

AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 148 321322

1 Doogan

2 Amendment- Ensure changes don't reduce value of project

3 On HB177E

Conc.
Amend #7

4 13, 27

5 Sec 43.90.210 Amendment of or modification to the project plan. Subject
6 to the approval of the commissioners and the coordinator, a licensee may amend or modify its
7 project plan if the amendments or modifications are necessary as a result of changed
8 circumstances outside the licensee's control and not reasonably foreseeable before the license
9 was issued. An amendment or modification approved under this section must be consistent
10 with the requirements of AS 43.90.140 and may not diminish the net present value to the
11 state of the project.

12 23, 7

13 Sec. 43.90.450. Assignments. (a) A licensee may transfer all or part of the
14 license, including the rights and obligations arising under the license, if

15 (1) the transfer is approved in writing in advance by the commissioners; and

16 (2) the transfer does not increase or diminish the obligations created by the
17 license or diminish the net present value of the license to the state

18
19 [continue rest of Sec. 43.90.450 as in bill]
20

Sam ✓

Doos ✓

Ram w

Kaw w

Oiso ✓

Dahl ✓

Kohr ✓

1 Doogan

2 Amendment- Clarify rolled-in tariff limit

3 On HB177E

*Conc
Amend # 8*

4

5 Sec 43.90.130(7)

6 page 6, line 24

Unan

7 Delete "15 percent of"

8 Replace with "15 percent above"

9

10 page 6, line 30

11 Delete "15 percent of"

12 Replace with "15 percent above"

13

14

Samuels	Y	10A
Kohring	N	
Doogan	Y	
Ramras	N	
Olsen	Y	
Dahlstrom	N	
Kawasaki	Y	

10B

25-GH1060E.2
Bullock
3/31/07

AMENDMENT # 10A

OFFERED IN THE HOUSE

BY REPRESENTATIVE DOOGAN

TO: CSHB 177(), Draft Version "E"

1 Page 15, line 27, following "licensee":

2 Insert "(1)"

3

4 Page 15, line 29, following "revocation":

5 Insert "; and

6 (2) shall deliver to the state all project data, engineering designs,
7 contracts, rights-of-way, and other work product of the licensee that is related to the
8 licensed project."

9

10 Page 16, following line 30:

Amend # 10B (withdrawn)

11 Insert a new subsection to read:

12 "(e) Notwithstanding (b)(2) of this section, if the arbitration panel makes a
13 final determination under (b) of this section that the project is not uneconomic and the

14 (1) commissioners disagree with that determination, the state may
15 terminate the license and compensate the licensee in the amount equal to three times
16 the total of the reasonable costs that the licensee has incurred in developing the
17 licensee's project through the date the commissioners notify the licensee of the
18 termination; or

19 (2) licensee disagrees with that determination, the state may terminate
20 the license at the request of the licensee and, if the license is terminated, the state shall
21 pay the licensee the actual amount of qualified expenditures incurred and paid by the
22 licensee through the date the license is terminated and the licensee shall transfer to the
23 state all project data, engineering designs, contracts, rights-of-way, and other work

1 product of the licensee that is related to the licensed project."

1 Doogan

Comp.
Amend #11

2 Amendment- Definition of Project Labor Agreement

3 On HB177E

4
5 Sec 43.90.900

6 Add after page 23, line 7

7 (17) "project labor agreement" means a completed collective bargaining
8 agreement between the licensee and an appropriate Alaskan entity setting out the terms and
9 conditions of employment on the project, including wages and benefits, no strike / no lockout
10 provisions, safety rules, dispute resolution procedures, and use of hiring facilities in Alaska.

11
12 (renumber accordingly)

13
14 Doogan Y
Ramras N
Samuels N
Kahrins Y
Olson N
Dahlstrom N
Kawasaki N

Failed

Doogan
Ramras
Samuels
Kohring
Olson
Dahlstrom
Kawasaki

25-GH1060E.3
Bullock
4/1/07

AMENDMENT #12 (withdrawn)

OFFERED IN THE HOUSE

BY REPRESENTATIVE DOOGAN

TO: CSHB 177(), Draft Version "E"

1 Page 1, line 4, following "coordinator;":

2 Insert "repealing the Alaska Stranded Gas Development Act;"

3

4 Page 27, following line 26:

5 Insert new bill sections to read:

6 "* Sec. 5. AS 44.37.011(a) is amended to read:

7 (a) This section applies to administrative appeals or petitions for
8 reconsideration of a decision in an administrative appeal to the commissioner of
9 natural resources, except for those administrative appeals or petitions done under
10 AS 38.35 [OR AS 43.82]. If a conflict occurs between this section and other state law
11 existing at the time of enactment of this section, the provisions of this section control.

12 * Sec. 6. AS 29.10.200(54), 29.10.200(55); AS 29.45.810; AS 29.46.010(b);
13 AS 36.30.850(b)(38); AS 43.20.072(g), 43.20.073(g); AS 43.82.010, 43.82.020, 43.82.100,
14 43.82.110, 43.82.120, 43.82.130, 43.82.140, 43.82.150, 43.82.160, 43.82.170, 43.82.180,
15 43.82.200, 43.82.210, 43.82.220, 43.82.230, 43.82.240, 43.82.250, 43.82.260, 43.82.270,
16 43.82.300, 43.82.310, 43.82.400, 43.82.410, 43.82.420, 43.82.430, 43.82.435, 43.82.440,
17 43.82.445, 43.82.500, 43.82.505, 43.82.510, 43.82.520, 43.82.600, 43.82.610, 43.82.620,
18 43.82.630, 43.82.640, 43.82.900, 43.82.990; secs. 1, 2, and 10, ch. 104, SLA 1998; and sec. 1,
19 ch. 4, SLA 2003 are repealed."

20

21 Renumber the following bill sections accordingly.

Doogan
Ramras
Samuels
Kohring
Olson
Dahlstrom
Kawaski

25-GH1060\E.4
Bullock
4/1/07

AMENDMENT #13 (Withdrawn)

OFFERED IN THE HOUSE

BY REPRESENTATIVE DOOGAN

TO: CSHB 177(), Draft Version "E"

1 Page 9, lines 12 - 29:

2 Delete all material and insert:

3 "Sec. 43.90.150. Disclosure of submitted information. Notwithstanding
4 AS 40.25, all information submitted to the commissioners under this chapter is public
5 information; however, the information is not subject to disclosure before the
6 commissioners publish the notice required under AS 43.90.160(a)."

