SCOMM

129:12

ALASKA STATE LEGISLATURE
JOINT COMMITTEE ON NATURAL GAS PIPELINES

Official Business

Senator John Torgerson, Chair
Senator Rick Halford
Senator Pete Kelly
Senator Johnny Ellis

Representative Joe Green, Vice-Chair
Representative Brian Porter
Representative Scott Ogan
Representative John Davies

MEMORANDUM

TO: All Senators and Representatives

FROM: Senator John Torgerson
Chair, Senate Resources Committee
Chair, Joint Committee on Natural Gas Pipelines

SUBJECT: Report on the Alaska Natural Gas Pipeline

DATE: May 16, 2002

I am enclosing some information on the Alaska Natural Gas Pipeline that I hope you will find useful. First, there is a report on the natural gas pipeline modeling work done by the legislature's economic experts, Northern Economic Research Associates. In addition, we are enclosing a CD containing the economic models of the different gas line projects built by our experts.

Second, there is a report by our expert on oil and gas matters, Patrick Coughlin. The report provides background information and a status of the provisions in the United States comprehensive energy bill that pertain to an Alaska natural gas pipeline. That bill is currently set to go to a conference committee with U.S. Senate and House members.

Finally, I am enclosing a report on the matters that Mr. Coughlin has been working on for me. He has discussed oil and gas issues with many of you and you should feel free to contact him during the interim if you have technical questions relating to oil and gas.

Session: January – May
State Capitol, #427
Juneau, AK 99801
Phone: 907-465-2828
Fax: 907-465-4779

Interim: May – December
35477 Kenai Spur Hwy., Suite 101A
Soldotna, AK 99669
Phone: 907-260-3041
Fax: 907-260-3044

REPORT ON THE ALASKA NATURAL GAS PIPELINE

Compiled by Senator John Torgerson
Chair, Joint Committee on Natural Gas Pipelines

Contents

MODEL REPORT

Report for
The Joint Committee on Natural Gas Pipelines
For the Alaska State Legislature

Natural Gas Pipeline Modeling

Submitted by
NORTHERN ECONOMIC RESEARCH ASSOCIATES

Dr. Douglas B. Reynolds
Dr. Robert R. Logan
Dr. H. Charlie Sparks
Mr. Michael Backus

The Joint Committee on Natural Gas Pipelines for the Alaska State Legislature contracted with Northern Economic Research Associates (NERA) to build economic models to determine the feasibility of various Alaska gas projects and to analyze legislative policy surrounding natural gas issues. NERA is an economic research firm made up of experts with experience in oil and energy economics, the Alaska state economy, finance and accounting.

Dr. Reynolds is a professor of oil and energy economics at the University of Alaska Fairbanks (UAF) and has researched oil and energy issues for over fifteen years. He has spent time in Kazakstan, Russia, Norway and Mexico studying their oil and gas industries. Dr. Logan is an economics professor at UAF and has looked at a number of Alaska State economic issues over the last fifteen years including oil and gas lease sale efficiency, mining and military impacts on the local economy, and fishery industry problems. Dr. Sparks is an accounting professor at UAF with finance experience. He was the senior accountant at the Alaska Permanent Fund Corporation where he was responsible for performance evaluations including internal rate of return (IRR) and net present value (NPV) calculations for a diverse portfolio of investments. He has also worked on litigation claims involving lost benefits and on Alaska Housing Finance Corporation studies to determine energy efficiency benefits. Mr. Backus is an Alaskan scholar at UAF and is helping put together the economic models.

NERA has worked with the Joint Committee since January 7th, 2002 and has researched gas pipeline costs, price forecasts and potential gas supplies for an Alaskan gas project. Based on all the data gathered, economic models were developed to show how feasible various natural gas projects were. The following report explains the results of the ALCAN pipeline project.

Introduction

- Part I – Description of An Economic Model (This is the hard part)
- Part II – Alcan Project Model and Key Assumptions (What you need to know about the project)
- Part III – Model Results (How do the results change if the assumptions change)
- Part IV – Conclusion (What you really want to know: the project is economic based on our assumptions)
- Part V – Appendix (CD containing models for LNG 1.5 BCF, Y-Line 6BCF, Alcan Expandable 4.5 BCF, and Alcan Non-Expandable 4.5 BCF for you to play with)

What is an economic model? How is it built?

- An economic model is a simplified representation of a proposed business, project or transaction built on the basis of input assumptions which are combined by a series of mathematical formulas to determine project results and outcome values.

- For an oil and gas company, these input assumptions or estimates would include the production volume, oil or gas price, capital costs, operating costs, taxes, and royalties.

- The input assumptions are based on the best available information from the oil and gas company's geologists, reservoir engineers, economists, facility and pipeline engineers, accountants, and other experts.

- Project cash expenditures and revenues are estimated based on these assumptions.

- Cash flows are put into a spreadsheet or other calculation tool and then a net cash flow is calculated on a yearly basis starting with the initial investment.

- The amount of detail in the model depends upon the complexity and value of the decision facing the company.

What does a model look like?

- Simplified oil and gas cash flow model example

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues						
Volume	0	75	75	50	50	25
Price	0	20	20	20	20	20
T. Revenues	0	1500	1500	1000	1000	500
Costs						
Capital	1000	0	0	0	0	0
Operating	0	550	650	400	500	250
Royalty	0	150	150	100	100	50
Taxes	0	300	300	200	200	100
T. Cost	(1000)	(1000)	(1100)	(700)	(800)	(400)
Net Cash Flow	(1000)	500	400	300	200	100

- Model assumes an initial investment of $1 billion dollars, initial production is large and then decreases with time, the oil price stays constant at $20/bbl, operating expenses vary, royalty is 10% of total revenues, and taxes are 20% of total revenues.
- Model automatically
  - calculates the total revenues by formula that multiplies the volume each year by the price
  - calculates the royalty and taxes by formula that multiplies the total revenues by the assumed royalty and tax rate
  - sums the costs each year to get a yearly total
  - subtracts the total cost each year from total revenues each year to get a yearly net cash flow

- Simplified model has about 50 cells with very simple equations; actual model has about 200,000 cells with many complex, conditional equations

What economic jargon do we need to understand to use an economic model?

- **Time Value of Money Concept** – a $1 today is worth more than a $1 tomorrow

- **Inflation** – The notion that the price of goods and services increases over time
  - Subset of the time value of money concept
  - If we have three percent inflation, a candy bar that cost $1 in 2000, cost about 75 cents in 1990, and about $1.35 in 2010

- **Nominal vs. Real Dollars**
  - **Nominal Dollars** are dollars at the time of the transaction – in our candy bar example, price actually paid was: 75 cents in 1990, $1 in 2000, and $1.35 in 2010
  - **Real Dollars** adjusted, using an inflation index, to a particular point in time – in our candy example, the price paid, adjusted for inflation to a base year of 2000, was: $1 in 1990, $1 in 2000, and $1 in 2010

- **Present Value** – a time value of money concept that brings all investment and return cash flows back to a common date based on a **Discount Rate** or **Hurdle Rate**

- **Discount Rate or Hurdle Rate**
  - A rate applied to a series of future cash flows to adjust for risk and the uncertainty of time factor
  - The rate reflects general inflation in the economy
  - The rate reflects that you'd want a higher rate of return on your money if you had to leave it in the bank for five months vs. five years
  - The rate reflects that you'd want a higher rate of return on your money if you invested it in a safe government bond vs. if you invested it in a new company promoting a new product
  - **The Discount Rate or Hurdle Rate is so important we will talk some more about it and how it is calculated.**

How do we calculate the present value of our simplified oil and gas project?

- In our simple oil and gas cash flow example, the yearly undiscounted cash flows were: (1000), 500, 400, 300, 200, and 100. (Refer to earlier slide titled "What does a model look like)
- But, we now know that the early cash flows are worth more to us than the later cash flows because of inflation and our risk tolerance
- Let's discount those cash flows by a discount rate of 0%, 10% and 20% back to the common Year O and see what we get.

Year	NCF@0%	NCF@10%	NCF@20%
0	(1000)	(1000)	(1000)
1	500	455	416
2	400	391	276
3	300	225	172
4	200	137	95
5	100	62	59
Total	500	209	0

- What's our conclusion?
  - o If there was no such thing as inflation and the project had absolutely no risk, we'd use 0% discount rate and the project would have a present value of $500 million
  - o If the project was very risky, we might use a 20% discount factor and the project wouldn't have any present value to us
  - o If the project wasn't very risky, we might use a 10% discount factor and the project would have a present value $209 million

Why is the hurdle rate so important and how is it calculated?

- Why is the hurdle rate so important?
    - The hurdle rate or discount rate (aka cost of capital) reflects the minimum rate of return a firm must make on its investments
    - If the hurdle rate is too high, the firm will reject projects that it should have done
    - If the hurdle rate is too low, the firm could lose money
    - On the same project, different companies can have different hurdle rates depending upon their particular situation

- How is the hurdle rate calculated?
    - It is based on the firm's capital structure, that is the proportion of debt and equity
    - It is also based on its cost of the debt and cost of the equity
    - Example – Say a firm has 40% debt which it borrow at 8% and 60% equity which must be paid at the rate of 15% to attract investors. The cost of debt, however, is after tax so we need to know the company's tax rate, 40%

      Hurdle Rate = debt proportion x [debt rate x (1- tax rate)] + equity proportion x equity rate
      = .4 x [.08 x (1-.04)] + .6 x .15
      = .4 x .048 + .6 x.15
      = 1.92 + 9
      = 10.92% = 11%

- Should the hurdle rate be adjusted to reflect the risk of a particular project?
    - This is a subject of much debate
    - Generally it should not be adjusted unless the risk of the particular project is completely different from the ordinary risks assumed by the company in its business
    - Risk factors can include: project size, country or political risk, or price risk
    - Senate Energy Bill's price risk mechanism greatly reduces any price risk

- What are hurdle rates for oil and gas companies and pipeline companies?
    - For large oil and gas companies over last 20 years, about 10 to 12%
    - For pipeline companies (which usually assume less risk than oil and gas companies) over the last 20 years, about 8 to10%

- What is NERA's opinion about the appropriate hurdle rate?
    - If the federal legislation passes with the price floor, 10 to 12%
    - If it does not pass, 13 to 15%

How do firms and governments use economic models?

- The model calculates various measures of profitability and based on the results company executives decide whether to proceed with the project or not and compare the project to other alternative investment

- The three most common measures are a project's net present value, rate of return, and profitability index
  - Example – Assume our simple oil and gas model and the company's hurdle rate is 10%
  - The net present value (NPV) of the project discounted at 10% is $209 million
  - The rate of the return (ROR) of a project is the discount rate that yields a NPV of zero and in this example is 20%
  - Profitability Index (PI) is the NPV divided by the initial investment. It is considered a measure of the "bang" for the buck and in our example is .21

- In theory, if our hypothetical company's hurdle rate were 10%, it would do this project or any project with a NPV greater than zero using a 10% hurdle rate
  - If it could only do one project and it had another project with a NPV discounted at 10% of $400 million, it would do that project
  - If it could only do one project and it had another project with the same NPV of $209 million, it would do the one with the lowest investment cost employing the PI index criteria

- Firm's also use the model to do "sensitivity analysis"
  - Sensitivity analysis answers what if questions like: How much would our rate of return increase if the price of oil were $25 instead of $20? How much would the rate of return change if our construction costs were 25% higher than expected?
  - It helps the firm determine which input assumption variables are most important and warrant the most attention
  - Our model looks at how different assumptions affect the ROI

- Governments use economic models in much the same way as companies
  - Determine the appropriateness of a fiscal system and its effect on investment in the country
  - Determine the effect of various incentives on private investment and government revenues

How did we build our model?

- Looked at a large number of models
- Reviewed a number of reports and analysis regarding gas markets and pipelines
- Consulted and exchanged data with economists and oil & gas experts from the Department of Revenue and Department of Natural Resources, other governmental experts, and industry and private experts to work out key issues
- Had updates every morning with Senator John Torgerson, Mr. Patrick Coughlin and other experts
- Built several models to examine various route options
- Looked at a number of input assumptions for ALCAN route

Part II
The ALCAN Project Model

- Models project producing gas from the Prudhoe Bay and Point Thomson Units for sale in Alberta
- Includes a conditioning plan on the North Slope, a 2100 mile pipeline to Alberta, and a NGLs extraction plant
- Based on a 4.5 billion cubic feet per day project
- Assumes both gas and NGLs sales
- Uses conservative, reasonable assumptions based on best industry practice
- Terminates in Alberta and assumes other existing lines and smaller new line will transport the gas to the U.S.

What are the key input assumption variables?

- The price of gas and NGLs
- The type of gas, ethane or natural gas liquids (NGLs), available for sale
- The volume of gas that is currently available for sale (gas reserves)
- The volume of gas that may be available for sale (future discoveries)
- Upstream costs
    - Production costs
    - Oil losses
- Project capital costs
    - Conditioning Costs
    - Extraction plant costs
    - Pipeline costs
        - Non-expandable
        - Expandable
        - Terminus
- Operating costs and fuel use
- Pipeline tariff
- Government Revenues (State, Federal, Canada)
    - Property
    - Severance
    - Income
    - Royalties
    - Depreciation
- Incentives
- Project route
    - Alcan, Valdez-LNG, and Y-line
    - Focus on Alcan route

Key Assumptions - Prices and Price Floor

- Forecasts for natural gas prices
  - Natural gas prices are volatile
  - Changes in prices dramatically affect the project's ROI
  - Price forecast is key to project's economic feasibility
- NGLs prices
- Effect of federal legislation
- National security

Key Assumptions
Price Forecast 2010
(Chicago Price 2002$ per MCF)

- Natural gas prices are volatile and future prices are difficult to predict
- Futures say $3.50
- EIA says $2.94 to $3.61
- Producers say $3.12 (EIA mid-price)
- CERA says $2.50 to $3.50
- Federal Legislation uses $3.15 (estimated based on inflation and tariffs)
- Base Model uses $3.15
- Actual May 2002 is $3.70

Key Assumptions – Price
Natural Gas Liquids (NGLs)

- Assume no pentane or higher NGLs sales (already taken by TAPS)
- Assume low use of ethane and propane to extend life of producing oil fields
- Use historic NGLs prices

Key Assumptions - Federal Price Floor

- Federal Legislation contains a price guarantee of $3.25 in Alberta ($2010), about $3.75 in the lower 48
- The $3.25 price is not a subsidy because lower than expected price
- The guarantee reduces price risk by taking away price volatility
- The Legislation includes a tax repayment when prices are greater than $4.88 in Alberta ($2010) or $5.40 in the lower 48
- The federal government calculates a revenue neutral price
- This provision is probably the most important fiscal term affecting the project's economics

Key Assumptions – Price
National Security

- Federal legislation secures national energy security
- The world has become a dangerous place
- Energy is the life blood of the US's and Canada's economy
- Alaska is a safe, secure, and steady source of reasonably priced energy
- Federal legislation is not a subsidy, since revenue neutral, but it does add to US and Canadian national security

Key Assumptions - Proven Reserves

- Prudhoe Bay proven reserves are around 26 trillion cubic feet
- Pt. Thompson proven reserves are 8 trillion cubic feet
- If the pipeline is expandable, expectations are that these estimates are low or that there will be additional discoveries

Key Assumptions - Upstream Costs

- **Gas Production Costs**
  - The Alaska gas pipeline is an incremental project added on to existing oil infrastructure
  - Oil wells already produce gas
  - No upstream costs are included at the Prudhoe Bay Unit because there will be little or no costs to add on this project
  - No upstream costs are included at Point Thompson because a gas project will improve overall field development feasibility

- **Oil Losses**
  - If gas is produced within the next few years, some oil production may be lost
  - Oil losses are expected to be between 0 - 600 mmbo
  - The model assumes an oil loss of 480 mmbo
  - Losses occur late in the life of the project
  - No oil losses could occur because of technology and mitigation methods

Key Assumptions – Downstream Costs: Conditioning Plant, Pipeline & Extraction Plant

- **Conditioning plant** costs about $2.6 billion
- **Pipeline**
  - Typical pipeline Costs
    - Alaska $140,000 per inch mile
    - Lower 48 $60,000/inch mile
    - International $60,000 ± 25,000 (± 25,000 is one standard deviation)
  - Alaska costs are high due to permafrost, high BTU pipelines, large diameter
  - Model assumes that the pipeline terminates around Edmonton, Alberta
    - Edmonton is a natural gas hub and near many NGLs extraction plants
    - Pipeline could terminate in Gordondale about 400 miles short of Edmonton and have a $1.5 billion difference in cost
    - Ending the pipeline in Gordondale implies an extra tariff to get to Edmonton
    - Ending the pipeline in either Gordondale or Edmonton implies an extra tariff to get to Chicago
    - Many experts believe that by 2010 there will be spare capacity in the Canadian pipeline system to transport gas to the lower 48
  - Most projects are built to be expandable depending on existing reserves
    - A low cost Alcan project can be built without expandability and this option is modeled with lower capital costs
    - Expandability is only added if there is an expectation that it will be used
    - The expected project return for the expandable case is shown because the model is run assuming no expansion occurs
    - Total cost given by producers for an expandable pipeline: $14.8 billion ± 20% to Alberta
- **Extraction plant** costs about $0.6 billion

Key Assumptions - Fuel Use and Operating Expenses

- Best practice operating expenses (yearly operating expenses are based on percent of total capital expenditure)
  - 2.2% of pipeline capital
  - 5.4% of conditioning capital
  - 4% of NGLs capital
- Natural gas used to run pumps creates fuel loss
  - Industry best practice has 2% loss of gas per 1,000 miles
  - Conditioning plants loss 4%
  - NGL separation loss 3%

Key Assumptions – Tariff & Depreciation

- A high tariff reduces wellhead value and wellhead revenues
- A low tariff increases royalties and severance taxes
- If the producers own the pipeline, they will prefer a high tariff because it increases their ROI by reducing state revenues
- Model assumes that Producer revenue is generated from wellhead and pipeline
- Tariff setting and taxing is variable due to the depreciation method used and it affects the ROI
    - Base case uses current depreciation schedules without accelerated depreciation
    - Base case uses current taxes in United States and Canada without assuming any changes to those laws

Incentives

- Incentives can increase ROI to make a project more attractive
- Incentives cost government revenues
- Incentives in the form of government subsidies can reduce a company's use of innovation to make the project economic
- Incentives in the form of government subsidies may only accelerate a project that would otherwise be done later
- Assuming state decisionmakers believe that incentives are appropriate, they should be structured to provide the greatest increase to ROI at the least cost to state revenues
- Incentives can be negotiated to benefit both the project sponsors and the state
- "Fiscal terms should not be more attractive [to the project sponsors] than what is necessary to achieve the desired economic activity." Dr. Pedro Van Meurs, Fiscal Systems expert
- The model can show the effect on gas objectives of using different incentives

Part III
Model Results

- Base Case Model – Expandable Pipeline
- With Alaska Property Tax Holiday
- With Capital Cost Changes
- With Price Changes
- With Accelerated Depreciation
- With Tax-Exempt Financing
- Alternative Model – Non-Expandable Pipeline

MODEL RESULTS

Best Guess Model based on Available Information
Project from Alaska North Slope to AECO Hub

Assuming 30 Years of Production	Return on Investment	Wellhead ($/mmBTU)	State Revenue (millions) (2002$)	Federal Revenue (millions) (2002$)	Canadian Revenue (millions) (2002$)	Producer Net Rev. (millions) (2002$)
Expandable Reference Scenario[1]	15.05%	$1.33	$23,565	$22,662	$7,388	$48,325
w/ 4 yr AK tax break[2]	15.22%	$1.35	$23,331	$22,744	$7,388	$48,477
w/ addition 3 yr break	15.36%	$1.36	$23,059	$22,839	$7,388	$48,654
w/ 20% cost overrun	13.03%	$1.12	$20,831	$20,604	$8,863	$45,745
w/ 20% cost reduction	17.80%	$1.54	$26,299	$24,723	$5,910	$50,905
w/ accelerated depreciation	15.32%	$1.35	$23,765	$22,433	$7,386	$48,357
w/ 20% increase in Chicago Price[8]	17.40%	$1.82	$31,949	$30,384	$7,386	$62,662
w/ 20% decrease in Chicago Price[8]	12.40%	$0.84	$15,184	$14,943	$7,386	$33,987
Debt Reference Scenario[3]	14.70% [7]	$1.32	$22,128	$18,471	$4,968	$41,204
w/ Railroad Bonds[3]	15.00% [7]	$1.41	$23,734	$20,038	$4,957	$43,787
Non-Expandable Scenario[4]	16.45%	$1.45	$25,063	$23,795	$6,432	$49,595

Cost:		Price:		Sold:	
Conditioning Plant	$2.6 bn	Albt. Price[5]	$2.60/mmBTUs	In Alberta[6]	4.21 BCF
Non-Expandable Pipeline to Alberta	$10 bn				
Expandable Pipeline to Alberta	$11.6 bn				
NGL Stripper Plant	$0.6 bn				
Non-Expandable Total	$13.2 bn				
Expandable Total	$14.8 bn				

1 *Expandable Reference Scenario* assumes federal tax credit/price floor & non-expansion of pipeline (4.5 bcf/day throughput--a worst case scenario).
2 Property tax break during assumed 4 year construction period.
3 Calculated assuming 70% debt. Used only to evaluate value of Railroad Bonds. Not comparable to other scenarios.
4 Assumes 4.5 bcf/day pipeline is non-expandable, is fully utilized, and costs 6% less on a $/inch-mile basis. A ball park figure for actual profitability as the producers must believe the actual return is above this amount, otherwise they would not opt for expandability.
5 Federal price floor based on EIA forecast in 2002 dollars.
6 Includes small quantities of ethane and propane.
7 Simple weighted average of the return on equity and the taxable bond rate.
8 Represents 63¢ change in the Alberta Price.

