agreements, EU Gas Directive
- For taxation, netback pricing must be clear, transparent
- Avoid controversies, hearing, lawsuits of past oil pricing disagreements
- Direct involvement by State in its own share of gas allows clear, transparent market pricing at hub
- Valuation/pricing mechanisms, methodologies known up front rather than after gas flowing
- Win-win when known up front

Example Resolution Principles for Alaska - European Union Gas Directive

- Gas transmission, distribution interconnected, no barriers
- State(s) regulates gas business: nondiscriminatory, clear
- Fair and open access to the natural gas system
- Access to pipelines allowed under set of transparent rules
- Participants in the market will not abuse their dominant position nor engage in predatory behavior
- Participants have open, nondiscriminatory storage access
- Gas suppliers will compete freely for "eligible customers"

Gas Business Vision: Conclusions

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- "Natural gas hub" facilities Fairbanks or Delta Junction:
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