7

8 Page 9, line 30:

9 Delete "(a)"

10

11 Page 10, line 1, following "AS 43.90.140":

12 Insert "and all applications rejected by the commissioners under AS 43.90.140(a) and
13 (c)"

14

15 Page 10, lines 2 - 9:

16 Delete all material.

17

18 Page 27, lines 23 - 25:

19 Delete

20

"(A) proprietary or a trade secret in accordance with

21

AS 43.90.150;

22

(B)"

23

Insert "submitted to the commissioners under AS 43.90 and"

Doogan
Ramras
Samuels
Kohring
Olson
Dahlstrom
Kawasaki

25-GH1060E.1
Bullock
3/31/07

AMENDMENT # 14 (withdrawn)

OFFERED IN THE HOUSE

BY REPRESENTATIVE DOOGAN

TO: CSHB 177(), Draft Version "E"

1 Page 18, line 10:

2 Delete "and 43.90.320"

3

4 Page 18, lines 12 - 13:

5 Delete "and 43.90.320 are"

6 Insert "is"

7

8 Page 18, line 14:

9 Delete "**inducement.**"

10 Insert "**inducement; royalty credit.** (a) A person qualified for resource inducement
11 under AS 43.90.300 is entitled to a credit of 10 percent against the person's royalty obligation
12 to the state for North Slope gas shipped through firm transportation capacity the person
13 acquired during the first binding open season."

14

15 Reletter the following subsections accordingly.

16

17 Page 19, line 11, following "production":

18 Insert "; and

19 (4) the procedure for a person to take the credit provided in (a) of this
20 section"

21

22 Page 19, line 13:

23 Delete "(d)"

- 1 Insert "(e)"
- 2
- 3 Page 19, line 16:
- 4 Delete "(a)"
- 5 Insert "(b)"
- 6
- 7 Page 19, line 22:
- 8 Delete "(e)"
- 9 Insert "(f)"
- 10
- 11 Page 19, line 31:
- 12 Delete "(c)"
- 13 Insert "(d)"
- 14
- 15 Page 20, line 10:
- 16 Delete "(a)"
- 17 Insert "(b)"
- 18
- 19 Page 20, line 15:
- 20 Delete "(c)"
- 21 Insert "(d)"
- 22
- 23 Page 20, line 17:
- 24 Delete "(c)"
- 25 Insert "(d)"
- 26
- 27 Page 20, line 19, through page 21, line 10:
- 28 Delete all material.
- 29
- 30 Page 23, line 14:
- 31 Delete "and the gas production tax exemptions under AS 43.90.320"

Doogan
Samuels

25-GH1060\E.8
Bullock
4/1/07

Unan

AMENDMENT #15 amended

OFFERED IN THE HOUSE

BY REPRESENTATIVES SAMUELS,

TO: CSHB 177(), Draft Version "E"

DOOGAN, AND KOHRING

1 Page 11, line 31:

2 Delete "chairs of the legislative standing committees having jurisdiction over natural
3 resources"

4 Insert "presiding officer of each house of the legislature"

5

6 Page 12, lines 11 - 14:

7 Delete "receiving a determination from the commissioners under AS 43.90.180, the
8 House standing committee and the Senate standing committee having jurisdiction over natural
9 resources"

10 Insert "the presiding officer of each house of the legislature receives a determination
11 from the commissioners under AS 43.90.180, the rules committee of each house of the
12 legislature"

13

14 Page 12, line 14:

15 Delete "bill in their respective chambers"

16 Insert "resolution"

17

18 Page 12, line 16:

19 Delete "bill"

20 Insert "resolution"

21 Delete "becomes law"

22 Insert "is approved by both houses of the legislature within 90 calendar days after the
23 last date a presiding officer of a house of the legislature receives a determination from the

Delete

1 commissioners under AS 43.90.180"

2

3 Page 12, lines 17 - 18:

4 Delete "effective date of the Act"

5 Insert "date a resolution passes"

Doogan
Samuels
Ramras
Kehring
Olson
Dahlstrom
Kawasaki

4/02/07

AMENDMENT #16 (as amended)

OFFERED IN THE HOUSE

BY REPRESENTATIVE RALPH SAMUELS

TO: CSHB 177() Work Draft Version "E"

UNAN

- 1 Page 10, line 17, following "shall"
- 2 Insert "use an undiscounted value and, at a minimum, discount rates of
- 3 two, ^{five}~~six~~, and eight percent, and"

Doogan
Rammes
Samuels
Kehring
Olson
Dahlstrom
Kawasaki

UNAN

3/31/07

AMENDMENT #17

OFFERED IN THE HOUSE

BY REPRESENTATIVE RALPH SAMUELS

TO: CSHB 177() Work Draft Version "E"

- 1 Page 7, line 22, following "Commission"
- 2 Insert "if the proposed project is engaged in interstate commerce,"
- 3 Page 7, line 22, following "Alaska"
- 4 Delete, ",as applicable"
- 5 Insert, "if the project is not engaged in interstate commerce"
- 6 Page 7, line 22, following "for"
- 7 Delete, "any"
- 8 Insert, "a"
- 9 Page 7, line 24, following "value"
- 10 Delete, "existing"
- 11 Insert, "previously owned"
- 12 Page 7, line 25, following "value;"
- 13 Insert, "describe the gas treatment plant, including its design, engineering,
- 14 construction, ownership, and plan of operation; the identify of any third party that
- 15 will participate in the ownership or operation of the gas treatment plant; and the
- 16 means by which the applicant will work to minimize the effect of the costs of the
- 17 facility on the tariff;"

3/31/07

AMENDMENT #18

OFFERED IN THE HOUSE

BY REPRESENTATIVE RALPH SAMUELS

TO: CSHB 177() Work Draft Version "E"

Unan

- 1 Page 11, line 4, following "cost overruns"
- 2 Insert ", and encourage shippers to participate in the first binding open
- 3 season"