Part IV
Conclusion

- Expandable Scenario has 15% return
- If the project is expanded, the return will be higher
- With cost overrun, ROI drops to 13%
- With cost underrun, ROI jumps to 17.8%
- Return includes a price floor
- Therefore there is almost no risk on the venture
- All cases, including cost overrun, exceed the hurdle rate
- This project is economic and should be a go

Conclusion - The Project is Economic

- The Joint Pipeline Committee's model shows that the project is economic at a discount rate of 15%
- A model prepared by Informetrica Limited, a Canadian consulting company, shows that the project is economic at a discount rate of 15% and "[i] n fact, the after-tax internal rate of return for the producers is 31 per cent." Informetrica, Cost-Benefit Analysis of the Alaska Natural Gas Transmission System (January 2002)
- If the federal price floor in the current Senate Energy Bill becomes law, the price floor for gas shipped on the line will be $3.25 Alberta or $3.75 US and others, including the producers have said that the pipeline would be economic at that price:
  - "A commercial project exists today. One with a rate of return of over 12 percent." Ken Thompson, former Arco president and oil and gas consultant, (PNA 3.17.02)
  - Exxon "would have to see a natural gas price of US$3 to US$3.50 per thousand cubic feet on a long-term basis for the pipeline to move ahead." Bob Davis, Exxon spokesman, National Post (May 9, 2002)
  - "On average, the price in [Alberta] would need to be maintained at prices above $3 …(or $3.50 …in the United States) for construction [of the Alaska gas pipeline] to commence." Energy Information Administration (EIA), Annual Energy Outlook 2002 (December 20010
  - "Based on the estimated cost of gas at the well, capital costs, operating costs required rates of return, Alaska gas delivered by the proposed pipeline is estimated to competitive when lower 48 wellhead prices are sustained at $3.15 per thousand cubic feet [and] the trigger price with the [Producer's enabling legislation without the price floor provisions] is assumed to be $3.05." EIA, The Effects of the Alaska Oil and Natural Gas Provisions of H.R. 4 and S.1766 on U.S. Energy Markets (February 2002)
- Since the federal price floor has surfaced, the producers have refused to release their project economics and more importantly they have refused to release any information supporting the assumptions in their model

MODEL REPORT

CD

BACKGROUND AND STATUS OF FEDERAL LEGISLATION

MEMORANDUM

TO: Senator John Torgerson
Chairman, Joint Committee on Natural Gas Pipelines
Members of the Joint Committee on Natural Gas Pipelines
FROM: Patrick Coughlin PJC
SUBJECT: Background and Status of Federal Legislation
DATE: May 14, 2002

BRIEF HISTORY
1977 to Summer of 2001

In 1976, the United States Congress passed the Alaska Natural Gas Transportation Act of 1976 (ANGTA). That act authorized the President of the United States to select from competing proposals, a route to transport Alaska North Slope (ANS) gas to lower 48 gas markets and enter into agreement with Canada with respect to the selected route. The President selected a route basically following the Alaska Highway through Yukon through Alberta to the Midwest (Alcan route). The President also selected a consortium of pipelines to build the route. Today that consortium is composed of several companies that are referred to as "Foothills" or the "Pipelines." The president's decision was approved by Congress and became part of an agreement and treaty with Canada.

For purposes of understanding the new proposed so-called "enabling legislation," ANGTA granted the State of Alaska "special rights to serve in-state needs with its royalty gas." (Letter from the law firm of Morrison & Foerster to Senator Torgerson dated August 14, 2001.) The president's decision repeatedly recognized the importance of the state's ability to use its royalty gas for in-state energy and to develop the state's economy. The decision said that an Alcan pipeline could "supply the energy base required for long-term economic development" within Alaska and it could supply natural gas to communities within Alaska along the route as well as other Alaska communities through local distribution lines. Furthermore, to preserve competition and avoid antitrust concerns, the owners of the vast majority of gas reserves on the ANS, Exxon, BP, and Phillips, formerly Arco (Producers), were prohibited from owning an interest in the Alaska pipeline.[1]

Foothills did a lot of work in the late 1970s and early 1980s to complete the project. However, gas market conditions in the lower 48 dramatically changed and the Alaska pipeline was never built. Throughout the years, Foothills maintained its various authorizations although more are necessary before it could actually begin construction.

In the winter of 2000-01, gas prices in the lower 48 increased dramatically from a historical average of $2.00 to $2.50 per mcf to more than $10.00 per mcf. Many economists and gas industry experts predicted a fundamental shift in supply/demand

---

1 Ultimately, President Reagan issued a "waiver of law" that allowed the Producers to own a minority interest in the pipeline. However, in issuing that waiver, the president specified that there would have to be a thorough antitrust investigation before this ownership could be approved.

market for natural gas. Demand was soaring, primarily driven by new gas fired power generation plants. Supply was in question with many experts wondering whether traditional sources of natural gas like the U.S. Heartland, the Gulf of Mexico Basin, and the Western Canadian Sedimentary Basin, could keep up with the skyrocketing demand.

The Energy Information Agency (EIA), the federal agency charged with studying energy markets, predicted that gas demand in the United States would rise from 23 tcf per year in 2000 to 35 tcf in 2020 and Canadian demand would also grow. Other experts agreed and some predicted greater demand growth. Because of questions concerning the ability of supply sources to meet this demand, the EIA predicted that gas prices would grow at the rate of 2% per year over the next 20 years. The EIA said: "[T]he price is expected to be higher due to less optimistic assessment of natural gas reserves discovered by exploratory drilling." EIA, Annual Energy Outlook 2002 (December 2001). Based on this type of information, oil and gas companies again became interested in gas resources located in so-called "frontier areas" like Alaska.

In May of 2001, President Bush's National Energy Policy Development Group submitted its report on a National Energy Policy. The report recognized that as a result of the rise in gas prices, interest in building an Alaska gas line had been renewed. The report stated:

> America needs the energy that Alaska's North Slope natural gas can provide. The Administration seeks to expedite the construction of a pipeline to deliver this natural gas to the lower 48 states.

The report recommended that the applicable federal agencies and interested parties work closely "to expedite construction of a pipeline to deliver natural gas to the lower 48 states." The report also stated that this "should include proposing to Congress any changes or waivers of law pursuant to the Alaska Natural Gas Transportation Act of 1976 that may be required." An Alaska natural gas pipeline was just one part of the national energy policy.

PRODUCERS' ENABLING LEGISLATION
Summer of 2001 to December 2001

Because of the changes in the North America gas market, the Producers interest in developing their ANS gas reserves was renewed. However, the Producers wanted to pursue their own project independent of the Pipelines and did not want to be constrained to the Alcan route. In summer of 2001, the Producers began circulating their enabling legislation. They asserted that passage of this legislation would mitigate regulatory uncertainty and risk and that an Alaska project could not go forward without this legislation. They viewed the legislation as providing a new market driven, expedited regulatory process alternative to the process laid out in the Alaska Natural Gas Transportation Act of 1976 ("ANGTA"). In many respects, their proposed legislation mirrored ANGTA provisions regarding expedited agency review, creation of a federal inspector, and limited judicial review.

The enabling legislation would allow the Producers to build their own Alaska pipeline and to build the "Over-the-Top" route, which would be a pipeline north from Prudhoe Bay, crossing the Beaufort Sea, through the Northwest Territory and Canada, to the lower 48. The Producers want to have the option to build the Over-the Top route despite the fact that the Alaska Legislature passed SB 164 banning that route in early 2001. The Enabling Legislation did not provide the state with any rights to access gas for in-state use, much less special rights.

Needless to say, the Pipelines were not pleased. The Pipelines, which had rights under ANGTA to construct an Alaska pipeline, asserted that the Enabling Legislation created conflicts with ANGTA. They opposed that legislation. Furthermore, it worried several oil and gas companies like Anadarko and Alberta Energy (Explorers) who had recently come to Alaska with hopes of exploring and producing natural gas. In recent state leases, the Explorers have acquired the rights to a large amount of state acreage with gas potential. The Explorers and the Pipelines expressed concern about placing so much market power in the hands of the Producers, thus, allowing them to control when and how a pipeline is built.

The Alaska Legislature created the Joint Committee on Natural Gas Pipelines (Joint Committee) to deal with issues surrounding ANS gas development. Because a hearing was scheduled to occur in the U.S. Senate in October to deal with the Enabling Legislation, the Joint Committee held a hearing to determine what proposals the Alaska Legislature should make to the U.S. Senate. At its meeting on September 19, the Joint Committee approved a number of proposals that included:

- Prohibit an Over-the-Top route
- Assure that Alaska has fair and reasonable access to gas produced within the state and that the Regulatory Commission of Alaska be involved determining whether that access should be granted and what the appropriate tariff should be
- Assure that Explorers who do not have an ownership interest in the pipeline have fair and reasonable access to space on the pipeline and the ability to obtain expansion capacity of the pipeline
- Create a mechanism for fair and transparent tariffs
- Approve a project labor agreement
- Create provisions for Alaska hire and the use of Alaska businesses
- Prohibit tax incentives for foreign LNG delivered to U.S. markets
- Provide an accelerated depreciation schedule for gas pipelines

Attachment "A." In an October 2nd hearing before the Senate Energy and Natural Resource Committee, Senator Torgerson, chairman of the Joint Committee, presented the committee's proposals. The Senate committee also heard from the governor, representatives of affected federal agencies, representatives of the Producers, representatives of the Pipelines, representatives of the Explorers, environmental groups, and other interested companies and citizens. Following the hearing, the Senate committee continued working on the comprehensive energy bill.

In the meantime, H.R. 4, the U.S. House of Representatives version of an Energy bill, passed that body. It contained a provision banning the Over-the-Top route. This provision was vigorously opposed by the Producers. The Producers also opposed provisions relating to in-state use of gas, access for Explorers and expansion of the pipeline.

In December of 2001, Senator Daschle, the majority leader, pulled the comprehensive energy bill from the Senate Energy and Natural Resources Committee and introduced the Senate version of the Energy bill. It contained a subtitle cited as the "Alaska Natural Gas Pipeline Act of 2002." Although it stated that one of its purposes was "to ensure access to [the Alaska pipeline] on an equal and nondiscriminatory basis and to promote competition in the exploration, development and production of Alaska Natural Gas," it contained little of substance on the subject. Moreover, it did not contain any provisions relating to in-state use of gas or Alaska hire. It did contain a provision stating that it was the "sense of the Senate" that it "urges the sponsors ... to make every effort to use steel that is manufacture or produced in North America and to negotiate a project labor agreement to expedite construction of the pipeline.

SENATE ENERGY DEBATE
January to April 2002

In January of 2002, Senator Murkowski invited Senator Torgerson and other interested parties to meet in D.C. to discuss Alaska gas line issues. The meeting occurred in February and at the meeting the pipeline companies announced that they were no longer opposing the producers' enabling legislation.

In light of the pipeline companies non-opposition to the producers' enabling legislation, Senator Torgerson discussed how to best advocate the Joint Committee's position before the U.S. Senate during this Committee's meeting on February 15. At that meeting this Committee voted to request that the House Special Committee on Oil and Gas introduce HJR 44. This resolution provided that the legislature would support the Producers' Enabling Legislation or the Act so long as it contained:

1. "a provision similar to that in H.R. 4 banning the over-the-top route;"
2. "provisions for Alaskans and Alaska businesses that ensure they have access to the pipeline for in-state consumption and value-added manufacture on a fair and reasonable basis and that the Regulatory Commission of Alaska play a role in determining that access;"
3. "provisions for access to the pipeline by Explorers on a fair and reasonable basis, including a proper open season and tariffs, and [for the Explorers] and the state [to] have the ability to obtain expansion of the pipeline if economically and technically feasible;"
4. "provision for the reaffirmation of Alaska Natural Gas Transportation Act of 1976 and moderniz[ation] of that Act as necessary;"

5. "provisions for federal financial incentives, including accelerated depreciation and an income tax credit that is designed to provide mitigation of long-term natural gas price risks and the risks associated with funding the large capital costs of the project;" and
6. "provisions declaring that the content of [provisions] (2) – (5) is not intended to exclude supply of Alaska North Slope natural gas to markets in the form of LNG or GTL."

Attachment "B." HJR 44 overwhelmingly passed the Alaska Legislature.

During February and early March, many modifications to S. 1766 were circulated, proposed and rumored. The producers were proposing amendments without sharing those amendments with the state. Often, Senator Murkowski's staff would expect Senator Torgerson to respond to amendments on very short notice. During January, the legislative budget & audit committee authorized Senator Torgerson to hire Karol Lyn Newman of the law firm of Hogan & Hartson to advise the Alaska legislature on the Pipeline Act and to monitor that legislation for the legislature. Her assistance was very valuable.

During this time frame, some of the producers continued to oppose a ban on the over the top route. They all seemed to be opposed to ensuring access for in-state use on any basis with teeth. They also all seemed to be opposed to providing for expansion of a pipeline. Senator Torgerson spent many hours with Senator Murkowski's staff, the legislature's attorneys in D.C., the governor's office, and the producers explaining the Joint Committee's position.

Ultimately, a Senate version of an Energy bill passed that body in late April of 2002. The following compares the Senate Energy bill with the positions taken by the Alaska Legislature in HJR 44 and in the proposal adopted by the Joint Committee.

COMPARISONS OF THE SENATE ENERGY BILL WITH POSTIONS OF THE ALASKA LEGISLATURE

Routing

The Alaska Legislature requested a provision banning a pipeline project with a route traversing east through the Beaufort Sea and then entering Canada. This provision was adopted. Sec. 704(d).

In-State Access

The Alaska Legislature requested an amendment that Alaskans have access to the pipeline for in-state consumption and value-added manufacture on a fair and reasonable basis and that the Regulatory Commission of Alaska play a role in determining that access and tariffs relating to that access in conjunction with the Federal Regulatory

Energy Commission (FERC). In essence, the Alaska Legislature was seeking a provision similar to that contained in the ANGTA, which gives the state "special rights" pertaining to access for in-state use of royalty gas. Section 13(b) of the ANGTA provides:

> "The State of Alaska is authorized to ship its royalty gas on the approved transportation system for use within Alaska and ... to withdraw such gas from the interstate market for use within Alaska; the [FERC] **shall** issue all authorizations to effectuate such shipment and withdrawal subject only to review by the Commission only of the justness and reasonableness of the rate charged for such transportation."

(Emphasis added). In essence, ANGTA provides that the state **shall** be given access for the shipment of the state's royalty share. The Senate Bill provides that the FERC, upon the state's request, **may** provide for reasonable access for state royalty gas, a weakening of the state's rights. Sec. 704(h). Additionally, the Senate Bill says that granting such access cannot increase the rates of existing shippers. The Senate Bill also requires that the holder of a FERC certificate for a pipeline project conduct a study of in-state needs, including tie-in points along the pipeline project for in-state access. Sec. 704 (g). The study, however, does not have to be approved by an independent agency.

The Alaska Legislature also requested that the Regulatory Commission of Alaska (RCA) and the FERC jointly set the rates for in-state transportation of gas. The Senate Bill provides that the FERC alone will set the rates although it first must confer with the state. Sec. 709(c).

Explorer Access

The Alaska Legislature requested provisions for access to the pipeline by Explorers on a fair and reasonable basis, including a proper open season and tariffs. The Senate Bill contains an open season provision that allows the FERC to establish regulations and procedures governing any open season, a provision that the FERC consider the effect on competition in adopting those procedures, and, for any open season beyond the initial one, those procedures maximize the opportunity for shipment of gas from units other than Prudhoe Bay and Point Thompson. Sec. 704(e).

The Alaska Legislature also requested a provision that the Explorers and the state have the ability to obtain expansion of the pipeline from the FERC if economically and technically feasible. The Act grants this authority, although it requires that the FERC make many stringent findings. Sec. 706(a)&(b).

The Joint Committee requested a provision that explorers only pay for conditioning services that they use. This provision was not adopted.

The Joint Committee requested that the term "Alaska North Slope gas" be expanded to include gas resources in the Foothills and in Nenana basin surrounding Fairbanks. This provision was included in the Act. Sec. 713(1).

Finally, it is noteworthy that one of the purposes of the Act is "to establish a process for providing access to such transportation project in order to promote competition in the exploration, development and production of Alaska natural gas." Sec. 703(1). This recognizes some of the findings made by the Alaska Legislature in passing HJR 44.

Reaffirm and Modernize ANGTA

The Alaska Legislature requested a "provision for the reaffirmation of the Alaska Natural Gas Transportation Act of 1976 and moderniz[ation] of that Act as necessary." The Joint Committee also requested that there be provisions to protect the presidential waiver granted to the YPC project and that the possibility of supplying LNG to the market be protected. Provisions substantially similar to the Legislature's and the Joint Committee's proposals were adopted. Sec. 703(1); Sec. 712(a)&(b).

Other ANGTA requests by the Joint Committee including elimination of the Dempster Lateral requirement, creation of HUBs, and no tariff charges for previously performed work that has to be duplicated were not adopted.

Jobs

The Joint Committee requested a provision calling for approval of a project labor agreement for the project. Section 714 of the Senate Bill states the "Sense of the Senate and "urges the sponsors of the pipeline project to make every effort ... to negotiate a project labor agreement to expedite construction of the pipeline."

The Joint Committee also requested that Congress approve a preference for qualified Alaskan businesses for the construction and maintenance of the pipeline. Although the Senate did not approve a preference, it did pass several provisions to enhance the opportunities for Alaska employees and contractors. Sec. 715. They include:

1. The Secretary of Labor is required to prepare a report setting forth a program to train Alaska residents in the skills and crafts required to design, construct and operate a pipeline to enhance employment and contracting opportunities for Alaskan residents.
2. The Report should recommend needed changes to laws or regulations that act as a deterrent to hiring Alaskans or contracting with Alaskans.
3. The Secretary of Labor must establish training centers within Alaska to train Alaskans in the skills and crafts necessary.
4. $20,000,000 is appropriated to the Secretary to carry out these programs.