Doogan Y
Ramras Y
Samuels Y
Kohring Y
Olson Y
Dahlstrom N
Kawasaki N

25-GH1060/B.21
Bullock
3/29/07

Concept
AMENDMENT # 19

OFFERED IN THE HOUSE

BY REPRESENTATIVE SAMUELS

TO: HB 177

20 5

1 Page 15, line 14, following "43.90.140(7)":

2 Insert "if the Federal Energy Regulatory Commission does not have a policy in effect
3 that presumes that rolled-in rates apply to the recovery of expansion costs for the project"

4

21 6

5 Page 16, line 17, following "43.90.140(7)":

6 Insert "if the Federal Energy Regulatory Commission does not have a policy in effect
7 that presumes that rolled-in rates apply to the recovery of expansion costs for the project"

1 Doogan
2 Amendment- Role of Coordinator
3 On HB177E
4
5 page 7, line30
6 Delete "and the coordinator"
7
8 page 11, line 21
9 Delete "and the coordinator"
10
11

Amend # 9

unam

Rep Doogan

Conc
Amend # 20

Sec. 43.90.180. Notice, review and comment. (a) The commissioners shall publish notice and provide a 60-day period for public review and comment on all applications determined complete under AS 43.90.140.

(b) Applications received under this chapter are not public records and are not subject to public disclosure under AS 40.25 until the commissioners publish notice under this section. However, information that the commissioners have determined is confidential under AS 43.90.150 may not be made public even after the notice is published under (a) of this section, except as provided in AS 43.90.150. If information is held confidential under this subsection, the applicant shall provide a summary of the withheld information satisfactory to the commissioners and the commissioners shall make such summary available to the public.

Pa 10 - Line 10

(c) All information provided by applicants to the commissioners under this chapter, including information determined to be confidential under AS 43.90.150, will be disclosed by the commissioners to the legislative auditor, the director of legislative finance and their agents and contractors, and legislators, provided the person requesting disclosure signs an appropriate confidentiality agreement provided by the commissioners.

Doogan
Ramras
Samuels
Kohring
Olson
Dahlstrom
Kawasaki

UNAN

CONCEPTUAL AMENDMENT # 21

OFFERED IN THE HOUSE

BY REPRESENTATIVE RAMRAS

April 3, 2007

TO: HB 177 Work Draft Version E

Page 3, Line 30:

(2) provide a detailed description of:

- a. **the applicant;**
- b. **all affiliates of the applicant;**
- c. **all partners or joint venturers or other similar entities participating with the applicant in the project or upon whom the applicant intends to rely for completion of the proposed project;**
- d. **the information provided under this subsection shall include the nature of any affiliation as well as the nature and extent of commitments by partners and joint venturers to the proposed project that will allow the commissioners to evaluate the applicant's readiness and ability to perform the activities specified in the application.**

Renumber accordingly

Doogan
Ramras
Samuels
Kehring
Olson
Dahlstrom
Kawasaki

UNAN

Doogan
Ramras
Samuels
Kohring
Olson
Dahlstrom
Kawasaki

UNAN

25-GH1060\E.10
Bullock
4/3/07

AMENDMENT #22

OFFERED IN THE HOUSE

BY REPRESENTATIVE RAMRAS

TO: CSHB 177(), Draft Version "E"

1 Page 1, line 4, following "coordinator;":

2 Insert "establishing the gas utility revolving loan fund;"

3

4 Page 27, following line 26:

5 Insert a new bill section to read:

6 "** Sec. 5. AS 42.45 is amended by adding a new section to read:

7 **Sec. 42.45.025. Gas utility revolving loan fund.** (a) The gas utility revolving
8 loan fund is established in the authority. The fund consists of

9 (1) appropriations made to the fund; and

10 (2) repayments of principal and interest on loans made under this
11 section.

12 (b) The authority may make loans from the gas utility revolving loan fund to
13 gas utilities certificated under AS 42.05. A loan from the fund may be made only for
14 the purpose of constructing or extending new gas service into an area of the state that a
15 gas utility may serve under a certificate of public convenience and necessity issued
16 under AS 42.05. A loan may be made from the fund to a gas utility if the utility invests
17 the money necessary to provide service for each consumer for whom service would be
18 provided by the construction or extension of gas service.

19 (c) A loan from the gas utility revolving loan fund shall bear an annual rate of
20 interest of two percent of the unpaid balance of the loan.

21 (d) When the authority makes a loan under this section, the gas utility
22 receiving the loan shall

23 (1) in addition to the rates that it is authorized to charge, charge the

1 consumers served by the gas service constructed or extended with the loan proceeds an
2 amount sufficient to pay the interest costs of the loan;

3 (2) pay to the authority annually an amount equal to

4 (A) interest of two percent on the unpaid balance of the loan;

5 and

6 (B) payments on the unpaid balance of the principal of the loan
7 for each new consumer served by the gas service constructed or extended with
8 the loan proceeds; payments on the unpaid balance of the principal of the loan
9 shall be made at a rate equal to the difference between the actual cost of
10 making the service connection to the consumers and the minimum investment
11 for each consumer required of the utility before a loan is made under (b) of this
12 section.

13 (e) The authority shall

14 (1) adopt regulations necessary to carry out the provisions of this
15 section; and

16 (2) administer the gas utility revolving loan fund.

17 (f) Money in the gas utility revolving loan fund may be used by the legislature
18 to make appropriations for costs of administering the fund.

19 (g) On June 30 of each fiscal year, the unexpended and unobligated cash
20 balance of the fund that is attributable to loans owned by the fund lapses into the
21 general fund.

22 (h) In this section,

23 (1) "consumer" means a person or a governmental agency, if the
24 person or governmental agency requests and offers to pay for gas service to a facility
25 or part of a facility;

26 (2) "facility" means a structure capable of receiving and using natural
27 gas energy; and

28 (3) "governmental agency" includes, with respect to the state or federal
29 government or a municipal government, a legislative body, board of regents,
30 administrative body, board, commission, committee, subcommittee, authority, council,
31 agency, public corporation, school board, department, division, bureau, or other

1 subordinate unit, whether advisory or otherwise, of the state, federal, or municipal
2 government."