Financial Proposals

The Joint Committee opposed incentives for foreign LNG production and none are in the Act. The Alaska Legislature requested provisions for federal financial incentives, including accelerated depreciation and an income tax credit that is designed to provide mitigation of long-term natural gas price risks and the risks associated with funding the large capital costs of the project. The Senate Bill does not contain an accelerated depreciation provision although there is some speculation that it will be adopted in conference committee. The Senate Bill, however, does provide for a federal loan guarantee of up to $10 billion. More significantly, it contains a price risk reduction mechanism. Section 2503. The mechanism provides a seller of gas who gets less than $3.25, inflation adjusted, shall be given a tax credit. If the price is greater than $4.85, any previous credits must be paid back until all previous credits are repaid. This provides a major boost to the economics of the Alaska pipeline. Our lobbyists, Hogan & Hartson, report that at least one Senator wants the loan guarantee provision removed from the bill because he was led to believe that if risk mechanism passed the loan guarantee would be taken out of the bill.

WAY FORWARD
April 2002 and Beyond

Given that there are substantial disparities between the House and Senate Energy versions of the Energy Bill, there will be a conference committee between the Senate and the House. There are substantial questions whether and when a compromise will be reached. See Attachment "D." Our lobbyists report that: "Due to controversial differences between the two versions of the legislation, the conference negotiations could prove to be lengthy and difficult."

We know that the Producers have been diligently working to have some of the provisions most beneficial to Alaska, including in-state use of gas, explorer access, and expansion, stripped out of the bill in conference committee. Moreover, at least one of the Producers is working to remove the ban on the over-the-top route. That same Producer is working against the subsidies in the act including the loan guarantee and price risk reduction mechanism. See Attachment "D."

The price risk mechanism has generated considerable controversy, particularly in Canada. See Attachment "D." The Canadians are concerned that it will delay construction of the proposed Mackenzie Delta pipeline and that it will depress Canadian gas production. Producers in the lower 48 are also worried that the mechanism might affect their production.

Appointments from the Senate side have been made to the conference committee. Senator Murkowski is one of the appointees. The House members have not been appointed yet. Most observers believe that Congressman Young will be appointed. When the committee will meet is anybody's guess. Congressman Young has been quoted as saying, "There's no big rush [to get going], because the Senate bill doesn't produce any energy." Attachment "D."

Senator Torgerson, as chairman of the Joint Committee, plans to work with the conference committee to try to change some of the provisions in the Senate Bill to further benefit the citizens of Alaska. He anticipates making reports to the Joint Committee as information becomes available.

ATTACHMENT A:

12 PROPOSALS OF FEDERAL LEGISLATION BY JOINT COMMITTEE

9.19

ALASKA STATE LEGISLATURE

JOINT COMMITTEE ON NATURAL GAS PIPELINES

Official Business

Senator John Torgerson, Chair
Senator Rick Halford
Senator Pete Kelly
Senator Johnny Ellis

Representative Joe Green, Vice-Chair
Representative Brian Porter
Representative Scott Ogan
Representative John Davies

12 Proposals on Federal Legislation

Proposal # 1

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress reaffirm that the Alaska Natural Gas Transportation Act (ANGTA) is the prevailing law with respect to a transportation system for delivery of Alaska natural gas to ~~Alaska,~~ the contiguous States, and other markets, and the construction and initial operation of that system.

The Joint Committee on Natural Gas Pipelines also respectfully requests that Congress allow certain amendments to ANGTA to modernize the act without changing the basic nature and general route of the approved transportation system or otherwise preventing or impairing in any significant respect the expeditious construction and initial operation of the transportation system.

Justification for Proposal # 1

Before the enactment of ANGTA there were three competitive proposals for an Alaska Natural Gas Transportation System. Specifically those proposals were:

1) the Arctic Gas Project, which proposed an overland pipeline extending from Prudhoe Bay, across the North Slope of Alaska to the Canadian Mackenzie Delta and thence southerly through Canada to the lower forty-eight states;
2) the El Paso LNG Project, which proposed an overland pipeline extending from Prudhoe Bay to Southern Alaska, where the gas would have been liquefied and transported by tankers to terminals in the western United States; and
3) the Alcan Pipeline Project, referred to in Canada as the Alaska Highway Pipeline Project, which proposed an overland pipeline

Session: January – May
State Capitol, #427
Juneau, AK 99801
Phone: 907-465-2828
Fax: 907-465-4779

Interim: May – December
35477 Kenai Spur Hwy., Suite 101A
Soldotna, AK 99669
Phone: 907-260-3041
Fax: 907-260-3044

extending from Prudhoe Bay to Fairbanks, Alaska, and thence southeasterly through western Canada to the lower forty-eight states.

All of these proposals were filed under the Natural Gas Act, debated by FERC, and Congress passed ANGTA, which authorized the President to select a route. The President then approved the ALCAN route and entered into a treaty with Canada, which were later confirmed by Congress. The Canadian Parliament also passed the Northern Pipeline Act, the equivalent of ANGTA. ANGTA was never repealed. In fact, in 1992 the federal inspector recommended that ANGTA be abolished, but Congress rejected that notion.

Proposal # 2

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress adopt provisions that prohibit the over-the-top route through the Beaufort Sea as a pipeline route.

Justification for Proposal # 2

- The Alaska Legislature has banned this route in Senate Bill 164.
- The House of Representatives in Congress has adopted an amendment in the Energy Bill to ban this route.
- This route seriously decreases the benefits Alaskan's will receive from the development of natural gas.
- The North Slope Borough and the Alaska Eskimo Whaling Captains oppose this route.

Proposal # 3

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress create a mechanism for allowing the transparent and fair distribution of the costs allowed to be included in the tariffs associated with a conditioning plant(s).

Justification for Proposal # 3

Other producers will likely discover gas downstream from access to a conditioning plant in Prudhoe Bay that will require them to construct an additional conditioning plant. These producers will need to be treated fairly with regard to tariffs to encourage development and exploration of all North Slope gas resources.

Proposal # 4

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to eliminate the Dempster-Lateral route from provisions in ANGTA, if necessary.

Justification for Proposal # 4

The original version of ANGTA included approval for the construction of a Dempster-Lateral pipeline to deliver natural gas to market from the Northwest Territories. The Northwest Territories has developed plans for their own pipeline route to Alberta, making the Dempster-Lateral line obsolete.

Proposal # 5

The Joint Committee on Natural Gas Pipelines respectfully requests that the Congress pass legislation that limits tariff charges for prior work to compensation for work done that does not have to be duplicated and which is deemed appropriate to the current transportation system.

Justification for Proposal # 5

The current owner of the authorizations under ANGTA is Foothills Pipeline Ltd. Previously, Foothills had several partners, which over time have withdrawn from the partnership. The withdrawn partners spent funds in support of the ANGTA route and have filed documents with the FERC to include recovery of those costs in any tariff for transportation of Alaska natural gas. Foothills has been negotiating with the withdrawn partners to resolve this outstanding liability. However, those negotiations have not been successful to date.

Foothills and its partners should be compensated for the work done in furtherance of the ANGTA system that does not need to be duplicated. If the work needs to be redone or modernized, they should not be entitled to collect for the funds previously expended. Accordingly, the Joint Committee should support this request.

Proposal # 6

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress pass legislation to assure that Alaska have fair and reasonable access to gas produced within the State and to create a joint board consisting of members appointed from the Federal Energy and Regulatory Commission and the Regulatory Commission of Alaska to recommend access and tariffs that affect the state of Alaska.

Justification for Proposal # 6

Unlike the Trans-Alaska Transportation System for oil, the Natural Gas Act does not provide for the Regulatory Commission of Alaska to set rates for gas used in Alaska. Although section 13(b) of ANGTA provides that the state is authorized to ship its royalty gas on the approved system for use within Alaska and to withdraw such gas from the interstate market for use within Alaska, it does not deal specifically with how Alaska delivery points along the line will be approved. Access to gas is necessary for social and economic development of Alaska. Alaska's regulatory commission should be part of a team that determines how intra-state access and rates are determined.

Proposal # 7

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to develop a formula that would allow for the setting of different tariff rates for natural gas distribution points along the route. (HUBS)

Justification for Proposal # 7

Alaska is studying different proposals for usage of natural gas within the state, including several proposals for LNG facilities, a petrochemical plant, several GTL plants, and in-state usage by communities. It is important to be able to set the tariff at different rates to allow these take off points.

Proposal # 8

The Joint Committee on Natural Gas Pipelines respectfully requests that the Congress pass legislation to assure that gas producers that do not have an ownership interest in the pipeline have fair and reasonable access to space on the pipeline and the ability to obtain expansion capacity of the pipeline.

Justification for Proposal # 8

ANGTA originally precluded the Producers from participating in the ownership of the gas pipeline. In 1981, a waiver was sought and obtained by President Reagan to permit the Producers to have an ownership share in the pipeline. Their participation, however, had to be approved by the FERC and could be approved only after consideration of the advice from the Attorney General and upon a finding by FERC that the participation would not (a) be inconsistent with the antitrust laws or (b) in and of itself create restrictions on access to the transportation system for non-owner shippers or restrictions on capacity expansion.

Alaska has much more gas than that contained in known fields. Current estimates provide that there is greater than 100 tcf of gas undiscovered on the Alaska North Slope. Currently, companies are considering exploring for such gas. If discoveries are made, that gas will need access to the pipeline on fair and reasonable terms. If significant discoveries are made after the initial capacity is filled, the pipeline will need to be expanded and any expansion request needs to be determined on fair and reasonable terms. Accordingly, the law must be clear that the FERC has the authority to make such determinations.

Proposal # 9

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to approve a provision for project labor agreements.

Proposal # 10

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to approve a preference for qualified Alaskan businesses for the construction and maintenance of a natural gas pipeline.

Proposal # 11

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress pass legislation that prohibits tax incentives for LNG from sources outside of North America.

Justification for Proposal # 11

The President and Congress have recommended a variety of incentives as part of a national energy policy. Alaska natural gas is in competition with LNG imported from foreign sources to supply gas to the lower 48 states. It is the policy of the United States to reduce dependence on foreign energy sources. Accordingly, Congress should not pass any law that gives tax incentives to facilities importing LNG from sources outside North America. Rather, Congress should enact incentives that benefit production from the frontier areas of the United States, including Alaska. Otherwise, United States gas in frontier areas may be stranded.

Proposal # 12

The Joint Committee on Natural Gas Pipelines respectfully requests that the Congress pass legislation providing a tax incentive that allows for an accelerated depreciation schedule of seven years for Alaska natural gas brought to United States markets.

Justification for Proposal # 12

The President and the Congress has recommended a variety of incentives as part of a national energy policy. It is the policy of the United States to reduce dependence on foreign energy sources. Alaska has significant gas resources that can reduce that dependence and bring cleaner burning fuel to United States markets. However, the construction of a pipeline to the lower 48 would cost billions of dollars and involve significant risk. Accordingly, Congress should enact tax incentives, such as accelerated depreciation, investment tax credits, and downside price tax credits that benefit gas production from Alaska.

ATTACHMENT B:

HJR 44

SCS FOR CS FOR HOUSE JOINT RESOLUTION NO. 44(RES) am S(reengrossed)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Amended: 4/10/02
Offered: 4/4/02

Sponsor(s): HOUSE SPECIAL COMMITTEE ON OIL AND GAS BY REQUEST OF THE JOINT COMMITTEE ON NATURAL GAS PIPELINES

A RESOLUTION

Strongly urging the President of the United States, the United States Congress, and appropriate federal officials to support the construction and operation of the Alaska Highway Natural Gas Pipeline route.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the Alaska North Slope (ANS) has the largest known, discovered natural gas resources, estimated to be 35 trillion cubic feet, in the United States and estimated, undiscovered gas resources in excess of 100 trillion cubic feet; and

WHEREAS demand for natural gas in the lower 48 states is expected to experience record growth, rising from approximately 22 trillion cubic feet a year in 2000 to 30 - 35 trillion cubic feet a year in 2020, with some experts predicting demand to be as large as 50 trillion cubic feet a year in 2020; and

WHEREAS the lower 48 states have an inadequate resource base to meet this expected demand and experts expect that more natural gas will have to be imported from Canada and from other countries in the form of liquefied natural gas (LNG); and

WHEREAS the near record drilling in the last two years in the lower 48 failed to provide any significant gas supply increase and many experts are questioning whether other United States frontier areas like the deepwater Gulf of Mexico will be able to deliver material new gas supplies and, therefore, more imports may be required than previously thought; and

WHEREAS it is important for the United States to have a reliable and affordable source of domestic natural gas for its citizens and businesses, and for national security, especially given the recent tragic events; and

WHEREAS energy supply disruptions have significant negative effect on the United States economy, including the losses of tens of millions of United States jobs; and

WHEREAS if the United States imports significant amounts of LNG, it can be subjected to the market power of the exporting country through mechanisms such as embargos and price making; and

WHEREAS ANS is one of few known locations in the United States that can supply significant natural gas supplies to the lower 48 for years to come; and

WHEREAS, given these supply and demand projections, several companies and entities have studied three different pipeline routes, including a "northern" route, running off the shore of the Arctic National Wildlife Refuge in the Beaufort Sea to the Mackenzie Delta and south through Canada to the lower 48; a "southern" route along the Alaska Highway through Canada to the lower 48; and an "LNG" route adjacent to the Trans Alaska Pipeline System pipeline to Valdez and LNG tankers for delivery to California; and

WHEREAS, in 1976, Congress passed the Alaska Natural Gas Transportation Act of 1976 (ANGTA) authorizing the President to select a route to transport natural gas from ANS to the lower 48 and providing procedures to expedite the construction and operation of the selected route; and

WHEREAS, in 1977, following lengthy public hearings and negotiations with Canada, the President issued a decision ("President's Decision") choosing the southern route and selecting the predecessor of a consortium of pipeline companies headed by Foothills Pipe Lines, Ltd. ("Pipeline Companies") to construct and operate the Alaska segment of the project; and

WHEREAS the Alaska Gas Producers Pipeline Team ("Producers") has proposed new federal enabling legislation that is currently being debated in the United States Senate; and

WHEREAS the Majority Leader of the United States Senate has introduced the Energy Policy Act of 2002, which contains the Alaska Natural Gas Pipeline Act of 2002 ("Pipeline Act"); and

WHEREAS the Pipeline Act is not opposed by the Pipeline Companies, and they desire certain amendments to the ANGTA to modernize it; and

WHEREAS ANGTA granted the State of Alaska "authoriz[ation] to ship its royalty gas on the approved transportation system for use within Alaska and . . . to withdraw such gas from the interstate market for use within Alaska," which rights will be impaired if a northern route is followed; and

WHEREAS President Carter's decision in support of the southern route explicitly recognized that it could "supply the energy base required for long-term economic development" within Alaska and it could supply natural gas to communities within Alaska along the route as well as other Alaska communities through local distribution lines, and these potential benefits will be lost if a northern route is followed; and

WHEREAS the United States Senate has concurred with the United States House of Representatives to oppose the northern route and has expressed its support for the southern route; and

WHEREAS the southern route presents the United States with petrochemical extraction opportunities in the United States while the northern route does not; and

WHEREAS a northern route pipeline could not easily be expanded to increase the volume of gas when needed; and

WHEREAS the southern route provides petrochemical extraction opportunities in the United States and other marketing opportunities for ANS gas, including gas to liquids (GTL) and LNG, to the West Coast or Asia; and

WHEREAS it is widely recognized that maximum benefit to Alaskans from the commercialization of ANS natural gas lies in market exposure for that gas, opportunities for in-state use of the natural gas, and for participation by Alaskans in construction, maintenance, and operation of the gas pipeline transportation project, and the recovery of revenue by the state from the development, transport, and sale of ANS gas reserves; and

WHEREAS the Alaska State Legislature has expressed a preference for the expedited construction and operation of a natural gas pipeline along a southern route and has authorized funds to conduct various studies regarding a natural gas pipeline, including the study of in-state natural gas demand, natural gas supply, a natural gas fiscal system, and the effect of natural gas sales on the Prudhoe Bay reservoir; and

WHEREAS the Twenty-Second Alaska State Legislature established the Joint Committee on Natural Gas Pipelines ("Joint Committee") to take whatever action may be appropriate to ensure that the best interests of the state are protected; and

WHEREAS it is vital for the continued exploration and development of natural gas resources on the ANS that oil and gas companies that do not have an ownership interest in the pipeline ("Explorers") have access to it on fair and reasonable terms and have the ability to seek expansion of the pipeline when economically and technically feasible; and the Joint Committee adopted recommendations supporting enactment of these provisions in federal law; and

WHEREAS it is vital for the economic development of Alaska that Alaskans and Alaska businesses have access to gas from the pipeline on a fair and reasonable basis, and that the Regulatory Commission of Alaska participate with the Federal Energy Regulatory Commission to develop methods to provide for such access; and the Joint Committee adopted recommendations supporting enactment of these provisions in federal law; and

WHEREAS the Joint Committee has issued various recommendations requesting that Congress reaffirm the validity of ANGTA and modernize it; and

WHEREAS natural gas prices in the lower 48 states periodically fluctuate below those required to adequately cover investment; and

WHEREAS governmental involvement, including tax incentives, is essential and quite common on major projects to enable private enterprises to undertake the risks;

BE IT RESOLVED that the Alaska State Legislature strongly urges the President of the United States, the United States Congress, and appropriate federal officials to actively support the expeditious construction and operation of a natural gas pipeline through Alaska along a southern route; and be it

FURTHER RESOLVED that the Alaska State Legislature strongly urges passage during the first half of 2002 of the Alaska Gas Producers Pipeline Team's federal enabling legislation, so long as it contains a provision similar to that in H.R. 4 banning the over-the-top route and the following amendments:

(1) provisions for Alaskans and Alaska businesses that ensure they have access to the pipeline for in-state consumption and value-added manufacture on a fair and reasonable basis and that the Regulatory Commission of Alaska is part of the process in determining that access;

(2) provisions for access to the pipeline by Explorers on a fair and reasonable basis, including a proper open season with fair and reasonable tariffs, and that provide that they and the State have the ability to obtain expansion of the pipeline if economically and technologically feasible;

(3) provisions for the reaffirmation of the validity of the Alaska Natural Gas Transportation Act of 1976 and the modernization of that Act as necessary;

(4) provisions for federal financial incentives, including accelerated depreciation and an income tax credit that is designed to provide mitigation of long-term natural gas price risks and the risks associated with funding the large capital costs of the project; the amount of any tax credit should be limited in operation to periods when natural gas prices are extremely low and recovered when natural gas prices are high; and

(5) specific provisions declaring that the content of amendments (1) - (4) is not intended to exclude supply of Alaska North Slope natural gas to markets in the form of LNG or GTL.

COPIES of this resolution shall be sent to the Honorable George W. Bush, President of the United States; the Honorable Richard B. Cheney, Vice-President of the United States and President of the U.S. Senate; the Honorable J. Dennis Hastert, Speaker of the U.S. House of Representatives; the Honorable Tom Daschle, Majority Leader of the U.S. Senate; the Honorable Trent Lott, Minority Leader of the U.S. Senate; the Honorable Colin Powell, United States Secretary of State; the Honorable Gale Norton, United States Secretary of the Interior; the Honorable Don Evans, United States Secretary of Commerce; the Honorable Spencer Abraham, United States Secretary of Energy; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

ATTACHMENT C:

ALASKA NATURAL GAS PIPELINE ACT OF 2002 AND CREDIT FOR PRODUCTION OF ALASKA NATURAL GAS IN SENATE BILL

H.R. 4, The Energy Policy Act of 2002

TITLE VII—NATURAL GAS PIPELINES

Subtitle A—Alaska Natural Gas Pipeline

SEC. 701. SHORT TITLE.

This subtitle may be cited as the "Alaska Natural Gas Pipeline Act of 2002".

SEC. 702. FINDINGS.

The Congress finds that:

(1) Construction of a natural gas pipeline system from the Alaskan North Slope to United States markets is in the national interest and will enhance national energy security by providing access to the significant gas reserves in Alaska needed to meet the anticipated demand for natural gas.

(2) The Commission issued a conditional certificate of public convenience and necessity for the Alaska Natural Gas Transportation System, which remains in effect.

SEC. 703. PURPOSES.