3
4 Renumber the following bill sections accordingly.

5
6 Page 28, line 7:

7 Delete all material and insert:

8 "* Sec. 8. The uncodified law of the State of Alaska is amended by adding a new section to
9 read:

10 CONDITIONAL EFFECT. AS 42.45.025, enacted by sec. 5 of this Act, takes effect
11 only if a natural gas pipeline project that provides for delivery points in the state receives a
12 license under AS 43.90.

13 * Sec. 9. If sec. 5 of this Act takes effect, it takes effect on the date a natural gas pipeline
14 project that provides for delivery points in the state receives a license under AS 43.90, as
15 enacted by sec. 1 of this Act.

16 * Sec. 10. Except as provided in sec. 9 of this Act, this Act takes effect immediately under
17 AS 01.10.070(c)."

CONCEPTUAL AMENDMENT # 23

OFFERED IN THE HOUSE

TO: HB177

BY: REP. JAY RAMRAS

P.8, L. 16

Insert a new paragraph to read:

(16) commit to offer at reasonably commercial terms to an agency of the state authorized to invest state money a fractional nonvoting ownership interest in the project no less than 5% of the Alaska portion of the project.

Renumber the following paragraph accordingly.

Doogan	N
Ramras	Y
Samuels	N
Kohring	N
Olson	N
Dahlstrom	N
kawasaki	Y

Failed

CONCEPTUAL AMENDMENT #24 withdrawn

OFFERED IN THE HOUSE

TO: HB177

BY: REP. JAY RAMRAS

P. 16, L. 13 Delete "exemption"
Insert "exemptions"

P. 20, L.27 (b) For the five years immediately following commencement of commercial operation of the project, 20 percent of the gas described in AS 43.90.300 is exempt from the state's tax on the production gas.

Doogan

Ramras

Samuels

Kohring

Olson

Dahlstrom

Kawasaki

AMENDMENT NO. 25

OFFERED IN THE
HOUSE SPECIAL COMMITTEE
ON OIL AND GAS
By: Representative Kohring

Page 5, Line 14

...that is not later than [24] 36 months....

Page 5, Line 28

...that is not later than [24] 36 months....

Doogan

Ramras

Samuels

Kohring

Olson

Dahlstrom

Kawasaki

UNan

SARAH PALIN
GOVERNOR

GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

P.O. Box 110001
JUNEAU, ALASKA 99811-0001
(907) 465-3500
FAX (907) 465-3532
WWW.GOV.STATE.AK.US

March 2, 2007

The Honorable John Harris
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Harris:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill that facilitates commercialization of Alaska's North Slope natural gas resources and promotes continued exploration and development of those resources. The bill will induce expeditious construction of a natural gas pipeline to transport Alaska's North Slope natural gas to market using a process that is fair, transparent, and competitive. Our nation's energy markets are hungry for Alaska's gas resources, and Alaskans have waited for decades to see these resources developed.

Earlier this week I had several successful meetings with federal officials in Washington, D.C., including the distinguished members of Alaska's Congressional delegation. These meetings affirmed for me that it is time for Alaska's natural gas resources to be developed in order to meet the energy demands of our nation. The Chairman of the Federal Energy Regulatory Commission, Joseph Kelliher, made the statement that my plan does "represent the best hope for building a pipeline to bring Alaska's vast natural gas resources to the energy consuming lower 48 states."

This bill sets forth the following: (a) midstream inducements to encourage companies to identify development benchmarks and build the gas pipeline; (b) upstream inducements that will encourage the holders of North Slope gas reserves to commit their gas to the project; (c) terms that an application must contain to qualify to compete for an exclusive license to the midstream inducements; (d) evaluative criteria by which competing applications will be measured; (e) a public process for reviewing the applications; (f) a procedure by which the applications will be reviewed and a notice of intent to issue a license that will be transmitted to the legislature; and (g) auditing and enforcement tools to protect state contributions and interests.

The Honorable John Harris

March 2, 2007

Page 2

The midstream inducements will include a matching contribution of up to \$500 million paid out during the highest risk phase of the project, which is the period the licensee is completing the work necessary to obtain a certificate from either the Federal Energy Regulatory Commission (FERC) or the Regulatory Commission of Alaska (RCA). The licensed project will also benefit from a state program that provides training to Alaskans for gas pipeline jobs.

The bill offers explicit requirements that state permits and authorizations relating to the pipeline be expedited and coordinated in order to avoid complicated, time-consuming and conflicting state and federal permitting processes. In order to facilitate a successful project and an expedient process, the bill will empower the governor to appoint a gas pipeline coordinator to oversee the state permitting process and work with the federal pipeline coordinator to integrate the state and federal permitting processes.

The upstream inducements will encourage those who hold gas reserves under lease to commit that gas to the pipeline licensed under the bill. Under the "royalty inducements," the state will develop regulations to provide predictability in the determination of royalty value and the exercise of its right to take its royalty share in kind (as gas) or in value (as money). A "gas production tax exemption" will give shippers of gas an exemption from production tax equal to the difference between the tax obligation based upon the tax rate in affect at Open Season, and any higher rate that becomes effective in the ten years following commencement of the gas pipeline commercial operations. These provisions address leaseholders' concerns that they need to know how their royalty and tax obligations will be measured for a reasonable period into the future before they irrevocably commit to ship their gas at an Open Season. The benefits will be available to all leaseholders who commit gas to the licensed gas pipeline project during the initial Open Season.

The bill will accomplish six primary goals: (1) initiate an application process open to any project sponsor; (2) take clear steps to promote the construction of a gas pipeline as quickly as possible, (3) ensure the North Slope basin is open to long-term gas exploration and development, (4) ensure reasonable tariff rates are available to transport Alaska's natural gas to market, (5) ensure North Slope natural gas is available to Alaskans, and (6) ensure Alaskans are trained and ready for the natural gas pipeline jobs and those jobs are made available to Alaskans.

To accomplish the first goal, applications will be welcomed from any entity or a coalition of entities interested in constructing the gas pipeline. However, only those

The Honorable John Harris

March 2, 2007

Page 3

applications that fulfill the "qualifying application requirements" will be considered for the license to the midstream inducement package.

To accomplish the second goal, the bill will require that applications provide a detailed description of the applicant's proposed project, including route, size, design capacity, timeline and budget. Applicants must agree to hold an Open Season (to solicit firm commitments to ship gas on the pipeline) within three years of getting the license, and will detail steps toward obtaining a Certificate of Public Convenience and Necessity from FERC or the RCA. The state gas pipeline coordinator will also ensure an expeditious regulatory process.

To accomplish the third goal, applicants must commit to expanding the pipeline project when new gas is available. There is currently more than 35 trillion cubic feet (Tcf) of proven reserves of natural gas on Alaska's North Slope. However, most geologists agree that there is many times that amount of North Slope gas awaiting discovery. By ensuring that the pipeline will be expanded when more gas is discovered and ready to be shipped, the bill assures that Alaska's gas will serve the nation's energy needs for decades. Therefore, applicants must commit to evaluate the demand for pipeline expansion at least every two years, and to expand when there is sufficient quantities of gas to ensure an economic expansion. The costs of any expansions will then be collected through "rolled-in" rates that pass those expansion costs on to all shippers in the gas pipeline. The AGIA will cap the cost of rolled-in price increases at no more than 15 percent of initial rates, in response to concerns regarding the predictability of tariff rates.

To accomplish the fourth goal, applicants will have to commit to propose and support tariff rates that would produce the lowest reasonable transportation costs in order to produce the highest price at the wellhead. Minimizing transportation costs result in the state maximizing its royalty revenue stream as well as that of the producers.

To accomplish the fifth goal, applicants must provide for a minimum of five off-take points in Alaska. This, in conjunction with the "distance sensitive tariff rates", will allow gas to be withdrawn from the pipeline at reasonable transportation costs in order to serve residential and business needs across the state.

To accomplish the sixth goal, applicants must commit to establishing a gas pipeline project headquarters in Alaska, establishing hiring offices in Alaska, and hiring qualified Alaskans, thus giving Alaskans access to the thousands of new pipeline jobs.

The bill requires the application process to commence no more than three months after the bill passes, when the commissioners of Natural Resources and Revenue issue a request for applications (RFA). Applications will be due under a deadline established by the commissioners; however, our intention is to allow applicants three (3) months to respond to the RFA.

Applicants will be deemed "qualified" by having fulfilled the bill's requirements. Qualified applications will then be evaluated by the commissioners of Natural Resources and Revenue to determine which application best meets the stated goals. Before issuing a written determination, the commissioners will publicly release complete applications and take comments for 60 days. Applicants could apply to keep confidential the proprietary information or trade secrets included in their applications.

The bill sets forth "evaluative criteria" to facilitate the selection process. The evaluative criteria are: the proposed project timeline, the proposed method to manage cost overruns, the proposed tariff rates, the ability of the project design to accommodate expansion, the percentage of the state matching fund that will be used, whether the project is feasible, and the applicant's ability to perform. The commissioners will publish a notice of intent to issue a natural gas pipeline project license with written findings, and forward the notice of intent, with findings and supporting documentation, to the legislature. The legislature will have 30 days to disapprove the commissioners' proposed action.

The bill also provides that the licensee must commit to spend the money necessary to build the pipeline within one year of receiving a certificate from the FERC or the RCA if the project has credit support adequate to finance construction of the project. If necessary, the licensee would have an additional four years to obtain financing, or transfer the certificate and all associated work product to another licensee designated by the state. If the project becomes uneconomic after the license is awarded, the bill provides a process for relinquishing the license that will enable the state to recover the benefit of its investment in the project and issue another license. To encourage the licensee to spend its money working toward Open Season, and certification, and building the gas pipeline project, the state will agree that if it provides financial benefits to another company to encourage the construction of a competing pipeline project after the license is issued, the licensee will be entitled to recover from the state three times the amount it spent on the project.

The bill identifies quantifiable values the state is willing to commit to encourage early and appropriate development of an Alaska Gas Pipeline project. It also identifies the elements necessary to protect the state, and the nation's, long-term interests in

The Honorable John Harris

March 2, 2007

Page 5

development of additional gas reserves. The bill protects the state from untenable risks and will induce expedited construction of a gas pipeline that powers the state and the nation. I urge your prompt and favorable action on the bill.

Sincerely,

A handwritten signature in black ink, appearing to read "Sarah Palin". The signature is fluid and cursive, with a large loop at the end.

Sarah Palin
Governor

EXECUTIVE SUMMARY OF AGIA

March 5, 2007

PURPOSE: To encourage expedited development of Alaska's gas resources by offering incentives to companies that produce the state's gas resources and companies that can build a pipeline.

INCENTIVES FOR PIPELINE CONSTRUCTION: The state offers to match up to \$500 million of the costs that the licensee will incur to obtain a certificate from the Federal Energy Regulatory Commission or Regulatory Commission of Alaska. The state will appoint a state pipeline coordinator who will be empowered to coordinate amongst the state regulatory agencies with permitting responsibilities. The state will develop its qualified labor force to support project construction and operations.

INCENTIVES FOR GAS COMMITMENT: The state will adopt regulations to provide predictability in the determination of royalty value and its exercise of its right to take its royalty share in kind as gas or in value as money. The state also offers a production tax exemption for gas committed to the pipeline equal to the difference between the taxpayer's tax obligation defined in the tax law at "open season" (i.e., on the day the first solicitation of gas commitments ends), and any higher obligation that becomes effective for ten years after pipeline start-up.