The purposes of this subtitle are—

(1) to provide a statutory framework for the expedited approval, construction, and initial operation of an Alaska natural gas transportation project, as an alternative to the framework provided in the Alas-

ka Natural Gas Transportation Act of 1976 (15 U.S.C. 719–719o), which remains in effect;

(2) to establish a process for providing access to such transportation project in order to promote competition in the exploration, development and production of Alaska natural gas;

(3) to clarify Federal authorities under the Alaska Natural Gas Transportation Act; and

(4) to authorize Federal financial assistance to an Alaska natural gas transportation project as provided in this subtitle.

SEC. 704. ISSUANCE OF CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY.

(a) AUTHORITY OF THE COMMISSION.—Notwithstanding the provisions of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719–719o), the Commission may, pursuant to section 7(c) of the Natural Gas Act (15 U.S.C. 717f(c)), consider and act on an application for the issuance of a certificate of public convenience and necessity authorizing the construction and operation of an Alaska natural gas transportation project other than the Alaska Natural Gas Transportation System.

(b) ISSUANCE OF CERTIFICATE.—(1) The Commission shall issue a certificate of public convenience and necessity authorizing the construction and operation of an Alaska

natural gas transportation project under this section if the applicant has satisfied the requirements of section 7(e) of the Natural Gas Act (15 U.S.C. 717f(e)).

(2) In considering an application under this section, the Commission shall presume that—

(A) a public need exists to construct and operate the proposed Alaska natural gas transportation project; and

(B) sufficient downstream capacity will exist to transport the Alaska natural gas moving through such project to markets in the contiguous United States.

(c) EXPEDITED APPROVAL PROCESS.—The Commission shall issue a final order granting or denying any application for a certificate of public convenience and necessity under section 7(c) of the Natural Gas Act (15 U.S.C. 717f(c)) and this section not more than 60 days after the issuance of the final environmental impact statement for that project pursuant to section 705.

(d) PROHIBITION ON CERTAIN PIPELINE ROUTE.—No license, permit, lease, right-of-way, authorization or other approval required under Federal law for the construction of any pipeline to transport natural gas from lands within the Prudhoe Bay oil and gas lease area may be granted for any pipeline that follows a route that traverses—

(1) the submerged lands (as defined by the Submerged Lands Act) beneath, or the adjacent shoreline of, the Beaufort Sea; and

(2) enters Canada at any point north of 68 degrees North latitude.

(e) OPEN SEASON.—Except where an expansion is ordered pursuant to section 706, initial or expansion capacity on any Alaska natural gas transportation project shall be allocated in accordance with procedures to be established by the Commission in regulations governing the conduct of open seasons for such project. Such procedures shall include the criteria for and timing of any open seasons, be consistent with the purposes set forth in section 703(2) and, for any open season for capacity beyond the initial capacity, provide the opportunity for the transportation of natural gas other than from the Prudhoe Bay and Point Thompson units. The Commission shall issue such regulations no later than 120 days after the enactment of this subtitle.

(f) PROJECTS IN THE CONTIGUOUS UNITED STATES.—Applications for additional or expanded pipeline facilities that may be required to transport Alaska natural gas from Canada to markets in the contiguous United States may be made pursuant to the Natural Gas Act. To the extent such pipeline facilities include the expansion of any facility

constructed pursuant to the Alaska Natural Gas Transportation Act of 1976, the provisions of that Act shall continue to apply.

(g) STUDY OF IN-STATE NEEDS.—The holder of the certificate of public convenience and necessity issued, modified, or amended by the Commission for an Alaska natural gas transportation project shall demonstrate that it has conducted a study of Alaska in-State needs, including tie-in points along the Alaska natural gas transportation project for in-State access.

(h) ALASKA ROYALTY GAS.—The Commission, upon the request of the State of Alaska and after a hearing, may provide for reasonable access to the Alaska natural gas transportation project for the State of Alaska or its designee for the transportation of the State's royalty gas for local consumption needs within the State: Provided, That the rates of existing shippers of subscribed capacity on such project shall not be increased as a result of such access.

(i) REGULATIONS.—The Commission may issue regulations to carry out the provisions of this section.

SEC. 705. ENVIRONMENTAL REVIEWS.

(a) COMPLIANCE WITH NEPA.—The issuance of a certificate of public convenience and necessity authorizing the construction and operation of any Alaska natural gas transportation project under section 704 shall be treated as

a major Federal action significantly affecting the quality of the human environment within the meaning of section 102(2)(C) of the National Environmental Policy Act of 1969 (42 U.S.C. 4332(2)(C)).

(b) DESIGNATION OF LEAD AGENCY.—The Commission shall be the lead agency for purposes of complying with the National Environmental Policy Act of 1969, and shall be responsible for preparing the statement required by section 102(2)(c) of that Act (42 U.S.C. 4332(2)(c)) with respect to an Alaska natural gas transportation project under section 704. The Commission shall prepare a single environmental statement under this section, which shall consolidate the environmental reviews of all Federal agencies considering any aspect of the project.

(c) OTHER AGENCIES.—All Federal agencies considering aspects of the construction and operation of an Alaska natural gas transportation project under section 704 shall cooperate with the Commission, and shall comply with deadlines established by the Commission in the preparation of the statement under this section. The statement prepared under this section shall be used by all such agencies to satisfy their responsibilities under section 102(2)(C) of the National Environmental Policy Act of 1969 (42 U.S.C. 4332(2)(C)) with respect to such project.

(d) EXPEDITED PROCESS.—The Commission shall issue a draft statement under this section not later than 12 months after the Commission determines the application to be complete and shall issue the final statement not later than 6 months after the Commission issues the draft statement, unless the Commission for good cause finds that additional time is needed.

SEC. 706. PIPELINE EXPANSION.

(a) AUTHORITY.—With respect to any Alaska natural gas transportation project, upon the request of one or more persons and after giving notice and an opportunity for a hearing, the Commission may order the expansion of such project if it determines that such expansion is required by the present and future public convenience and necessity.

(b) REQUIREMENTS.—Before ordering an expansion the Commission shall—

(1) approve or establish rates for the expansion service that are designed to ensure the recovery, on an incremental or rolled-in basis, of the cost associated with the expansion (including a reasonable rate of return on investment);

(2) ensure that the rates as established do not require existing shippers on the Alaska natural gas transportation project to subsidize expansion shippers;

(3) find that the proposed shipper will comply with, and the proposed expansion and the expansion of service will be undertaken and implemented based on, terms and conditions consistent with the then-effective tariff of the Alaska natural gas transportation project;

(4) find that the proposed facilities will not adversely affect the financial or economic viability of the Alaska natural gas transportation project;

(5) find that the proposed facilities will not adversely affect the overall operations of the Alaska natural gas transportation project;

(6) find that the proposed facilities will not diminish the contract rights of existing shippers to previously subscribed certificated capacity;

(7) ensure that all necessary environmental reviews have been completed; and

(8) find that adequate downstream facilities exist or are expected to exist to deliver incremental Alaska natural gas to market.

(c) REQUIREMENT FOR A FIRM TRANSPORTATION AGREEMENT.—Any order of the Commission issued pursuant to this section shall be null and void unless the person or persons requesting the order executes a firm transportation agreement with the Alaska natural gas transpor-

tation project within a reasonable period of time as specified in such order.

(d) LIMITATION.—Nothing in this section shall be construed to expand or otherwise affect any authorities of the Commission with respect to any natural gas pipeline located outside the State of Alaska.

(e) REGULATIONS.—The Commission may issue regulations to carry out the provisions of this section.

SEC. 707. FEDERAL COORDINATOR.

(a) ESTABLISHMENT.—There is established as an independent establishment in the executive branch, the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects.

(b) THE FEDERAL COORDINATOR.—The Office shall be headed by a Federal Coordinator for Alaska Natural Gas Transportation Projects, who shall—

(1) be appointed by the President, by and with the advice of the Senate,

(2) hold office at the pleasure of the President, and

(3) be compensated at the rate prescribed for level III of the Executive Schedule (5 U.S.C. 5314).

(c) DUTIES.—The Federal Coordinator shall be responsible for—

(1) coordinating the expeditious discharge of all activities by Federal agencies with respect to an Alaska natural gas transportation project; and

(2) ensuring the compliance of Federal agencies with the provisions of this subtitle.

(d) REVIEWS AND ACTIONS OF OTHER FEDERAL AGENCIES.—(1) All reviews conducted and actions taken by any Federal officer or agency relating to an Alaska natural gas transportation project authorized under this section shall be expedited, in a manner consistent with completion of the necessary reviews and approvals by the deadlines set forth in this subtitle.

(2) No Federal officer or agency shall have the authority to include terms and conditions that are permitted, but not required, by law on any certificate, right-of-way, permit, lease or other authorization issued to an Alaska natural gas transportation project if the Federal Coordinator determines that the terms and conditions would prevent or impair in any significant respect the expeditious construction and operation of the project.

(3) Unless required by law, no Federal officer or agency shall add to, amend, or abrogate any certificate, right-of-way, permit, lease or other authorization issued to an Alaska natural gas transportation project if the Federal Coordinator determines that such action would prevent or im-

pair in any significant respect the expeditious construction and operation of the project.

(e) STATE COORDINATION.—The Federal Coordinator shall enter into a Joint Surveillance and Monitoring Agreement, approved by the President and the Governor of Alaska, with the State of Alaska similar to that in effect during construction of the Trans-Alaska Oil Pipeline to monitor the construction of the Alaska natural gas transportation project. The Federal Government shall have primary surveillance and monitoring responsibility where the Alaska natural gas transportation project crosses Federal lands and private lands, and the State government shall have primary surveillance and monitoring responsibility where the Alaska natural gas transportation project crosses State lands.

SEC. 708. JUDICIAL REVIEW.

(a) EXCLUSIVE JURISDICTION.—The United States Court of Appeals for the District of Columbia Circuit shall have exclusive jurisdiction to determine—

(1) the validity of any final order or action (including a failure to act) of any Federal agency or officer under this subtitle;

(2) the constitutionality of any provision of this subtitle, or any decision made or action taken thereunder; or

(3) the adequacy of any environmental impact statement prepared under the National Environmental Policy Act of 1969 with respect to any action under this subtitle.

(b) DEADLINE FOR FILING CLAIM.—Claims arising under this subtitle may be brought not later than 60 days after the date of the decision or action giving rise to the claim.

(c) EXPEDITED CONSIDERATION.—The United States Court of Appeals for the District of Columbia Circuit shall set any action brought under subsection (a) of this section for expedited consideration, taking into account the national interest as described in section 702 of this subtitle.

(d) AMENDMENT TO ANGTA.—Section 10(c) of the Alaska Gas Transportation Act of 1976 (15 U.S.C. 719h) is amended by adding the following paragraph:

"(2) EXPEDITED CONSIDERATION.—The United States Court of Appeals for the District of Columbia Circuit shall set any action brought under subsection (a) of this section for expedited consideration, taking into account the national interest described in section 2 of this Act.".

SEC. 709. STATE JURISDICTION OVER IN-STATE DELIVERY OF NATURAL GAS.

(a) LOCAL DISTRIBUTION.—Any facility receiving natural gas from the Alaska natural gas transportation project for delivery to consumers within the State of Alaska shall be deemed to be a local distribution facility within the meaning of section 1(b) of the Natural Gas Act (15 U.S.C. 717), and therefore not subject to the jurisdiction of the Federal Energy Regulatory Commission.

(b) ADDITIONAL PIPELINES.—Nothing in this subtitle, except as provided in subsection 704(d), shall preclude or affect a future gas pipeline that may be constructed to deliver natural gas to Fairbanks, Anchorage, Matanuska-Susitna Valley, or the Kenai peninsula or Valdez or any other site in the State of Alaska for consumption within or distribution outside the State of Alaska.

(c) RATE COORDINATION.—Pursuant to the Natural Gas Act, the Commission shall establish rates for the transportation of natural gas on the Alaska natural gas transportation project. In exercising such authority, the Commission, pursuant to Section 17(b) of the Natural Gas Act (15 U.S.C. 717p), shall confer with the State of Alaska regarding rates (including rate settlements) applicable to natural gas transported on and delivered from the Alaska natural gas transportation project for use within the State of Alaska.

SEC. 710. LOAN GUARANTEE.

(a) AUTHORITY.—The Secretary of Energy may guarantee not more than 80 percent of the principal of any loan made to the holder of a certificate of public convenience and necessity issued under section 704(b) of this Act or section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) for the purpose of constructing an Alaska natural gas transportation project.

(b) CONDITIONS.—(1) The Secretary of Energy may not guarantee a loan under this section unless the guarantee has filed an application for a certificate of public convenience and necessity under section 704(b) of this Act or for an amended certificate under section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) with the Commission not later than 18 months after the date of enactment of this subtitle.

(2) A loan guaranteed under this section shall be made by a financial institution subject to the examination of the Secretary.

(3) Loan requirements, including term, maximum size, collateral requirements and other features shall be determined by the Secretary.

(c) LIMITATION ON AMOUNT.—Commitments to guarantee loans may be made by the Secretary of Energy only to the extent that the total loan principal, any part of which is guaranteed, will not exceed $10,000,000,000.

(d) REGULATIONS.—The Secretary of Energy may issue regulations to carry out the provisions of this section.

(e) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the Secretary such sums as may be necessary to cover the cost of loan guarantees, as defined by section 502(5) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661a(5)).

SEC. 711. STUDY OF ALTERNATIVE MEANS OF CONSTRUCTION.

(a) REQUIREMENT OF STUDY.—If no application for the issuance of a certificate or amended certificate of public convenience and necessity authorizing the construction and operation of an Alaska natural gas transportation project has been filed with the Commission within 18 months after the date of enactment of this title, the Secretary of Energy shall conduct a study of alternative approaches to the construction and operation of the project.

(b) SCOPE OF STUDY.—The study shall consider the feasibility of establishing a Government corporation to construct an Alaska natural gas transportation project, and alternative means of providing Federal financing and ownership (including alternative combinations of Government and private corporate ownership) of the project.

(c) CONSULTATION.—In conducting the study, the Secretary of Energy shall consult with the Secretary of the

Treasury and the Secretary of the Army (acting through the Commanding General of the Corps of Engineers).

(d) REPORT.—If the Secretary of Energy is required to conduct a study under subsection (a), he shall submit a report containing the results of the study, his recommendations, and any proposals for legislation to implement his recommendations to the Congress within 6 months after the expiration of the Secretary of Energy's authority to guarantee a loan under section 710.

SEC. 712. CLARIFICATION OF ANGTA STATUS AND AUTHORITIES.

(a) SAVINGS CLAUSE.—Nothing in this subtitle affects any decision, certificate, permit, right-of-way, lease, or other authorization issued under section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) or any Presidential findings or waivers issued in accordance with that Act.

(b) CLARIFICATION OF AUTHORITY TO AMEND TERMS AND CONDITIONS TO MEET CURRENT PROJECT REQUIREMENTS.—Any Federal officer or agency responsible for granting or issuing any certificate, permit, right-of-way, lease, or other authorization under section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) may add to, amend, or abrogate any term or condition included in such certificate, permit, right-of-way, lease, or

other authorization to meet current project requirements (including the physical design, facilities, and tariff specifications), so long as such action does not compel a change in the basic nature and general route of the Alaska Natural Gas Transportation System as designated and described in section 2 of the President's Decision, or would otherwise prevent or impair in any significant respect the expeditious construction and initial operation of such transportation system.

(c) UPDATED ENVIRONMENTAL REVIEWS.—The Secretary of Energy shall require the sponsor of the Alaska Natural Gas Transportation System to submit such updated environmental data, reports, permits, and impact analyses as the Secretary determines are necessary to develop detailed terms, conditions, and compliance plans required by section 5 of the President's Decision.

SEC. 713. DEFINITIONS.

For purposes of this subtitle:

(1) The term "Alaska natural gas" means natural gas derived from the area of the State of Alaska lying north of 64 degrees North latitude.

(2) The term "Alaska natural gas transportation project" means any natural gas pipeline system that carries Alaska natural gas to the border between Alaska and Canada (including related facilities subject to

the jurisdiction of the Commission) that is authorized under either—

(A) the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719–719o); or

(B) section 704 of this subtitle.

(3) The term "Alaska Natural Gas Transportation System" means the Alaska natural gas transportation project authorized under the Alaska Natural Gas Transportation Act of 1976 and designated and described in section 2 of the President's Decision.

(4) The term "Commission" means the Federal Energy Regulatory Commission.

(5) The term "President's Decision" means the Decision and Report to Congress on the Alaska Natural Gas Transportation system issued by the President on September 22, 1977 pursuant to section 7 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719c) and approved by Public Law 95–158.

SEC. 714. SENSE OF THE SENATE.

It is the sense of the Senate that an Alaska natural gas transportation project will provide significant economic benefits to the United States and Canada. In order to maximize those benefits, the Senate urges the sponsors of the pipeline project to make every effort to use steel that is man-

ufactured or produced in North America and to negotiate a project labor agreement to expedite construction of the pipeline.

SEC. 715. ALASKAN PIPELINE CONSTRUCTION TRAINING PROGRAM.

(a) Within six months after enactment of this Act, the Secretary of Labor (in this section referred to as the "Secretary") shall submit a report to the Committee on Energy and Natural Resources of the United States Senate and the Committee on Resources of the United States House of Representatives setting forth a program to train Alaska residents in the skills and crafts required in the design, construction, and operation of an Alaska gas pipeline system and that will enhance employment and contracting opportunities for Alaskan residents. The report shall also describe any laws, rules, regulations and policies which act as a deterrent to hiring Alaskan residents or contracting with Alaskan residents to perform work on Alaska gas pipelines, together with any recommendations for change. For purposes of this subsection, Alaskan residents shall be defined as those individuals eligible to vote within the State of Alaska on the date of enactment of this Act.

(b) Within 1 year of the date the report is transmitted to Congress, the Secretary shall establish within the State of Alaska, at such locations as are appropriate, one or more

training centers for the express purpose of training Alaskan residents in the skills and crafts necessary in the design, construction and operation of gas pipelines in Alaska. Each such training center shall also train Alaskan residents in the skills required to write, offer, and monitor contracts in support of the design, construction, and operation of Alaska gas pipelines.

(c) In implementing the report and program described in this subsection, the Secretary shall consult with the Alaskan Governor.

(d) There are authorized to be appropriated to the Secretary such sums as may be necessary, but not to exceed $20,000,000 for the purposes of this subsection.

Subtitle B—Operating Pipelines

SEC. 721. ENVIRONMENTAL REVIEW AND PERMITTING OF NATURAL GAS PIPELINE PROJECTS.

(a) INTERAGENCY REVIEW.—The Chairman of the Council on Environmental Quality, in coordination with the Federal Energy Regulatory Commission, shall establish an interagency task force to develop an interagency memorandum of understanding to expedite the environmental review and permitting of natural gas pipeline projects.

(b) MEMBERSHIP OF INTERAGENCY TASK FORCE.—The task force shall consist of—

Credit For Production of

Alaska Natural Gas

SEC. 2503. CREDIT FOR PRODUCTION OF ALASKA NATURAL GAS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as

amended by this Act, is amended by adding at the end the following new section:

"SEC. 45M. ALASKA NATURAL GAS.

"(a) IN GENERAL.—For purposes of section 38, the Alaska natural gas credit of any taxpayer for any taxable year is the credit amount per 1,000,000 Btu of Alaska natural gas entering any intake or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude, which is attributable to the taxpayer and sold by or on behalf of the taxpayer to an unrelated person during such taxable year (within the meaning of section 45).

"(b) CREDIT AMOUNT.—For purposes of this section—

"(1) IN GENERAL.—The credit amount per 1,000,000 Btu of Alaska natural gas entering any intake or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude (determined in United States dollars), is the excess of—

"(A) $3.25, over

"(B) the average monthly price at the AECO C Hub in Alberta, Canada, for Alaska natural gas for the month in which occurs the date of such entering.

"(2) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after the first calendar year ending after the date described in subsection (g)(1), the dollar amount contained in paragraph (1)(A) shall be increased to an amount equal to such dollar amount multiplied by the inflation adjustment factor for such calendar year (determined under section 43(b)(3)(B) by substituting 'the calendar year ending before the date described in section 45M(g)(1)' for '1990').

"(c) ALASKA NATURAL GAS.—For purposes of this section, the term 'Alaska natural gas' means natural gas entering any intake or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude produced in compliance with the applicable State and Federal pollution prevention, control, and permit requirements from the area generally known as the North Slope of Alaska (including the continental shelf thereof within the meaning of section 638(1)), determined without regard to the area of the Alaska National Wildlife Refuge (including the continental shelf thereof within the meaning of section 638(1)).

"(d) RECAPTURE.—

"(1) IN GENERAL.—With respect to each 1,000,000 Btu of Alaska natural gas entering any in-

take or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude after the date which is 3 years after the date described in subsection (g)(1), if the average monthly price described in subsection (b)(1)(B) exceeds 150 percent of the amount described in subsection (b)(1)(A) for the month in which occurs the date of such entering, the taxpayer's tax under this chapter for the taxable year shall be increased by an amount equal to the lesser of—

"(A) such excess, or

"(B) the aggregate decrease in the credits allowed under section 38 for all prior taxable years which would have resulted if the Alaska natural gas credit received by the taxpayer for such years had been zero.

"(2) SPECIAL RULES.—

"(A) TAX BENEFIT RULE.—The tax for the taxable year shall be increased under paragraph (1) only with respect to credits allowed by reason of this section which were used to reduce tax liability. In the case of credits not so used to reduce tax liability, the carryforwards and carrybacks under section 39 shall be appropriately adjusted.

"(B) NO CREDITS AGAINST TAX.—Any increase in tax under this subsection shall not be treated as a tax imposed by this chapter for purposes of determining the amount of any credit under this chapter or for purposes of section 55.

"(e) APPLICATION OF RULES.—For purposes of this section, rules similar to the rules of paragraphs (3), (4), and (5) of section 45(d) shall apply.

"(f) NO DOUBLE BENEFIT.—The amount of any deduction or other credit allowable under this chapter for any fuel taken into account in computing the amount of the credit determined under subsection (a) shall be reduced by the amount of such credit attributable to such fuel.

"(g) APPLICATION OF SECTION.—This section shall apply to Alaska natural gas entering any intake or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude for the period—

"(1) beginning with the later of—

"(A) January 1, 2010, or

"(B) the initial date for the interstate transportation of such Alaska natural gas, and

"(2) except with respect to subsection (d), ending with the date which is 15 years after the date described in paragraph (1).".

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by this Act, is amended by striking "plus" at the end of paragraph (22), by striking the period at the end of paragraph (23) and inserting ", plus", and by adding at the end the following new paragraph:

"(24) The Alaska natural gas credit determined under section 45M(a).".

(c) ALLOWING CREDIT AGAINST ENTIRE REGULAR TAX AND MINIMUM TAX.—

(1) IN GENERAL.—Subsection (c) of section 38 (relating to limitation based on amount of tax), as amended by this Act, is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

"(5) SPECIAL RULES FOR ALASKA NATURAL GAS CREDIT.—

"(A) IN GENERAL.—In the case of the Alaska natural gas credit—

"(i) this section and section 39 shall be applied separately with respect to the credit, and

"(ii) in applying paragraph (1) to the credit—

"(I) the amounts in subparagraphs (A) and (B) thereof shall be treated as being zero, and

"(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the Alaska natural gas credit).

"(B) ALASKA NATURAL GAS CREDIT.—For purposes of this subsection, the term 'Alaska natural gas credit' means the credit allowable under subsection (a) by reason of section 45M(a).".

(2) CONFORMING AMENDMENTS.—Subclause (II) of section 38(c)(2)(A)(ii), as amended by this Act, subclause (II) of section 38(c)(3)(A)(ii), as amended by this Act, and subclause (II) of section 38(c)(4)(A)(ii), as added by this Act, are each amended by inserting "or the Alaska natural gas credit" after "producer credit".

(d) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by this Act, is amended by adding at the end the following new item:

"Sec. 45M. Alaska natural gas.".

ATTACHMENT D:

ARTICLES

What skills are in demand for federal government jobs?

EDITORIAL

Adding Up the Energy Bills

Monday, April 29, 2002; Page A20

What's Your Opinion?
• Share Your Views About Editorials and Opinion Pieces on Our Message Boards
• About Message Boards

E-Mail This Article
Printer-Friendly Version
Subscribe to The Post

NOW THAT the Senate has wrapped up its long-running energy debates, the action will move to a conference committee -- and as House and Senate members try to reconcile the sharp differences between the two versions of the legislation, the potential effect on the Treasury will be painful to contemplate. The two sides started out from different policy points: The House embraced President Bush's goal of increasing domestic energy production, including continued emphasis on fossil fuels, while the Senate at least began with a stronger tilt toward conservation and renewable resources. But they both rely heavily on federal financial incentives to accomplish their objectives. The House produced a measure offering $33.5 billion in tax breaks, tilted toward fuel production. The Senate offers a more modest $14 billion in tax breaks, with an emphasis on conservation and renewable energy -- but then tosses in not only $10 billion in loan guarantees for an Alaska natural gas pipeline but also a provision promising producers a floor price when the gas reaches its destination. As they look for agreement on other difficult issues, it doesn't take much imagination to picture negotiators sweetening the ultimate deal by embracing everybody's payoffs.

That would certainly fit the energy policy tradition of recent years, in which political leaders have shied away from anything that could be remotely construed as requiring sacrifice. A carbon tax, the most efficient means of encouraging conservation and renewable fuels, should have been part of this debate but was never on the table in either the president's energy policy or the legislative deliberations. Members worked with more cumbersome tools: subsidies, tax incentives, regulations. The Senate started out promising tougher requirements on auto fuel efficiency and higher efficiency standards for air conditioning, but both fell by the wayside as the bill progressed. A requirement for electricity producers to generate 10 percent of their electricity from renewable sources survived in the Senate bill but was weakened. One provision that should have been removed, a mandate to boost consumption of already-subsidized ethanol, unfortunately still remains in the Senate measure.

The Senate did draw an important line in holding off drilling in the Arctic National Wildlife Refuge, and it took some steps worth noting on climate change, including endorsing a registry for carbon emissions that will become mandatory if it doesn't draw enough voluntary compliance. But even though it contains some worthy provisions, we like the Senate bill less now than when it began and don't see how things will get any better in conference. Of course differences over the Arctic Refuge alone may be enough to guarantee that the energy measure never reaches final passage: House Republican leaders are strongly in favor of the drilling and Senate Democratic leaders equally strong in opposition. At least at the moment, impasse doesn't look like the worst option.

© 2002 The Washington Post Company

washingtonpost Personalize Your Post | Go to mywashingto
Home News OnPolitics Entertainment Live Online Camera Works Marketplace Washington

Subject: Wall Street Journal
Date: Fri, 10 May 2002 07:20:53 -0800
From: Larry Persily <Larry_Persily@revenue.state.ak.us>
Organization: Department of Revenue
To: John C Torgerson <senator_john_torgerson@legis.state.ak.us>, patrick_coughlin@legis.state.ak.us

Canadian Oil Firms Raise Objections To U.S. Tax Credits for Alaska Project

By TAMSIN CARLISLE
Staff Reporter of THE WALL STREET JOURNAL

CALGARY, Alberta -- Billions of dollars in proposed U.S. tax credits for a natural-gas project in Alaska are creating a stir in Canada's oil patch and could escalate into the next big U.S.-Canada trade spat.

Energy companies here worry that the tax credits will distort prices for natural gas, just as they seek to develop vast gas reserves in Canada's western Arctic region.

The recently passed Senate energy bill, containing the proposed tax breaks, is subject to reconciliation with an energy bill previously adopted by the House of Representatives. An omnibus energy bill could be presented to President Bush for his signature by the end of the summer.

Canada's energy minister, Herb Dhaliwal, is threatening to block construction of a natural-gas pipeline along the Alaska Highway unless U.S. and Alaskan legislators rethink their stance. "They tend to forget that if they want the Alaska route, two-thirds of it is going to have to come through Canada," he said recently.

The crux of Canada's problem is the Senate bill, which aims to kick-start a $17 billion project to develop Alaska North Slope natural-gas supplies and to build the pipeline along the Alaska Highway. Gas producers including Exxon Mobil Corp., Phillips Petroleum Corp. and BP PLC that are assessing the feasibility of producing Alaska North Slope gas say the Alaska Highway project isn't currently economic on its own merits. But earlier this year, Congress effectively mandated that pipeline route by banning an alternative route beneath the Arctic Ocean and through Canada, citing environmental reasons.

To encourage producers, the Senate bill would -- through tax credits -- guarantee them a floor price for natural gas of $3.25 per million British thermal units of gas at a distribution hub in Alberta. Although U.S. gas prices have strengthened in recent weeks, they languished well below the proposed floor price during most of the past winter.

Even some U.S. producers that ostensibly stand to benefit from the proposed tax breaks want the government to stay out. "We would prefer just to let the natural forces of supply and demand work. We would prefer just to wait until the project can support itself," says Exxon Mobil spokesman Bob Davis, adding that prior congressional interference has limited gas producers' flexibility on projects.

Canadian critics say the proposed tax credits would interfere with free trade in North America's natural-gas market -- a linchpin of the North American Free Trade Agreement that Canada fought hard to get. Some U.S. analysts say American taxpayers will pay billions of dollars more for natural gas under the Senate plan than they would without it.

Northwest Territories Premier Stephen Kakfwi says his region's energy industry could shut down if huge volumes of subsidized Alaska gas flood the market, making it uneconomic for gas producers to develop northern Canadian reserves.

Even though the proposed Alaska tax credits aren't yet enacted, natural-gas producers "would have to be crazy" to invest in northern Canadian energy exploration now, "when they can move just 100 miles west and eliminate a big uncertainty" on price, says Harvie Andre, a former Canadian politician who now heads the Canadian unit of Arctic Resources Co., Houston. Arctic Resources sponsored the pipeline route that Congress rejected.

Indeed, Petro-Canada, a major natural-gas explorer in northern Canada, has just snapped up exploration prospects in Alaska. Petro-Canada Chief Executive Officer Ronald Brenneman says the Calgary company is "hedging its bets."

Report on Business: Canadian

Pipeline subsidies seen as inadequate Petroleum producers say Alaska project uneconomic even with U.S. energy bill

LILY NGUYEN

05/10/2002

The Globe and Mail

Metro

Page B4

"All material Copyright (c) Bell Globemedia Publishing Inc. and its licensors. All rights reserved."

CALGARY -- Petroleum producers considering a massive **Alaska** natural gas **pipeline** said even billions of dollars in subsidies being offered under a U.S. energy bill will not be enough to give the project the green light.

"It's our view the project is and remains uneconomic," said Bob Davis, a spokesman for Exxon Mobil Corp. of Irving, Tex., one of three supermajors looking at an **Alaska pipeline** , along with London-based BP PLC and Phillips Petroleum Co. of Bartlesville, Okla.

Ronnie Chappell, a spokesman for BP's **Alaska** unit, agreed.

"This does not change the fundamental economics of the project," Mr. Chappell said from Anchorage, **Alaska** .

Even Phillips, the company pushing hardest for the subsidies, agreed the potential subsidies would not be enough to allow the project to proceed.

"I don't want to give the impression that all of a sudden we're building a **pipeline** ," said Phillips spokeswoman Dawn Patience. She added, however, that Phillips believes the subsidies will keep the project from being shelved altogether.

A U.S. energy bill passed by the Senate last month contains provisions proposing an economic boost to the **pipeline** of billions of dollars in loan guarantees and other incentives.

The provisions were in response to a $100-million feasibility study done by the Alaskan producers over the last two years -- and completed last month -- that concluded it didn't make economic sense in the current market to build a **pipeline** to ship gas from **Alaska** to the Lower 48.

The subsidy provisions could have major implications for a competing project to build a **pipeline** from the **Mackenzie** Delta of the Northwest Territories.

Proponents of that project -- most notably NWT Premier Stephen Kakfwi -- have warned that the subsidies could strand **Mackenzie** Delta gas. He argues the subsidies could fast-track the much-larger **Alaska** project, thereby flooding the gas market and rendering **Mackenzie** gas unnecessary. Federal Natural Resources Minister Herb Dhaliwal has warned that Canada could drop its neutral stance on which **pipeline** goes ahead first if the

United States pushes its own preference.

The **Mackenzie** Delta producers -- led by Toronto-based Imperial Oil Ltd. and including Houston-based Conoco Inc. and Shell Canada Ltd. of Calgary -- have said they will wait and see if the bill is passed with the subsidy provisions before commenting on what effect it could have on an NWT **pipeline** .

"The worries about subsidies are at the moment hypothetical," said Peter Hunt of Conoco, adding that his group is proceeding with planning on the Delta **pipeline** .

BP's Mr. Chappell said that whether or not the subsidies are passed, Alaskan producers do not believe the **pipeline** project can go ahead without the backing of Canada, since two-thirds of the **pipeline** would cross Canadian territory.

"Canadian support for this **pipeline** is absolutely essential," he said.

Mr. Davis said part of the reason the **Alaska** project remains uneconomic is because previous cost estimates for a **pipeline** had to be raised to $19-billion from $17-billion, because a larger capacity pipe than previously thought would be needed.

But he added that Exxon is not interested in higher subsidies. In fact, the company is opposed to the subsidy provision in the bill because it believes it distorts market forces, he said.

"We would prefer to let the natural market forces operate and not create artificial support, which creates an unlevel playing field."

Mr. Davis declined to comment on whether Exxon would employ the subsidies if they are passed.

Financial Post
ExxonMobil wants U.S. gas subsidy bill stopped: Pipeline wars: 'Let market forces work on their own,' says industry giant
Claudia Cattaneo, Calgary Bureau Chief

05/09/2002
National Post
National
Page FP1 / Front

(c) National Post 2002. All Rights Reserved.

CALGARY - ExxonMobil Corp., the top natural gas reserve owner in **Alaska** , says it disagrees with U.S. government subsidies to support building of a natural gas **pipeline** along the **Alaska** Highway and favours a smaller project from Canada's **Mackenzie** Delta.

Bob Davis, a spokesman for the Irving, Tex-based company, said yesterday a more in-depth evaluation of an **Alaska** line shows costs have escalated since estimates were first made last fall, reinforcing the firm's views that the project remains uneconomic.

"Speaking for ExxonMobil, we are not looking for subsidies and it really doesn't change our thinking on the economics of the project," Mr. Davis said. "We philosophically usually do not agree with subsidies, because it's our view that we like let market forces and market conditions to work on their own. If it's not economic -- which the **Alaska** project is not now -- we have always said we'd rather wait until we can improve it on our own actions or wait until the market conditions support the project."

The conclusion means that a **Mackenzie** Valley project, at an estimated cost of about $3-billion, "looks very optimistic ... that's a project that holds a lot of promise."

ExxonMobil is the largest owner of natural gas reserves in **Alaska** 's North Slope. The company is also the majority owner of Toronto-based Imperial Oil Ltd., which holds the largest reserves in the **Mackenzie** Delta and is leading efforts to build a smaller **pipeline** down the **Mackenzie** River Valley, linking to Alberta's existing network. The Canadian project would not require subsidies.

It's unlikely the two projects would move ahead at the same time because of the large financial resources, equipment and labour required for each one. As well, the first one to start could impact the economics of the other by pushing down the commodity's market price by increasing supplies.

Mr. Davis made the comments as a controversial U.S. Senate bill works its way through the U.S. Congress. The bill, aimed at improving the **Alaska** line's economics, would create a US$3.25 per thousand cubic feet floor price on natural gas shipped from **Alaska** . Under the plan, promoted mostly by the state of **Alaska** , energy producers would also receive loan guarantees to build the **pipeline** .

ExxonMobil, the world's largest publicly traded oil company, teamed up with Phillips Petroleum Co. and BP PLC last year on a US$125-million study that looked at the feasibility of building pipelines from **Alaska** 's Prudhoe Bay area.

The study concluded costs were too high regardless of the route. A southern route along the **Alaska** Highway through the Yukon would cost US$17.2-billion and a northern route (known as the over-the-top route) through the Arctic Ocean to the **Mackenzie** River Delta and down the **Mackenzie** Valley would cost US$15.1-billion.

Further evaluation by ExxonMobil showed that both routes would cost about US$2-billion more -- or US$19.4-billion for the southern route and US$18.6-billion for the northern route -- after factoring in larger start-up, permitting, insurance, project management costs, as well as increased **pipeline** capacity to 4.5 billion cubic feet, from 4 billion cubic feet. Mr. Davis stressed that even those numbers are uncertain.

"The producers just recently announced in a series of meetings that the study we have done on the **Alaska pipeline** indicates that it's just not economic at this time, so that project does not look like it's going to go forward at this time. In fact, we pretty much wrapped up the work we are doing and the people who were up there for that year-long study."

Mr. Davis said his firm would have to see a natural gas price of US$3 to US$3.50 per thousand cubic feet on a long-term basis for the **pipeline** to move ahead.

Mr. Davis said his firm also views the Senate bill as a "strong negative" because it prohibits the over-the-top route.

The bill has also come under heavy criticism in recent days from Canadian and U.S. producers with interests in the **Mackenzie** Delta, as well as from the Northwest Territo es and Herb Dhaliwal, the federal Energy Minister. They are concerned that such a subsid/ would distort the North American market for natural gas and undermine development of **Mackenzie** reserves.

The Canadian **pipeline** would be owned by Imperial Oil and its partners Conoco Inc. and Royal Dutch/Shell Group, as well as Canadian natives.

Editorial
A better pipeline for northern gas

05/09/2002
The Globe and Mail
Metro
Page A20
"All material Copyright (c) Bell Globemedia Publishing Inc. and its licensors. All rights reserved."

In the race to deliver rich far-north natural gas reserves to market, U.S. lawmakers have decided to play favourites. Maybe it's time the Canadian government did likewise.

The U.S. Senate recently amended an energy bill to require that any **pipeline** for Alaskan natural gas follow a circuitous and costly route down through the middle of the state (see map below), and to provide up to $10-billion (U.S.) in subsidies to the gas producers who would finance such a **pipeline** .

The amendments give the economically unviable **Alaska** Highway **pipeline** a big advantage over a competing, less costly proposal to deliver northern gas along a Canadian route, running along the **Mackenzie** River valley. If the House of Representatives and President George W. Bush approve the bill with the amendments intact, the **Mackenzie** project could face an indefinite delay, bringing development of Canada's northern natural gas to a screeching halt.

Ottawa has tried to remain neutral on the route, mainly because choosing sides would mean supporting one northern territory over another. The **Alaska** Highway **pipeline** would include a significant section through Yukon, while the **Mackenzie** project is a key cog in the Northwest Territories' economic development plans. But given the U.S. Senate's self-serving stance, it is clear that the federal government should throw its support behind the project that would most benefit Canada, the **Mackenzie** route.

The NWT government estimates the **Mackenzie** project would ultimately contribute up to $57-billion (Canadian) to Canada's GDP, almost double Yukon's estimate of the contribution of the **Alaska** project to Canada's economy. Since the federal government holds the rights to Northwest Territories oil and gas, it would receive a huge windfall in royalties from **Mackenzie** Delta gas sales. Those revenues would benefit all Canadians.

Conceivably, both the **Alaska** Highway and **Mackenzie** pipelines could profitably co-exist. However, most experts agree there isn't sufficient manufacturing capacity or skilled labour to support simultaneous construction of both projects. If a heavily subsidized **Alaska** project went ahead first, flooding the market with artificially cheap supplies, the **Mackenzie pipeline** could be delayed for years or even decades.

A third option, which makes the most sense for both Alaskan and **Mackenzie** producers, is the "over the top" route. This would involve an underwater **pipeline** through the Beaufort Sea from Prudhoe Bay, **Alaska** , to Inuvik, NWT, which would connect to a bigger **Mackenzie pipeline** to deliver both Canadian and Alaskan natural gas to southern markets.

The over-the-top route is billions cheaper than the **Alaska** Highway route. The costs would be shared among Canadian and U.S. producers, reducing risks to individual companies. The economies of scale would significantly lower production costs and raise profits for all producers, generating higher royalty revenues for the governments of **Alaska** and Canada.