LICENSE REQUIREMENTS: In order for applications to be evaluated, they must commit to the sixteen requirements in AGIA; including, in particular:

1. a commitment to solicit firm commitments to ship gas on the pipeline within 3 years of getting the license (the open season),
2. a firm date by which the applicant will apply to Federal Energy Regulatory Commission or Regulatory Commission of Alaska for a certificate authorizing the pipeline
3. a commitment to certain financial provisions that will keep tariff rates low
4. a commitment to solicit demand for pipeline expansion at least every two years, to expand when there is sufficient need, and to collect the cost of any expansions through "rolled-in" rates that pass expansion costs onto all shippers so long as rates do not increase more than a fixed amount above initial rates,
5. a description of how cost overrun risks will be managed
6. a commitment to have at least five delivery points in Alaska
7. a commitment to hire qualified Alaskans for construction and operation of the gas pipeline

APPLICATION REVIEW CRITERIA: The Commissioners evaluate the applications under the seven criteria in AGIA:

1. proposed project timeline
2. proposed method to manage cost overruns
3. proposed tariff rate structure
4. the ability of the project design to accommodate expansion
5. how much of the state matching fund will be used and the timing of the state's payments
6. whether the project is feasible
7. the applicant's ability to perform

EXECUTIVE SUMMARY OF AGIA
March 5, 2007

PROJECT PROCESS: The project begins when the Commissioners issue a request for applications no more than three months after AGIA passes. The application deadline will be established by the Commissioners in the notice. The Commissioners will publicly release complete applications and take comments for 60 days. Applicants can apply to protect proprietary information or trade secrets included in their applications. The Commissioners forward a written decision recommending award. The legislature will then have 30 days after that notice to disapprove the Commissioners' proposed action.

After a license is awarded, the licensee must complete an application to the Federal Energy Regulatory Commission or Regulatory Commission of Alaska. The licensee must sanction the project within a year of receiving a certificate from the Federal Energy Regulatory Commission if it has adequate financing. If necessary, the licensee has an additional four years to obtain financing or transfer the certificate, and all associated work product, to another licensee designated by the state.

If the project becomes uneconomic after the license is awarded, AGIA describes a process for relinquishing the license that will enable the state to recover the benefit of its investment in the project by issuing another licensee. To encourage the licensee to commit to spend funds building the pipeline, the state agrees that if it provides financial benefits to another group to encourage the construction of a competing pipeline project after the license is issued, the licensee is entitled to recover three times the amount it spent on the project from the state.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: AGIA-COM-RCA-02-28-07
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
Title Alaska Gasline Inducements Act RDU Regulatory Commission of Alaska (399)
Sponsor Rules Component Regulatory Commission of Alaska
Requester By Request of the Governor Component No. 2417

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (1141 RCA Receipts)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The Regulatory Commission of Alaska (RCA) regulates pipelines and pipeline carriers operating in Alaska under AS 42.06.140(a). AS 42.06.240 requires the RCA to issue a certificate of public convenience and necessity for pipeline carriers engaged in the intrastate transportation of oil or gas by pipeline, or constructing or extending pipeline facilities. To the extent this legislation results in the construction of an intrastate pipeline subject to RCA regulation, costs will be accounted for under the existing RCA structure.

The RCA's budget is funded through the Regulatory Cost Charge (RCC) mechanism and direct charge mechanisms. General funds are not allocated for support of the agency, nor are they anticipated to be necessary as a result of this legislation. The RCC is recalculated each year and allows the agency to recover its operating costs through an assessment on the revenues of economically regulated utilities and pipeline carriers.

Prepared by: Kate Giard, Chair Phone 907.276.6222
Division Regulatory Commission of Alaska Date/Time 2/28/07 3:06 PM
Approved by: Emil Notti, Commissioner Date 2/28/2007
Agency Commerce, Community, and Economic Development

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: LL 07-0060
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title Alaska Gasline Inducements Act RDU Resource Development
Component Alaska Gasline Inducements Act
Sponsor Rules Committee
Requester Governor Component No. new

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	261.3	612.2	612.2	612.2	612.2	612.2
Travel	20.0	20.0	20.0	20.0	20.0	20.0
Contractual	10.8	27.0	27.0	27.0	27.0	27.0
Supplies	10.0	19.0	10.0	10.0	10.0	10.0
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	302.1	678.2	669.2	669.2	669.2	669.2

CAPITAL EXPENDITURES	500,000.0*					
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CHANGE IN REVENUES ()						
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FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF	302.1	678.2	669.2	669.2	669.2	669.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	302.1	678.2	669.2	669.2	669.2	669.2

Estimate of any current year (FY2007) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal: ☐

POSITIONS

Full-time	2	5	5	5	5	5
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill authorizes the Alaska Gasline Inducement Act (AGIA) which would create a competitive public process for inviting applications for a license under this Act. The application process would include certain application requirements before an application can be considered as well as criteria by which the Commissioners of Natural Resources and Revenue will evaluate all qualifying applications.

The Act would also create inducements including: state matching contributions for pipeline construction in an amount not to exceed \$500 million and the benefit of a state gas pipeline coordinator.

Under the AGIA, the licensee or its designated affiliate would be entitled to state matching contributions for qualified expenditures (post license costs incurred by the licensee that are directly and reasonably related to obtaining a certificate of public necessity and convenience from the FERC or RCA for development of the project).

(Continued on next page).

Prepared by: Kevin Banks, Acting Director Phone 269-8800
Division Oil and Gas Date/Time 2/28/2007
Approved by: Tom Irwin, Commissioner Date 2/28/2007
Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA 2007 LEGISLATIVE SESSION

BILL NO. LL 07-0060

ANALYSIS CONTINUATION

Until the close of the first binding season, the state will match equally the licensee's qualified expenditures. After the close of the first binding open season, the state shall match the qualified expenditures at a level specified in the license but the amount may be no greater than 80 percent. Over a five year period, these contributions may not exceed \$500 million. The present value of the state's total \$500 million contribution would be roughly \$415 million, because state spending will be spread over several years.

AGIA will generate a number of project benefits that could more than offset its costs. The size of these benefits will depend on ultimate project scope and market prices, which AGIA leaves to the competitive process. Actual benefits will vary depending upon project terminus (Alberta, Chicago), size (1.2 Bcf/day, 4.5 Bcf/day), mode of transport (pipeline only, pipeline plus LNG facilities), among other things. Illustrative benefits shown here assume a 4.3 Bcf/day project to Alberta, Canada with a construction cost that is 50% greater than assumed in 2001. Results are presented in present value dollars, assuming a discount rate of 5%, to recognize that a dollar of state benefit received in the future will be worth less than a dollar spent today.

First, AGIA is likely to result in a project sooner than if no pipeline legislation is passed. By having the state agree to shoulder a large share of the up-front capital that is particularly risky, AGIA ensures that in exchange project proponents commit to move the project forward past clearly defined benchmarks. Because AGIA results in a project sooner, the current value of project revenues to the state is enhanced. Assuming a gas price of \$5.50, if AGIA accelerates project startup by one year, from 2017 to 2016, state benefits will exceed \$1.6 billion; a two-year acceleration in the project returns \$3.2 billion; a three-year acceleration generates \$4.9 billion.

Second, AGIA's requirement of a minimum 70 percent share of debt in the determination of tariffs ensures that the state will not pay unnecessarily high transportation costs. Without this protection, project tariffs could be calculated on the basis of 60 or even 50 percent debt and still pass regulatory scrutiny. The tariff benefits of a 70 percent debt structure, rather than 60 percent or 50 percent, are 26 cents and 55 cents per MMBtu, respectively. The savings to the state are \$1.25 billion and \$2.63 billion, respectively. Meanwhile, lower tariffs improve project economics for holders of both existing and yet to be discovered gas reserves, thereby increasing the likelihood that the project will commence sooner. The degree to which such savings are realized depends on how, absent AGIA's requirements, project tariffs would otherwise have been determined.

Third, AGIA's pipeline access provisions promise to increase competition for exploration and development of Alaska's gas resources, leading to earlier and more significant pipeline expansions. The value to the state of such expansions is scenario specific and cannot be accurately predicted. That said, if AGIA's expansion provisions caused the pipeline to expand by 10% in year 3 of its operations, whereas without AGIA such an expansion would not occur, the increase in state royalty and taxes would be roughly \$3 billion in today's dollars. Even if the chances that such an expansion would otherwise not occur were only one in five the AGIA investment of \$500 million would more than pay for itself in this provision alone.

Finally, AGIA will directly ensure lower tariffs. The state's direct investment in up-front development costs would reduce the cost of moving gas to Alberta by roughly 4 cents. The present value royalty and tax benefits of this 4 cent tariff reduction come to \$183 million. Put differently, assuming \$5.50 gas prices, during pipeline operation the state will receive roughly 45% of the value of its contribution in increased royalty and production tax benefits. And at gas prices of \$7.50 or higher the state's up-front contribution actually generates more in royalty and tax benefits than it costs.

The state gas pipeline coordinator will help expedite the review and coordination of all state and federal permits and processes, ensure that all state and federal environmental requirements have been completed, and coordinate with the federal coordinator for natural gas transportation projects in Alaska. It is this position's responsibility to ensure that no steps have been missed that may slow down the construction of the pipeline and that the state's involvement in the Federal EIS process facilitates expeditious permitting.

The state gas pipeline coordinator is an exempt position (Range 26M \$209,000). To assist the state coordinator, four additional positions would be needed: a Pipeline Engineer (Range 26D \$150,900), a Natural Resource Specialist IV with knowledge of state and federal environmental regulations and administrative procedure (Range 21C \$108,900), a Natural Resource Specialist III to assist with title work (Range 18C \$91,100), and an Administrative Clerk II (Range 8 \$52,300). It is anticipated that the state coordinator and clerk would begin in FY 08. There will be travel associated with the functions of at least two of these positions. All of the positions will sunset one year after commencement of the gas pipeline commercial operations.

This fiscal note assumes that the FY07 Supplemental Appropriation for Gasline requested in HB138/SB82-Sec2(a&b) will be fully funded.

* \$300,000,000 was appropriated last year (SLA2006/Ch13/Sec14) from the general fund to Alaska Housing Finance Corporation for the purpose of funding capital projects including financing expenses and may be available to partially fund the matching grant.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: LL07-0060-DNR-O&G-03-01-C
 Bill Version: LL07-0060
 () Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept. Affected: Natural Resources

Title: Alaska Gasline Inducements Act

RDU: Resource Development

Component: Oil & Gas Development

Sponsor: Rules Committee

Requester: Governor

Component No. 439

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 6,550.0 ** Requested as a capital project

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

**This fiscal note represents the gasline-related supplemental requested in HB138/SB82, Section 2 (a). This was requested as a capital project with an effective date of February 1, 2007.

Section 2(a) - \$6,550,000 general fund for gas pipeline analysis projects. This funding will be used to pay for consultants to advise the state on the structure of an RFP for gasline proposals; and to cover the cost of outside experts and legal counsel on federal pipeline law and the FERC process. DNR estimates that \$4,135,000 will be expended in FY07, and \$2,415,000 in FY08.

Prepared by: Kevin Banks, Acting Director

Division: Oil & Gas

Approved by: Tom Irwin, Commissioner

Agency: Natural Resources

Phone: 907-269-8800

Date/Time: 3/1/2007

Date: 3/1/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: LL-07-0060-DOR-NGC-2-28-07

Bill Version: LL-07-0060

() Publish Date: _____

Revision Date/Time (Note if correction): _____

Title AGIA

Dept. Affected: Revenue

RDU Administration & Support

Component Natural Gas Commercialization

Sponsor Governor

Requester Rules Committee

Component No. 2859

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	294.0	294.0	294.0	294.0	294.0	294.0
Travel	25.0	25.0	25.0	25.0	25.0	25.0
Contractual	1,897.0	900.0	450.0	10.0	10.0	10.0
Supplies	10.0	2.0	2.0	2.0	2.0	2.0
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	2,226.0	1,221.0	771.0	331.0	331.0	331.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	2,226.0	1,221.0	771.0	331.0	331.0	331.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	2,226.0	1,221.0	771.0	331.0	331.0	331.0

Estimate of any current year (FY2007) cost: 784.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

☒ X

POSITIONS

Full-time	2	2	2	2	2	2
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Operating expenditures include costs for 2 additional economists/commercial analysts in exempt positions. These positions would be used to draft the tax related provisions of the request for application, assess economic viability of projects contained in applications, including economic impacts on future state revenues and value of inducements, and develop the Department's recommendations for changes to the existing gas production tax statutes and regulations that will need to be in place as inducement for producer's gas commitments under the Alaska Gasline Inducements Act. In addition, property tax impacts of pipeline construction to state and municipal revenues will need to be understood and forecasted.