The over-the-top route is simply the best way to deliver the most natural gas to the energy-hungry U.S. market, and would demonstrate co-operation between Canada and the United States on a major initiative to improve North America's energy self-sufficiency. All of these are stated goals in President Bush's national energy policy.

Yet the U.S. Senate instead chose to cave in to shortsighted Alaskan political interests. In doing so, it may help **Alaska** land the many short-term jobs that would go along with building a **pipeline** , but it has missed the bigger picture, to the detriment of the American people.

It is incumbent on our Canadian leaders to make sure the mistakes of American politicians don't harm our own interests. They must make the U.S. government understand that, as Natural Resources Minister Herb Dhaliwal has suggested, Canada is prepared to block the **Alaska** Highway **pipeline** from crossing Canadian territory unless the Americans back away from the Senate's prejudicial amendments.

At the same time, they must streamline the regulatory process to allow the **Mackenzie** project to go forward as quickly as possible, and sell the Americans on the benefits of co-operating on the over-the-top option. Such an approach would protect Canada's economic interests while promoting the best solution for everyone involved.

Financial Post: News

Our gas is good as domestic, U.S. says: Ipsos-Reid poll: Americans happy to cut dependence on Mideast energy

Claudia Cattaneo, Calgary Bureau Chief

05/08/2002
National Post
National
Page FP4
(c) National Post 2002. All Rights Reserved.

CALGARY - Americans do not regard Canadian energy supplies as "foreign" and they would be willing to pay more for Canadian gasoline if it meant reducing dependence on the Middle East, a Ipsos-Reid poll has found.

The results are being released in Washington today as part of a presentation by the Canadian Association of Petroleum Producers.

"What we see clearly is that Americans look at Canadians as a potentially friendly supply of energy," Tim Moro, vice-president of the energy division of Ipso-Reid, said yesterday.

"Elsewhere, they look in the world they see a reflection of something different and they are very concerned about that right now. They are looking for safety, for security and

Canadians look an awful lot like them."

According to the poll, 85% of Americans say reducing energy dependence on foreign suppliers is important to national security -- but 71% said they do not view Canadian supplies as foreign.

Most Americans are also concerned the U.S. doesn't have enough energy resources and they could be personally affected by shortages of gasoline, electricity and natural gas. The results highlight that American attitudes toward Canada on energy issues are different from general American views toward this country.

According to another, broader public opinion survey by Ipsos-Read also released this week, Canadians embrace their southern neighbour as their closest friend and trading partner, Americans dismiss Canada as almost irrelevant in economics and foreign policy, while underestimating its importance as a trading partner.

Mr. Moro said Canadians can turn those American attitudes into an advantage in the energy business.

"Americans simply assume that Canadians are really no different than people in Oregon. From a business perspective, for energy, that becomes extremely positive, because they see us as people they can do business with. They see us as people they can trust, they see us as people just like them," he said.

Ironically, Canadians are not as eager to co-operate with Americans on energy issues.

In fact, 80% of Canadians polled said they are concerned about foreign ownership of Canadian energy resources, while seven-in-10 Canadians disagree with the statement, "Canadians have nothing to worry about if we supply to the United States."

The energy survey, based on interviews late last fall with 2,001 Americans and 1,001 Canadians, is accurate within 2.2% for the U.S. results, and 3.1% for the Canadian results, 19 times out of 20.

CAPP will highlight the findings in talks with politicians and government officials in Washington over the next two days to raise awareness of energy opportunities in Canada.

Pierre Alvarez, president of CAPP, said those opportunities remain poorly understood in the U.S.

The energy survey is being released against a backdrop of simmering tension on the energy front between Canada and the U.S. over proposed subsidies to support development of a large natural gas **pipeline** from **Alaska** to feed U.S. energy consumers that could undermine a rival project in Canada's **Mackenzie** Delta and disrupt natural gas markets. The proposal is part of a sweeping U.S. energy bill aimed at raising North American energy supplies to reduce dependence on Middle East oil.

"One of the things we hope to get in Washington is a better understanding of the thinking behind the measures, what the likelihood of it proceeding through the Congressional system is, where the Administration fits on some of these issues," Mr. Alvarez said.

Meanwhile, Harry Longwell, Exxon Mobil Corp. executive vice-president, said yesterday he favours a proposed **Mackenzie** Valley **pipeline** to carry natural gas over one along the **Alaska** Highway.

"That's the one I'm more optimistic about," Mr. Longwell said. "We're moving forward. We'll probably start some advanced engineering work in a year or so, assuming we can get co-operation and positive signals from the folks along the right of way."

Exxon Mobil has gas properties in **Alaska** and Canada's **Mackenzie** River delta. The **Mackenzie** Delta **pipeline** would be owned by Exxon Mobil, Conoco Inc. and Royal Dutch/Shell Group. Canadian natives would hold a one-third stake in the line.

Financial Post: News
Politicians and gas just don't mix: Subsidies threaten to derail gas markets profoundly
Diane Francis

05/07/2002
National Post
National
Page FP3
(c) National Post 2002. All Rights Reserved.

In the post 9-11 world, energy is no longer about freeing markets and deregulation in Washington. Now it's billed as a national security issue.

Energy is why George W. Bush, the U.S. President, spent a couple of weekends recently at his ranch with Saudi Arabia's Prince Abdullah and Russian President Vladimir Putin. They weren't just riding horses and eating barbecue. They were talking oil exports and how to slake America's thirst for petroleum.

But an equally important part of the energy equation involves natural gas and has nothing to do with Middle East politics or Russian economic aspirations. It is about politics in Canada and the United States. And there is much at stake for Canada in all of this.

Last week, the U.S. Senate proposed a major departure from U.S. energy policy to underscore the shift in emphasis. Senators agreed to subsidize the building of a natural gas **pipeline** from **Alaska** to the lower 48 states by guaranteeing a floor price.

If approved by the House of Representatives and the President, this will begin to unravel decades of deregulation and the freeing up of markets. This will, in turn, have negative consequences for certain regions in both countries and most certainly for consumers.

Significantly, a prominent group from Mr. Bush's state of Texas has come out swinging. Its members believes the subsidies would decrease gas production elsewhere in North America and increase consumer prices in the long run.

"The point is that supply and demand are in exceedingly delicate balance for this most volatile of all commodities," wrote the Texas Independent Producers and Royal Owners Association. "Sudden government action that skews investment decisions among regions could be disastrous."

They say subsidies will insure the construction of the **Alaska pipeline** and remove incentives for drilling in other regions both in the United States and Canada.

(Canada has huge amounts of gas in Alberta, British Columbia and off Nova Scotia's coast.)

The construction of an **Alaska** line is not new. It was proposed in the mid-1980s until deregulation and disastrously low gas prices nixed the deal. Then, as now, the line will transport huge amounts of natural gas from the prolific fields of North Slope **Alaska** . The gas has been produced with the oil for two decades now, but reinjected underground for storage purposes.

The **pipeline** would be built through Yukon and Alberta and Canada would benefit by an estimated $31.4-billion over two decades in terms of spinoff benefits from construction and operations.

But there are two problems. First of all, subsidies may nix the construction of another **pipeline** to tap the treasure trove of gas in the **Mackenzie** Delta in the Northwest Territories. The benefits of that line going ahead is an estimated $77-billion for Canada.

But if the Americans subsidize, a precious and valuable resource in Canada's north will remain unexploited and unexploitable until the gas in **Alaska** runs out. Alternatively, their subsidies may beget subsidies here to launch the **Mackenzie** project. Producers from other regions may eventually have to be subsidized too.

That would be unfortunate because the current free market has not cost taxpayers anything and has worked very well.

Until 1984, Canada's gas was sold to Canadians for significantly less than the export price charged to Americans. Alberta lobbied fiercely for this to change and the Mulroney government took the wraps off prices and deregulated gas markets. Ever since, an explosion of **pipeline** construction and exploration occurred in Canada to serve the U.S. market. The result is that Canada has more than twice as much of the U.S. gas market as it did in 1984.

Everyone has won from this system. U.S. consumers getting reasonable energy and Canadian producers were no longer sandbagged from competing in the United States by having to charge an artificially high export price.

Now politics threatens to derail what has worked in the past and would change the sector profoundly. Petro-Canada's CEO Ron Brenneman slammed the Senate for its proposal last week, but rightly announced he was hedging his company's bets by obtaining leases to drill in **Alaska** . Others, notably Imperial Oil Ltd., believe there is room for both **pipeline** proposals. It is the lead producer for the **Mackenzie** Delta project even though its parent, ExxonMobil, is the lead producer in **Alaska** .

However, in the corridors of power there will be, for all intents and purposes, two competing projects, and competing interests. Unfortunately, as the continent's energy sector is carved up, what's needed on this side of the border won't be available: A federal government with vision and direction to avert damage and maximize benefits to Canadians.

Black & White Photo: Pablo Martinez Monsivais, The Associated Press / George Bush and Prince Abdullah weren't just eating barbeque.

Financial Post
U.S. energy firms join fight against Senate bill: 'Canadians are asleep': Subsidies would damage exploration, Mackenzie pipeline
Tony Seskus and Claudia Cattaneo

05/07/2002
National Post
National
Page FP1 / Front
(c) National Post 2002. All Rights Reserved.

CALGARY - The Canadian government needs to wake up and defend a free market for natural gas with the United States, or risk being shut out of the biggest energy project on the continent, representatives of U.S. companies with interests in Canada warned yesterday.

" **Alaska** thinks that Canadians are asleep on these things," said Forrest Hogland, chief executive of Houston-based Arctic Resources Co. "[Ottawa] should make sure they are part of this process. We are entering a very, very definite conflicting stage. It's going to be the **Alaska** interests versus the Canadian interests."

Mr. Hogland was one of several U.S. energy executives yesterday who called on the Canadian government to become more vocal in opposing controversial legislation passed recently by the U.S. Senate that would subsidize an **Alaska** Highway **pipeline** through loans and by creating a floor price for natural gas. They said the bill would have far-reaching implications for Canada's energy industry, including stalling exploration in the Northwest Territories and construction of a competing **pipeline** project in Canada's **Mackenzie** Delta.

The Canadian Association of Petroleum Producers is in Washington D.C. this week to meet with legislators about the bill, which it worries would interfere with the free market.

Mr. Hogland said Alaskans have been able to press forward on their preferred option -- a **pipeline** down the **Alaska** Highway -- largely because there has been little opposition from Canadians.

Mr. Hogland's group has proposed a US$7.8-billion plan to build a **pipeline** to connect **Alaska** and Canadian gas reserves (it would run from Prudhoe Bay to Tuktoyaktuk) and then move gas to Alberta along the **Mackenzie** Delta. The project does not require subsidies.

"Our federal government has certainly taken a neutral stance, saying, 'Let's let market forces determine which **pipeline** should go ahead,' " said John Richels, president and chief executive of Devon Canada Corp., who also disagrees with the **Alaska** subsidies.

"When you are putting a subsidy on one side of it, you are not letting market forces determine that any more. And I would encourage the federal government to take a stance on this," he said.

The subsidiary of Oklahoma City-based Devon Energy Corp. is one of Canada's top producers of natural gas since its takeover last fall of Anderson Exploration Ltd.

The bill, which includes sweeping energy reforms aimed at boosting U.S. domestic sources of energy, is working its way through the U.S. Congress. The proposed floor price on natural gas would making the proposed **Alaska** Highway **pipeline** economically viable.

"Our position is let the free market enterprise decide which one actually goes in," echoed Mark Ellis, president of Burlington Resources Canada Energy Ltd., a unit of Houston-based Burlington Resources Inc. with interests in the **Mackenzie** Delta.

"We probably would like to see the [Ottawa] take a little stronger position, one way or the other, on what they'd like to do," said Nadine Barber, spokeswoman for Anadarko Canada Corp., a unit of Houston-based Anadarko Petroleum Corp., which has interests in both **Alaska** and the **Mackenzie** Delta.

Stephen Kakfwi, Premier of the Northwest Territories, repeated warnings that the subsidy issue is not a distant threat.

"It's not procrastination that is required here, but leadership," he said after speaking to business leaders in Calgary yesterday.

Murray Smith, Alberta's Minister of Energy, goes to Washington D.C. today as part of the CAPP delegation. He believes the subsidies issue remains largely a "hypothetical" concern because the bill is still in the political process.

Report on Business: Canadian

NWT urges action on U.S. gas subsidies Premier warns of threat to Mackenzie Delta pipeline project, economic benefits

LILY NGUYEN

05/07/2002
The Globe and Mail
Metro
Page B8

"All material Copyright (c) Bell Globemedia Publishing Inc. and its licensors. All rights reserved."

CALGARY -- NWT Premier Stephen Kakfwi urged Ottawa to act quickly to prevent U.S. subsidies to Alaskan natural gas, warning they could spell the end of the **Mackenzie** Delta gas project and the billions in benefits expected to go with it.

"The subsidy for Alaskan gas, I believe, will strand Canadian gas," the Northwest Territories leader and major booster of a **Mackenzie** Delta gas **pipeline** said during a speech to the Calgary Chamber of Commerce yesterday. "I believe the subsidy will dry up money invested in exploration in the **Mackenzie** Delta -- over a billion dollars. I believe it will distort the energy market for years to come.

An energy bill passed by the U.S. Senate late last month contains billions in loan guarantees and tax breaks to a proposed $17-billion (U.S.) **Alaska pipeline** that would bypass the NWT.

"The Canadian government has to take note, assess this very quickly and respond; respond with some action that would tell the American government that their good neighbours and good friends to the north of them are feeling a bit slighted, a bit undermined, and ignored.

"It speaks to whether we have a free-trade agreement intact any more or is it just free trade when the Americans decide it's free trade."

Mr. Kakfwi, who discarded prepared speaking notes to make his vehement plea for action from the federal government, refused to prescribe specific measures to Ottawa. Speaking to reporters afterward, however, he noted a proposed **pipeline** to connect Alaskan gas would have to cross Canadian territory, which would require the permission of Canadian regulators.

"I think there's tremendous levers to use," he said.

The U.S. energy bill opened up another front in the trade war blossoming between Canada and the United States.

The federal government has responded with some sabre-rattling, with federal Natural Resources minister Herb Dhaliwal implying last week that Ottawa could delay any southbound U.S. **pipeline** from **Alaska** .

But Mr. Kakfwi said the message needs to be brought across much more clearly.

"The Americans so far seem rather oblivious to this. It's our job to go to [the U.S.] Congress and to let the American legislators know as well that what they do impacts on us," he said. He said he is not interested in federal subsidies similar to the ones being proposed for an **Alaska pipeline** .

A **Mackenzie** Delta **pipeline** from the NWT is considered to be competing against the **Alaska pipeline** from Prudhoe Bay to be the first to connect Arctic gas.

Industry watchers, including Mr. Kakfwi, have argued that the much larger volumes expected out of **Alaska** will flood the market and render supplies from the NWT unnecessary if **Alaska** gas comes onstream first.

But the future of the **Mackenzie** Delta project had looked increasingly secure up until the passing of the U.S. Senate's energy bill, as **Mackenzie** Delta producers announced they would proceed with their project while their Alaskan counterparts announced they could not find an economic way to get gas to market.

Financial Post: Canada
Oilpatch straddling Alaska divide: U.S. tax credit for proposed pipeline could have huge implications for sector: 'Trying to spread our bets'
Claudia Cattaneo and Tony Seskus

05/06/2002
National Post
National
Page FP5
(c) National Post 2002. All Rights Reserved.

CALGARY - Barely a day after Ron Brenneman, chief executive of Petro-Canada, took shots at U.S. legislators for backing proposed subsidies to support construction of an **Alaska** Highway **pipeline** , his company scooped up some major leases in **Alaska** , just in case.

"We are just trying to spread our bets a little bit," Mr. Brenneman, whose company is also one of the largest explorer in the **Mackenzie** Delta, said to reporters last week after slamming the U.S. Senate for interfering in North America's free natural gas market.

While Petro-Canada's two-sided strategy is understandable, given **Alaska** 's huge upside as a major natural gas producing region if a **pipeline** is built, it highlights what may be in store for a rival basin in Canada's **Mackenzie** Delta and maybe even other gas-producing regions across North America.

Under a Senate proposal now being discussed with members of the House of Representatives, **Alaska** gas reserve owners would get a tax credit if the supply they shipped in the **pipeline** fell below US$3.25 per thousand cubic feet, essentially creating a floor price.

"The subsidy ... will attract capital that would go to Canada or Texas and cause that capital to go to **Alaska** instead, thus increasing activity in **Alaska** and decreasing activity in Canada and Texas," said A. Scott Anderson, executive vice-president of the Texas Independent Producers and Royalty Owners Association.

The group, which represents major U.S. independents, many with operations in Canada, echoes concerns expressed by parties in Canada, particularly Stephen Kakfwi, Premier of the Northwest Territories, who fears the **Alaska** subsidies could derail development of his region's reserves.

Yet, for the most part, the Canadian fallout of a subsidized **Alaska** Highway route has been underappreciated in Washington, where the proposed legislation is expected to be rammed through this year to appease **Alaska** , after oil drilling in the Arctic National Wildlife Refuge (ANWR) failed to get U.S. Senate support.

The implications of the **Alaska** project going forward with U.S. government help could be huge for Canada, Northern territorial governments, energy producers, natural gas markets and consumers.

And though Spencer Abraham, U.S. Energy Secretary, tried to allay Canadian fears at a meeting of G8 energy ministers on Friday by stating that the administration was firmly against the subsidies, there are still industry insiders who warn there is reason to remain concerned.

Observers on Capitol Hill, including the Cato Institute, a conservative think-tank, believe that George Bush, the U.S. President, would be reluctant to veto the long-awaited bill because his administration badly wants an energy plan to boost domestic energy sources.

Probably the biggest casualty of U.S. subsidized gas is the Northwest Territories, where the **Mackenzie** Delta's reserves are located and where plans are under way to build a **pipeline** in competition with the **Alaska** project.

Mr. Kakfwi said recently he fears the volume of subsidized **Alaska** gas "is going to be such that there is going to be no benefit to explore for any more gas. We are just going to shut down the industry in the Northwest Territories."

Recognizing that possibility, Herb Dhaliwal, Canada's Energy Minister, said Canada would re-think its neutral stance if the U.S. subsidies, which have now moved to the penultimate committee stage, go ahead.

"They tend to forget that if they want the **Alaska** route, two-thirds of it is going to have to come through Canada. So they should keep that in mind. At the end, it needs Canadian support."

Still, Imperial Oil Ltd., which leads a group of producers behind developing the **Mackenzie** fields, remains optimistic a **pipeline** project is economic and is getting ready to file regulatory applications next year.

But others aren't as sure. Tim Faithfull, for example, chief executive of Shell Canada Ltd. and a member of the **Mackenzie** producer group, said development of the **Mackenzie** Delta would have to take into account what happens to the **Alaska** project.

The Canadian economy would also benefit less from an **Alaska** proposal than from a **Mackenzie** Delta proposal.

The Yukon government, a supporter of the **Alaska** Highway proposal because the **pipeline** would be built across its territory, resulting in major economic spinoffs, estimates over the next 24 years the **pipeline** from **Alaska** 's North Slope to facilities in Alberta could add $31.4-billion to Canada's GDP.

The Northwest Territories, on the other hand, estimates a **Mackenzie pipeline** would pump $77-billion into the Canadian economy, over a longer period.

The impact for major energy companies is less clear cut. Recognizing that there is uncertainty over which route will go first, many have protected themselves with interests on both sides.

Petro-Canada bid $8.5-million for leases covering more than one million acres in the southern part of **Alaska** 's North Slope, building on 283,000 acres acquired in the same area last year, according to the **Alaska** Division of Oil and Gas.

Petro-Canada recently announced a major find in the **Mackenzie** Delta with partner Devon Energy Corp. with recoverable reserves estimated at 200 billion to 300 billion cubic feet.

Imperial Oil's agenda is also seen as being linked to that of its parent, ExxonMobil. While Imperial is the major owner of proved reserves in the **Mackenzie** , ExxonMobil has large reserves in **Alaska** .

As well, Conoco Inc. and its merger partner, Phillips Petroleum Co., have stakes on both sides.

Another big loser from the subsidies is expected to be the market. Mr. Brenneman, for example, said subsidized **Alaska** gas would interfere with what has been a free market for about two decades.

The Texas Independent Producers and Royalty Owners Association believes the subsidies would result in a decrease of gas production in other regions of the United States and Canada and that consumers will pay the price for such a distortion of market signals.

"The point is that supply and demand are in exceedingly delicate balance for this most volatile of all commodities," the group wrote to Tom Daschle, U.S. Senate Majority

Leader. "Sudden government action that skews investment decisions among regions could be disastrous."

Murray Smith, Energy Minister for Alberta, shares many of the same concerns and will be in Washington this week to argue against government interference in the North American energy market.

Which **pipeline** will be built and whether it will involve subsidies will be decided in the coming months.

Meanwhile, says Stephen Clarkson, a trade expert at the University of Toronto, hold on for a bumpy ride.

"Canada has very few bargaining chips," he said. "You can't say, 'You're being nasty to us on lumber, therefore you should be nice to us on energy.' It's completely different spheres."

Black & White Photo: Jeff Mcintosh, The Canadian Press / Ron Brenneman is chief executive of Petro-Canada, which is exploring in the **Mackenzie** Delta. The **Alaska** Highway and **Mackenzie** projects are trying to be first to market with a **pipeline** .

Financial Post
The Big Picture
Catfish swim into sights of U.S. trade 'police': Bush talks the talk but snubs partners
Peter Morton

05/06/2002
National Post
National
Page FP1 / Front
(c) National Post 2002. All Rights Reserved.

WASHINGTON - While the Republicans have their symbol, an elephant, and the Democrats have theirs, a donkey, the symbol that may soon be given the administration of George W. Bush, the President, and Congress could be the catfish.

Lobbied heavily by the Catfish Farmers of America, the U.S. Senate quietly slipped in an amendment to the huge farm bill weeks ago that would essentially try to ban the importation of Vietnamese catfish because it was undercutting the southern U.S. catfish market.

This comes just after the Bush administration, touting its new pro-free trade agenda, signed a free trade deal with Vietnam.

"This flies in the face of what they thought they were getting with the U.S. opening up its markets," Frances Zwenig, a trade expert with the U.S.-ASEAN Business Council, complained to reporters recently.

The Vietnamese catfish imbroglio has become the latest example of how the Bush administration talks the talk about free trade but, at least from the perspective of its trading partners, is hardly doing the walk.

At the top of a growing list of trade disputes is the move last week to slap duties of 27% on Canadian softwood lumber. That long-simmering battle, which is far from over, stems from U.S. lumber industry complaints about what it calls illegal and unfair subsidies by the four major timber producing provinces -- British Columbia, Quebec, Ontario and Alberta -- to grab market share in the United States.

The U.S. administration is again gearing up for another battle over Canadian wheat and its determined this time to break down the monopoly of the Canadian Wheat Board, something it has had little success doing. And now Congress has approved an energy bill that would not only demand that a natural gas **pipeline** from the far north go through **Alaska** but create a floor price of US$3.50 per thousand cubic feet for gas to ensure the **pipeline** is built.

If gas prices fall below that, the **pipeline** promoters get tax credits.

"I made it pretty clear to the Americans that they can pass all the amendments they want on the energy bill, but two-thirds of [an Alaskan] **pipeline** will go through Canada," said Herb Dhaliwal, the Minister of Natural Resources, at a meeting of international energy ministers this week in Detroit. "First of all, we will not let our gas be stranded in the North due to large subsidies that come out in the U.S."

This administration is not limiting its trade disputes to its largest trading partner, either.

It has also locked horns with the European Union, Japan, Russia and South Korea by slapping steel imports from those countries with duties of up to 30%. Canada and Mexico were exempted.

The EU and Japan are threatening to retaliate by imposing duties on American-made goods such as clothing, guns, pens, furniture, fire engines, yachts and steel.

The administration also angered Pakistan, a key ally in its war against terrorism, by refusing to give the textile producing nation an exemption on textile quotas because of lobbying from the textile producing states of North and South Carolina.

But most of those trade disputes pale to the proposed farm bills that would crank subsidies to American farmers by as much as US$73.5-billion to US$170-billion over the next 10 years. Both the House of Representatives and the Senate have approved bills that must be consolidated before they are sent to Mr. Bush for signing into law.

Besides the direct cash subsidies to farmers, major exporting countries such as Canada could be dramatically affected over a proposal to insist on labelling of country of origin on all food products, including beef. The worry is that U.S. consumers might be driven away from anything other than U.S.-origin beef and meat products.

Ottawa has been trying to crank up the pressure on the administration, Congress and even the U.S. public.

"The meaning of free trade should be just that -- free trade -- not a la carte free trade where the rules change unilaterally when one or other of the [NAFTA] partners temporarily lose market share," Michael Kergin's, Canada's ambassador to the United States, told a New Jersey trade conference last week.

Yet the U.S. perspective, it appears, is much different.

In a speech on the same day, Robert Zoellick, the U.S. Trade Representative, told a group of Arizona business writers that too much focus is put on current trade disputes and that "such disputes are relatively insignificant to the economy in the long run."

Mr. Zoellick insists the Bush administration has launched a renewed trade initiative in the wake of the failure of the Seattle launch of talks two years ago.

And he acknowledges something that is obvious -- the United States is the world's richest economy that everyone wants a piece of. The U.S. imports about US$1-trillion a year in goods.

"We want to keep U.S. markets open and even open them further," he said. "To do so, we have to give American businesses and farmers a fair chance to compete."

And while he talks long about the U.S. trade strategy, he is also the first admit there are times "when we need to zigzag with Congress to keep moving ahead."

Such zigzagging includes paying heed to Senator Max Baucus, chairman of the powerful Senate finance committee who holds the key to Mr. Bush getting his badly needed Trade Promotion Authority to negotiate new free trade deals. Mr. Baucus, a senator from Montana, takes the Canadian softwood and wheat issues very seriously.

"The point here is that Canada needs to recognize that on any of these issues, at the end, U.S. domestic politics is going to dictate U.S. positions," says Bill Merkin, a veteran Washington trade consultant and former U.S. trade negotiator.

He said on key issues like steel and agriculture, the domestic lobby groups have considerable leverage over Congress. And that is especially true this year with the looming fall election.

"The administration needs the goodwill of Congress and over there, everyone faces an election eventually," he says.

Black & White Photo: Kimimasa Mayama, Reuters / Robert Zoellick, the U.S. Trade Representative, says too much focus is being put on current disputes.

Financial Post

Contentious gas subsidies may still pass: Alaska pipeline : Experts warn, even as White House offers assurances

Tony Seskus and Claudia Cattaneo

05/04/2002
National Post
Toronto / Late
Page FP1 / Front
(c) National Post 2002. All Rights Reserved.

CALGARY - A controversial U.S. energy bill that proposes gas subsidies for an **Alaska** Highway **pipeline** could still pass, say experts in Washington and **Alaska** , despite assurances yesterday from the U.S. Energy Secretary that the Bush administration would prefer a market solution to Arctic development.

The bill, which is working its way through the U.S. Congress, would create a floor price on gas shipped from **Alaska** , making the proposed **Alaska** Highway **pipeline** route economically viable. Under the plan, energy producers would also receive loan guarantees to build the **pipeline** .

Canadian gas producers have opposed the bill, as has Herb Dhaliwal, Canada's Minister of Natural Resources, saying it could derail any plans for Canadian **pipeline** routes and disrupt the natural gas market.

Yesterday, Spencer Abraham, the U.S. Energy Secretary, said the White House has been "very clear in terms of the tax provisions we support, which were not the ones ... with respect to that subsidy.

"The administration's position is a neutral one with respect to route preference. We believe the market should make that decision," Mr. Abraham told reporters after a meeting of the G-8 energy ministers in Detroit.

However, many observers still expect the bill to pass, in part because the Bush administration needs a sweeping energy bill, and in part because this one has received broad support in Congress.

"If [Canada] brought this to a higher plain by direct engagement with [George W. Bush], perhaps the administration might consider threatening vetos, but I doubt it," said Jerry Taylor, director of natural resource studies at the Cato Institute, a conservative think-tank in Washington, D.C.

The bill, passed in the U.S. Senate last week, includes broad measures to boost domestic energy sources. It still must be merged with a separate bill passed by the House of Representatives.

"Since both the House and Senate have weighed in on that particular **pipeline** project I suspect that it will [be approved]," said Bob King, spokesman for Tony Knowles, the Governor of **Alaska** .

"There was broad, bi-partisan support, at least in the Senate, for that specific provision. There is also support on the House side for similar incentives. At the end of the day [critics] will realize that these types of provisions and incentives will be good for meeting the nation's energy needs."

The Canadian Association of Petroleum Producers has said it is "troubled" by the bill, which is seen by many as threatening the viability of a competing project in Canada's **Mackenzie** Delta.

"We are troubled by any signs that governments want to get back into the marketplace," Mr. Alvarez said last week. "Ultimately, it comes down to a belief that the market is the one that should determine the nature, scale and pace of projects."

Some opposition to the bill is already coming from U.S. producers -- many of which now have Canadian operations -- which see the subsidies as favouring development of **Alaska** resources at the expense of Canada and U.S. regions such as Texas.

"We have urged [Senate Majority Leader Tom] Daschle and others to be very cautious about what they are doing," said Scott Anderson, executive vice-president for the Austin-based Texas Independent Producers and Royalty Owners Association.

"It seems quite likely that a measure like this would skew investment decisions toward **Alaska** and away from Canada and the lower 48 States in the U.S.

"Even though that might temporarily create a gas bubble, an increase in supply of gas from **Alaska** , before long there would be a day of reckoning for consumers and it's very likely this policy would exacerbate price volatility," Mr. Anderson said.

Under the proposal, such **Alaska** producers as ExxonMobil Corp., BP PLC and Phillips Petroleum would get the subsidy if prices fall below US$3.25 per thousand cubic feet. It also proposes US$10-billion in project loan guarantees.

"They tend to forget that if they want the **Alaska** route," said Mr. Dhaliwal, "two-thirds of it is going to have to come through Canada. So they should keep that in mind. At the end, it needs Canadian support."

BUSINESS
Yukon, Territories on opposite sides of pipeline proposal

05/06/2002
Kitchener-Waterloo Record
Final
Page D8
Copyright (c) 2002 Kitchener-Waterloo Record.

VANCOUVER -- The Yukon and Northwest Territories are lining up on opposite sides of the fence in a brewing dispute over northern gas **pipeline** developments.

The U.S. Senate recently passed a bill that -- if it becomes law -- would guarantee a floor price for natural gas carried by an **Alaska** Highway **pipeline** , which would run from **Alaska** 's North Slope, across the Yukon and into Alberta.

The bill grants a tax credit for all gas shipped through the **pipeline** that sells at a price lower than $3.25 US a thousand cubic feet.

But the bill also ensure the **pipeline** runs through the Yukon, not the Northwest Territories, another route option for a **pipeline** .

Northwest Territories Premier Stephen Kakfwi has denounced that action as an unfair subsidy to U.S. producers.

His territory's proposed **pipeline** would run from the Canadian gas fields of the **Mackenzie** Delta down the **Mackenzie** River.

"In the Northwest Territories, we think it's going to completely wipe out the exploration commitments made," Kakfwi said in a weekend interview.

"(U.S. officials) are assuming they can just build an (**Alaska** Highway) **pipeline** right through Canadian territory and subsidize the pipe and strand Canadian gas for two decades or more," he said.

Some analysts have agreed the proposed U.S. regulation could set back the N.W.T. **pipeline** project, which could also benefit Canadian gas resources.

In a prepared speech delivered in Vancouver on Friday, Kakfwi argued the federal government should "forcefully express its opposition at the highest levels to these measures being proposed in **Alaska** and the U.S. Senate initiatives."

Federal Natural Resources Minister Herb Dhaliwal seemed to support this position last week when he implied Ottawa could delay any southbound U.S. **pipeline** forced to cut through Canadian soil.

He told reporters Ottawa would not allow Canadian gas to be remain untapped due to U.S. subsidies.

But the Yukon government supports the proposed U.S. bill, said Scott Kent, minister for energy, mines and resources.

The Yukon government maintains there is room enough in the natural gas industry for two northern pipelines.

Sam Harrel/News-Miner

and foreman Dave Lanni guide a load of rip-rap into the washed-
on of Chena Pump Road and Chena Small Tracts. Snowmelt and
intersection and began eroding the shoulders of the roadway.

...ep busy

...storm knocks down power. Page B-1

...g the shoulders. Flood ...ies are in effect for five ...creeks as rain and melt... ...hoke frozen waterways. ...may bring some relief. ...alled off a heavy snow ...erior and cooler temper... ...owmelt in the hills.

...tty wild," said John ...logist with the National ...ngaas blamed the unsea... ...and rain showers on a ...ms to have lost its way ...rth, he said. In the last ...ee inches of rain has fall... ...ned with melting ... is causing the

See FLOODING, Page A8

Sam Harrel/News-Miner

Fairbanks I Tow driver Vickie Doggett hooks a chain to a Jeep Cherokee that went off the edge of the road Wednesday morning at the intersection of Chena Pump Road and Chena Small Tracts. Janet Meehan lost control of her Jeep in water overflowing from Cripple Creek.

...ing years.

The other major tax proposal

Republican Rep. Jim Whitaker,

See LEGISLATURE, Page A8

Young: No ANWR, no energy plan

By SAM BISHOP
News-Miner Washington Bureau

WASHINGTON—Rep. Don Young said Wednesday he would rather not see an energy bill this year if it excludes oil drilling in the Arctic National Wildlife Refuge.

Young, R-Alaska, will be in an influential position as the Senate and House merge their differing versions of the energy bill. He said he will serve as vice chairman of the conference committee.

He's in no hurry to start or finish the work, though.

"There's no big rush, because the Senate bill doesn't produce any energy," Young said.

The Senate bill provides tax incentives and other provisions to boost construction of a natural gas line from the North Slope, but Young said he has been told by industry officials that the legislation isn't critical to a decision on whether to build.

"A lot of it is unnecessary," he said.

The House bill includes language to open the Arctic National Wildlife Refuge to oil drilling, but the Senate bill does not.

House Republicans on the conference committee are in "lock step" behind ANWR drilling, Young said. But he isn't predicting victory.

"I think it's going to be difficult in conference probably because of the makeup of the Senate conferees," Young said.

The Senate Democratic leadership, which appoints the conferees, is opposed to ANWR development. If the Senate Democratic conferees stand fast against ANWR drilling, "we may not have a bill," Young said.

"If it doesn't produce any energy, why go through the exercise?" he said.

Stopping the bill would not be a problem, Young said. "We have the votes."

See YOUNG, Page A8

Conference committee in limbo

By SAM BISHOP
News-Miner Washington Bureau

WASHINGTON—The Senate is having trouble deciding who will sit on a committee with the House to work out differences between their energy bills.

The Senate legislation carries tax credits for North Slope gas and oil development and authorizes spending on a variety of other Alaska projects. The House bill allows oil drilling in the Arctic National Wildlife Refuge.

A conference committee must pick which elements to keep in a final bill that goes back to both chambers for approval.

Senate Majority Leader

See SENATE, Page A8

...in works for late May

...mber of Commerce. "It ...n severe."

...ed in March that it would ...work force because it was ...s coal contract with South ...of the mine's production, ...is a year, goes to South ...Railroad moves the coal to ...e it is shipped overseas. ...ompany had been trying to ...contract with the South ...end of last year.

...pe that the South Koreans could renew the contract, said Steve Denton, Usibelli Coal Mine's general manager. And if the South Koreans opt to make short-term purchases on the spot market, Usibelli could compete for those sales, he said.

But with layoffs a large undertaking, the company believed it had no choice but to move ahead with the plan, Denton said.

"We're working with the people to try to find ways to mitigate the losses," Denton said. Some may take an early retirement option,

See USIBELLI, Page A8

...utting more children in the hospital

...y "changes the perspective that obesity is ...problem to really focus on ... child... as a serious medical problem,"

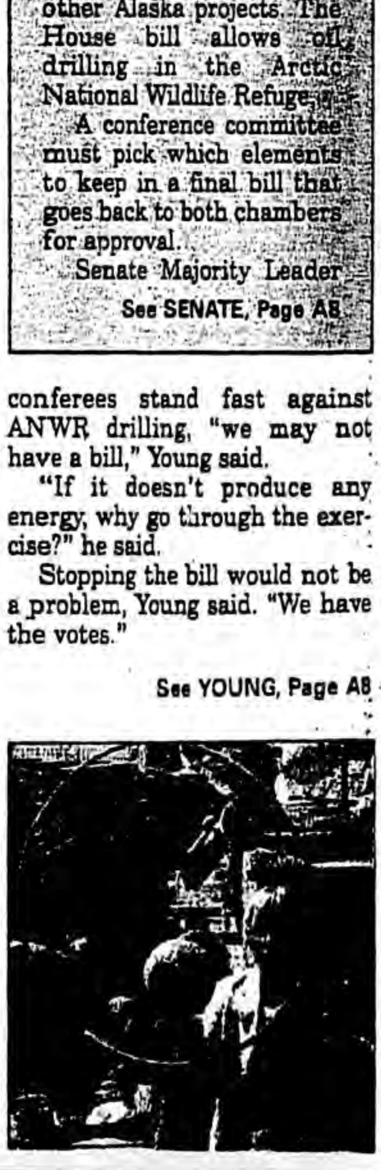
—Dr. William Dietz

...warned that child... The new study "changes the perspective that obesity is simply a cosmetic problem to really focus on ... childhood obesity as a ...

National Medical Center, who has patients as young as 5 with obesity-caused sleep apnea.

The study "represents just the tip of the iceberg," she said—because doctors often don't record obesity on hospital discharge records, so the CDC probably missed many cases. Insurance companies don't pay to treat it until the child comes down with a formal illness, Mirza complained.

About 10 percent of children and ado...



YOUNG: ANWR

Continued from Page A1

House Minority Leader [illegible]chard Gephardt, D-Mo., said his party wants the bill.

"It's obviously a very important piece of legislation. We need a long-term energy policy for this country, and this is our one opportunity in this Congress to get it, so we take this very seriously, and we're going to work hard to get a good bill," Gephardt said Wednesday.

If House Republicans kill the bill in conference, Young said, the natural gas tax credit, which Alaska GOP Sen. Frank Murkowski secured in the Senate version, could be passed in a different bill.

"It doesn't hurt," Young said of the tax credit, "but I've also been told it isn't necessary to have the gas line built. It makes it more attractive, there's no doubt about that."

Young said it could take until September to reach an agreement in conference. In the meantime, the Senate might be influenced by changes on the world scene, he said.

"I believe very strongly that if we have a dust-up in Iraq or some other area, there's a good possibility the price of gasoline would go quite high, maybe even a shortage of it, and then you'd see a different attitude," Young said.

Deal in works to free Suu Kyi

The Associated Press

YANGON, Myanmar—Opposition and government negotiators are close to a deal that could release pro-democracy leader Aung San Suu Kyi from house arrest, an opposition leader said Thursday.

Tin Oo, the vice chairman of Suu Kyi's party, told reporters that he met her on Wednesday at her lakeside residence where she has been held for the last 19 months.

Tin Oo said Suu Kyi told him to inform the media that "the developments will be seen within days."

Asked if the opposition and Myanmar's military junta are close to an agreement, he said: "It is most feasible. It will come out with an improvement within days." He did not elaborate.

SENATE

Continued from Page A1

[illegible] Tom Daschle, D-S.D., told reporters Wednesday that his party is still trying to decide which senators should sit on the committee.

"We had seven or eight specific committees that were involved in the creation of the bill," Daschle said. "Those committees clearly have to be represented in some way. And so that's what we have suggested, is that at least in the primary committees of involvement, that the chairs be represented."

That may conflict, though, with an agreement reached on the Senate floor last week.

The Senate, without objection from any members, decided that its conferees on the bill would come from members of the Energy and Natural Resources Committee, and the Finance Committee.

Six Democrats and five Republicans were to come from the Energy Committee, while three Democrats and two Republicans were to come from the Finance Committee, according to the Congressional Record.

Daschle hinted Wednesday that Republicans might be [illegible] ed to the conference yet, [illegible] we have not been given [illegible] list," Daschle said. "I talked to Sen. Lott about the conferees this morning."

Later in the day, the spokesman for Republicans on the Energy Committee said the list had been delivered.

"We have submitted our list of conferees to the Democrats, and that list is consistent with the unanimous consent that was agreed upon," said Dave Woodruff [illegible]

On the House side, where Republicans are in charge, some conference committee members have been selected, but no announcement had been made. That is expected this week.

Rep. Don Young, R-Alaska, said he would be the vice chairman of the House conferees. The chairman will be Rep. Billy Tauzin, R-La. Rep. Joe Barton, R-Texas, will also be a member, Young said.

Democrats are still working on their membership, according to Minority Leader [illegible]d Gephardt, D-Mo. "We h[illegible]n't [illegible] to that," Gephardt told [illegible]

SENATE: Committee

Continued from Page A1

· Daschle, D-S.D., told .ters Wednesday that his .y is still trying to decide which senators should sit on the committee..

"We had seven or eight specific committees that were involved in the creation of the bill," Daschle said. "Those committees clearly have to be represented in some way. And so that's what we have suggested, is that at least in the primary committees of involvement, that the chairs be represented."

That may conflict, though, with an agreement reached on the Senate floor last week.

The Senate, without objection from any members, decided that its conferees on the bill would come from members of the Energy and Natural Resources Committee and the Finance Committee.

Six Democrats and five Republicans were to come from the Energy Committee, while three Democrats and two ·publicans were to come from Finance Committee, according to the Congressional Record.

Daschle hinted Wednesday that Republicans might be holding up the Senate process as well.

"Well, no one's been appointed to the conference yet, because we have not been given their list," Daschle said. "I talked to Sen. Lott about the conferees this morning."

Later in the day, the spokesman for Republicans on the Energy Committee said the list had been delivered.

"We have submitted our list of conferees to the Democrats, and that list is consistent with the unanimous consent that was agreed upon," said Dave Woodruff.

On the House side, where Republicans are in charge, some conference committee members have been selected, but no announcement had been made. That is expected this week.

Rep. Don Young, R-Alaska, said he would be the vice chairman of the House conferees. The chairman will be Rep. Billy Tauzin, R-La. Rep. Joe Barton, R-Texas, will also be a member, Young said.

Democrats are still working on their membership, according to Minority Leader Richard Gephardt, D-Mo. "We haven't gotten to that," Gephardt told reporters Wednesday.

tourist," he said, before they tried to cross the flooded road. "That area is 300 feet long. It varies in depth. It can change."

Road crews on the Steese Highway reported flooding at several locations between 46 Mile and 80 Mile, Blanning said. Crews also are watching the Steese Highway for breeches in the road surface between Fox and Cleary Summit, he said.

Some road flooding is reported on the Elliott Highway between Livengood and Manley. The remainder of the road is muddy, soft and rutted, and drivers should be cautious, he said.

The Dalton Highway from 90

instead of pouring on top, he said.

Officials think the weather should improve by next week, but that's too late for Janet Meehan. Despite using what she considered every caution, she found herself being cut out of her black Jeep Cherokee seat belt. Meehan only suffered some muscle soreness from the accident, despite her icy dip.

As University Fire Chief Mitch Flynn and trooper Andrew Adams helped Meehan from the ambulance after being checked over, an emergency worker said "Have a nice day."

"It's got to get better," Meehan said.

SENATE: Committee

Continued from Page A1

and some job losses may be due to attrition, he said.

Usibelli's problems come from Indonesia and China, where coal is produced cheaply and is close to needy Asian markets. It's a matter of supply and demand, Denton said.

"There are too many suppliers in the world," Denton said.

Denali Borough Mayor John Gonzales predicts the layoffs will trickle down into the community.

"I suppose most will try to find jobs elsewhere, but there are not many other jobs in the community," Gonzales said. Some people are hoping that the Healy Clean Coal plant will be brought into operation and bring jobs back, but that is at least a year off, Gonzales said. Congress has authorized $125 million to retrofit the plant.

A complete retrofit could provide jobs for 35 to 50 years, said Steve Haagenson, president of Golden Valley Electric Association. GVEA would operate the plant and purchase its power if the plant were retrofitted, he said.

Coal production and its use is also part of President Bush's energy plan, but those things "don't happen overnight," Gonzales said.

Wallace, the chamber president, said there is a certain amount of uncertainty about what will happen in Healy. "Home for sale" fliers are popping up on bulletin boards around town, she said.

"People have been here forever," she said. "There certainly has been some familial support, but we don't know how far that will take everybody.

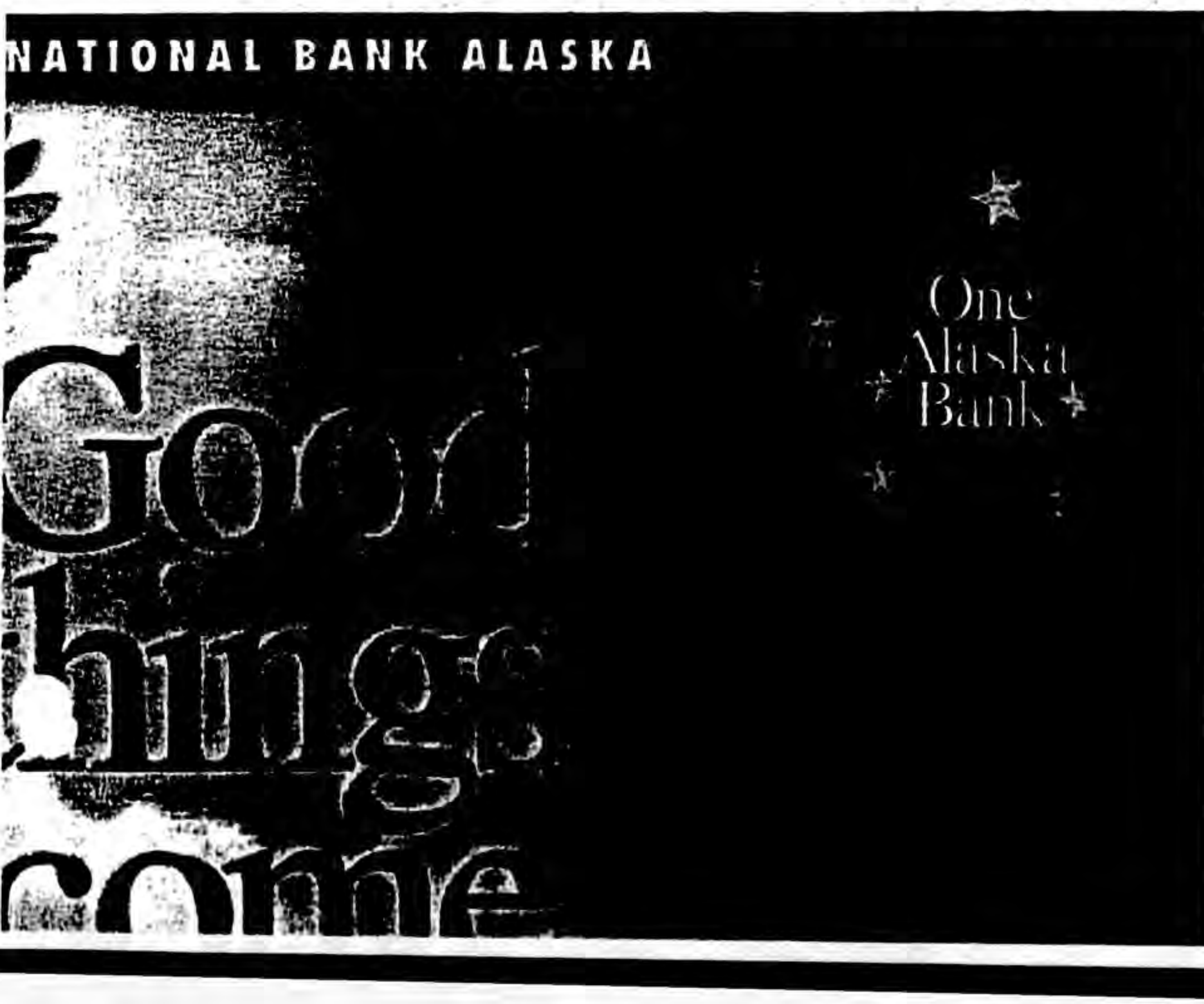
"We may see some population changes."

OBESE

Continued from Page A1

rie foods.

More children are suffering Type 2 diabetes, a dangerous disease that once struck mostly in middle age. Obesity also can worsen asthma and spark gallbladder disease. People can die



canada.com News

Wednesday » May 1 » 2002

U.S. Senate pipeline plan blasted
Petro-Canada chief warns Canadian gas exports at risk

Chris Varcoe; With files from Grant Robertson, Calgary Herald
Calgary Herald

Wednesday, May 01, 2002

The head of Petro-Canada says a U.S. Senate proposal to assist the construction of an Alaskan natural gas pipeline project could distort North America's finely tuned energy markets.

Calgary Herald
Petro-Canada CEO Ron Brenneman said it's unknown what impact a U.S. proposal to subsidize Alaskan gas would have on a Mackenzie pipeline.

The U.S. Senate passed a controversial energy bill last week that offers $10 billion US in loan guarantees to the Alaska Highway gas pipeline project.

It also includes a contentious provision offering Alaskan producers a guaranteed floor price for their commodity.

If ratified, the bill could put Canadian gas at a distinct disadvantage, Petro-Canada chief executive Ron Brenneman warned Tuesday.

"To me, that represents a form of subsidy," he said after the company's annual meeting.

"We (would) have gas coming into -- or through -- a deregulated market that we all compete in that might actually be subsidized by U.S. federal government. So that's a big disappointment to us."

Calgary Herald

Last week, the U.S. Senate approved an omnibus energy bill that would provide tax credits to Alaskan producers building a northern pipeline, offering them a guaranteed floor price for gas of $3.25 US per thousand cubic feet (mcf).

If gas, which traded near $3.80 US per mcf Tuesday on the New York Mercantile Exchange, rises above $4.80, the tax credits would have to be repaid.

While the bill received bi-partisan support in the U.S. Senate, it must be co-ordinated with a House of Representatives energy bill and then passed by the Bush administration.

Three Alaskan petroleum producers -- BP PLC, ExxonMobil Corp. and Phillips Petroleum Co. -- are now studying construction of a proposed $17-billion US pipeline running along the Alaskan Highway, through the Yukon into northern B.C. and Alberta.

Last month, a BP spokesman said the project wasn't economically viable at current prices and wouldn't proceed until the Prudhoe Bay producers saw a better chance of profit.

A spokesman for Alaskan Gov. Tony Knowles said the bill would reduce the project's price risk and help secure continental energy supply by tapping into huge northern reserves.

"I don't think it distorts the marketplace as far as consumers are concerned," Bob King said from Juneau.

"It would be, in essence, a zero-sum game. . . . If prices go up, as they frequently do, those supports would be recouped."

Calgary Herald
Petro-Canada chief executive Ron Brenneman says a U.S. Senate bill, if adopted, would amount to subsidizing Alaskan gas.

But the announcement has caused an uproar in Canadian energy circles, where a proposal to build a small pipeline from the Northwest Territories to Alberta is under consideration by a group of companies led by Imperial Oil Ltd.

N.W.T. Premier Stephen Kakfwi said last week the American tax amendment is worth up to

$2 million US per day and he's concerned it would strand Mackenzie Delta natural gas for years if the larger Alaskan venture is built first.

In Ottawa, the federal government also complained Tuesday that the U.S. proposal would distort gas markets, which have been deregulated in Canada for more than 15 years.

"It's not consistent with Canadian thinking on the way energy policy should be run," said Tracy Thiessen, a spokeswoman for Natural Resources Canada.

"Our energy policy is based on markets -- open, fair markets. And that isn't changing."

Industry analyst Roland George of energy consultancy Purvin & Gertz Inc. said if the U.S. bill is passed, it would cause petroleum producers to redirect investment away from conventional gas basins -- such as Western Canada -- to Alaska.

While Alaskan companies would receive the subsidized rate if prices drop, as they did last winter, Canadian producers would only collect the lower, deregulated price, George said.

"The floor price subsidy has the potential to have a cataclysmic effect on the market," he said.

"They will flood the market with Alaskan gas and the price for everyone else will go down."

Petro-Canada is one of the country's most aggressive northern explorers.

Last week, Petro-Canada and partner Devon Energy Corp. announced a large gas discovery in the Northwest Territories that contains estimated reserves of up to 300 billion cubic feet.

Petro-Canada could move gas through the proposed Mackenzie Delta pipeline, although Brenneman said it's uncertain what impact the U.S. bill would have on the construction timing or likelihood of the project being built.

"The viability of the Mackenzie Valley pipeline stands on its own," he added. "With or without the Alaskan pipeline, we will see gas moving out of the Mackenzie Delta probably in 10 years time or so."

Petro-Canada's shares rose 79 cents Tuesday on the Toronto Stock Exchange to $42.27.

© Copyright 2002 Calgary Herald

PATRICK COUGHLIN WORK ACTIVITY REPORT

MEMORANDUM

TO: Senator John Torgerson
FROM: Patrick Coughlin PJC
SUBJECT: Work Activity Report
DATE: May 14, 2002

O&G BILLS & RESOLUTIONS

Significant Involvement
2001

Act	Sponsor	Description	Status
SB 143	Resources	Amend ROW act for reimbursement of pre-application costs	Senate Pass House Rules
SB156	Resources	Amend AS 38.05 to provide for single best interest finding	Senate Pass House Pass
SB158	Resources	Require a financing report from the DOR commissioner	Senate Pass House Finance
SB164	Senate	Amend ROW act to preclude an OTT route	Senate Pass House Pass
SCR10	Finance	Netricity Resolution	Senate Judiciary House Pass
SCR14	Rules	Joint Committee on Natural Gas Pipelines	Senate Rules House None

2002

Act	Sponsor	Description	Status
SB221	Taylor	AK Gas Development Authority	Senate Resources House None
SB260	Gov	Alaska RR tax-exempt bonding	Senate Resources House None
SB319	Torgerson	Shallow Natural Gas Leasing	Senate Pass House Pass
SB343	Resources	Best Available Technology	Senate Pass House Pass
SB 296	Resources	Alaska Natural Gas Project Act	Senate Pass House Pass
HB 190	Whitaker	Pipeline Incentives	Withdrawn
HB302	Whitaker	Alaska Gas Corporation	Senate Resources House Pass
HB307	Fate	Exploration Incentive Credit	Senate Pass House Pass
HB308	Fate	Discovery Royalty	Senate None House O&G

HB311 Whitaker	Taxes and Leases	Senate None House O&G
HB394 Rokeberg	Royalty Modification	Senate None House O&G
HB410 Oil&Gas	Development Authority	Senate None House O&G
HB423 Gov	Railroad Bonding	Senate None House Finance
HB519 Rule	Natural Gas Pipelines	Senate None House Rules
HB527 Resources	Minto Flats	Senate Pass House Pass
HB530 Rules	Natural Gas Reserve Tax	Senate None House O&G
HJR44 Oil&Gas	Pipeline Route	Senate Pass House Pass

Review and Analyze
2001

SB 17 Governor	Amend Stranded Gas Act to change expiration date	Senate Transportation House None
SB 32 Rules	Amend ROW act to allow renewals every 30 years and reimbursement of operation, maintenance, and operation	See SB 76
SB 76 Wilken	Amend ROW act to allow renewals every 30 years	Senate Pass House Pass
SB 77 Torgerson	Repeal AS 38.05.135(g) re over/under payments	Senate Pass House Pass
SB 121 Leman	Amend ROW act to define "substantial change"	Senate Pass House Pass
SB 125 Halford	Amend AS 38.05.130 to define damages for surface estate	Senate Resources House None
SB 136 Resources	Create resource development board	Senate Finance House None
SB 139 Governor	Water rights	Senate Finance House None
SB 179 Finance	AIDEA bonds for Alaska Intrastate	Senate Resources House Pass
HB 3 Rokeberg	Amend PFD law	Senate Resources House Pass
HB 9 Green	Amend Stranded Gas Act to broaden to include ng and gtl	Senate None House Oil & Gas
HB 21 Porter	Findings about the southern route	Senate None House Oil & Gas
HB 38 Governor	Amend Stranded Gas Act to broaden to	Senate None

	include ng and gtl	House Oil & Gas
HB 83 HOG	Amend ROW act to delcare policy for ngl pipelines and AK hire	Senate None House Oil & Gas
HB 165 Lancaster	Add land to Kenai River Special Management Area	Senate Resources House Pass
HB 190Whitaker	Amend AS 43.58 to add a reserve tax	Senate None House Pass
HB 220Kott	Tax Credits for Marathon	Senate None House Pass
HB 236Finance	AIDEA bonds for Alaska Intrastate	Senate Resources House Pass
HJR 7 Ogan	Open ANWR	Senate Pass House Pass
HCR 8 Whitaker	Oppose the OTT route	Senate Rules House Rules
HJR 13Cissna	Keep 90% in ANWR	Senate None House Finance
HCR 17Rules	Netricity Resolution	See SCR 14

2002

SB308 Therriault	CZMA Phasing	Senate Pass House Pass
SB 310Therriault	Pipeline Coordinator for Gas Line	Senate Resources House None
SB361 Therriault	Comprehensive Permit Coordination/CZMA	Senate State Affairs H O&G
SB371 Resource	Redoubt Shoal/CZMA Amendment	Senate Pass House Pass

Other Projects
2001

- Discuss oil and gas and gas line issues with various House and Senate members as requested
- Review and evaluate Economic Limit Factor
- Review and rrovide advice on the gas line and Oil and Gas budget
- Work on possible Right of Way Bill for a gas line between Fairbanks and Nikiski

Other Projects
2002

- Work on amendments for the federal energy bill
- Work with other experts to assist Senator Torgerson in negotiating changes to the federal energy bill
- Assist with the development of various project economic models
- Assist with the development of evaluation of federal price floor proposal

- Discuss oil and gas and gas line issues with various House and Senate members as requested
- Assist with development of International Committee on Alaska Gas Pipeline Project
- Refine problems for other experts
- Daily monitoring of developments in gas supply and demand lower 48 markets, including information from CERA, EIA, Simmons International, MMS, AkDNR/DOR, other experts, and other agencies
- Daily monitoring of developments in foreign supply markets
- Work on comprehensive gas fiscal system with various experts including Dr. Van Meurs
- Continue review and evaluate Economic Limit Factor and severance tax proposals
- Provide comprehensive analysis of state oil and gas incentives
- Review various fiscal certainty issues
- Review "substantial similarity" issue for Initiative and various legislative proposals
- Review and analyze proposals and information provided by various companies, including the producers, the pipelines, the explorers, other project sponsor, other interested entities
- Work with various governmental agency including the MMS, the FERC, the NEB, Yukon officials
- Draft various proposed bills including:
    - Establishing a North Slope Gas Commercialization Team
    - Evaluation of Div. of Oil & Gas budget bill
    - New gas severance tax
    - Evaluation of reserve tax bills

Interim Work
2001-02

- Prepare background materials and questions for the Joint Committee on Natural Gas Pipelines
- Attend House Oil & Gas Interim Committee meetings, Policy Council meetings, D.C. hearings and other relevant meetings
- Monitor Asian and North American gas events
- Monitor, in conjunction with D.C. lobbyist, energy bills and other events in D.C. and Canada
- Prepare testimony for D.C. hearings and assist Senator Torgerson in meeting with U.S. Congressional members and staff
- Review, monitor, and work with financing expert data and information regarding state ownership issues
- Develop, in conjunction with interested parties and the administration, an economic model to evaluate the various gas options
- Draft speeches and presentations regarding the gas line requested by Senator Torgerson
- Respond to various inquiries from Senators and Representatives

- Work on developing a fiscal model for efficient oil and gas taxation including changes to the severance tax