Prepared by: Roger Marks

Division: Tax Division

Approved by: Jerry Burnett

Agency: Department of Revenue

Phone: 269-0082

Date/Time: 2/28/07 12:00 AM

Date: 2/28/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. LL-07-0060

ANALYSIS CONTINUATION

Contractual expenditures include assistance in formulating revisions to the tax structure, studying comparative international fiscal systems for gas to ensure changes to state's gas production taxes leave Alaska in a globally competitive position, and writing regulations.

Other contractual costs are for legal support for attorneys/law firms with appropriate specialties outside of AGs office to advise us on tax structures and creation of new tax structure; assessment of legal issues and impediments to marketing options now being considered to assist in evaluation of projects; and legal assessment of financial covenants impacting state and its project selection in standard commercial financing arrangements and governmentally guaranteed financing scenarios.

The FY 2008 costs are also in the Oil & Gas Supplemental Bill (SB 82). In addition, that Bill contains FY 2007 costs of \$123,000 personal services, \$425,000 contractual, \$10,000 travel, and \$365,000 legal support.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: LL 07-60-DOA-AOGCC-03-02-07

Bill Version: LL 07-60

() Publish Date:

Revision Date/Time (Note if correction):

Dept. Affected: Administration

Title: Alaska Gasline Inducement Act

RDU: AOGCC

Component: AOGCC

Sponsor: Rules Committee

Requester: Governor

Component No.: 2010

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
1162 AOGCC Receipts	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation will not have a fiscal impact upon the Alaska Oil and Gas Conservation Commission.

Prepared by: Jody J. Colombie, Special Assistant I
Division: Alaska Oil and Gas Conservation Commission

Phone: 793-1221
Date/Time: 3/2/07 3:19 PM

Approved by: Rachael Petro, Deputy Commissioner
Agency: Department of Administration

Date: 3/2/2007 1:00pm



MEMORANDUM
Department of Natural Resources

STATE OF ALASKA
Division of Oil and Gas

TO: Representative Vic Kohring, Chair
House Oil and Gas Committee

DATE: March 2, 2007

FILE NO:

TELEPHONE: 269-8800

FAX NO: 269-8938

FROM: Kevin Banks, Acting Director *KJB*

SUBJECT: Analysis of Alaska
Gasline
Inducements Act,
HB ____

Article 1 of the bill, if enacted, would add a new chapter to the state's Revenue and Taxation Code that induces the construction of a Natural Gas Pipeline in Alaska.

Section 010 describes the bill's purpose as facilitating commercialization and promoting exploration of Alaska's North Slope gas resources; maximizing the benefits of development to Alaskans and encouraging lessees to commit gas to a gas pipeline.

Article 2 of the bill describes the AGIA license.

Section 100 authorizes the Commissioners of Natural Resources and Revenue, acting jointly, to award an AGIA license.

Section 110 describes the inducements for construction of a pipeline. The state offers to contribute up to \$500 million to match reasonable costs the licensee incurs over five years toward obtaining a certificate of public convenience and necessity for a gas pipeline project in Alaska from the Federal Energy Regulatory Commission (FERC) or the Regulatory Commission of Alaska (RCA). The state will equally match costs incurred to get to the end of the first binding open season, and up to 80 percent of the costs incurred after the close of the first binding open season. The matching costs do not include the costs of overhead, litigation, existing assets, or fines and penalties. The state also offers the benefit of an AGIA coordinator and a state program to train employees for the gas pipeline project. Section 120 provides that the license may be abandoned by the mutual agreement of the state and licensee, or if one party seeks to abandon the license on grounds that the project has become uneconomic, an impartial third party will determine if the project has become uneconomic. If the license is abandoned, the licensee's receipt of funds to date from the state is still subject to audit, and the licensee must relinquish its project plans, data, contracts and permits to the state or its designee.

Section 130 requires the Commissioners issue a request for applications within 3 months of AGIA's effective date, and authorizes the Commissioners to hire independent contractors to develop the license provisions and evaluate the applications.

Section 140 lists the license requirements. All applications must: 1) be filed by the date set by the Commissioners; 2) include a detailed description of the project that includes its route, receipt and delivery points, economic analysis of its feasibility, timeline for completion, 3) if the application proposes an interstate pipeline, commit to hold an open season within 3 years after the license is issued, use the FERC's pre-filing procedures and apply for a FERC certificate, 4) if the application proposes an intrastate pipeline, hold an open season and apply for an RCA certificate, 5) commit to evaluate market demand for pipeline expansion every two years after the first open season, 6) commit to expand the pipeline in reasonable engineering increments and on commercially reasonable terms, 7) commit to fund the cost of expansions with rolled-in rates capped at 15 percent above the initial rates, 8) commit to apply to FERC or the RCA, 9) propose the percentage of the state's matching contribution, if any, after the first open season, 10) commit to offer rates that are based on a capital structure that includes at least 70 percent debt, 11) describe how the applicant will manage cost overruns, 12) commit to at least five offtake points in Alaska, 13) commit to offer distance sensitive rates to offtake points within Alaska, 14) commit to establish a local project headquarters, 15) commit to hire qualified Alaskans from all over the state, and 16) demonstrate licensee's ability to perform commitments.

Section 150 requires the Commissioners to review the applications based on the criteria in section 140 to determine if they are complete, and also to request additional information if necessary.

Section 160 allows applicants to request confidentiality for the portions of their applications that include proprietary information or trade secrets.

Section 170 states the criteria by which the Commissioner will evaluate the applications: 1) the proposed timeline for holding an open season, obtaining the certificate of public convenience and necessity, progressing the pipeline project, 2) the proposal for cost overrun management, 3) whether the proposal insures low tariff rates, 4) the design and whether it can accommodate expansion, 5) the percentage of state matching funds proposed after the first open season, 6) the feasibility of the work plan and budget, and 7) the applicant's financial ability.

Section 180 requires the Commissioners to publish notice of the applications and seek public comment for 60 days.

Section 190 requires the Commissioners to issue a written determination and notice of intent to award a license if an application merits issuance of a license after their review is complete.

Section 200 gives the legislature thirty days after the notice of intent to award a license is issued to disapprove the proposed award of the license by joint resolution. If the legislature disapproves the Commissioners' decision, they may begin the public process again.

Section 210 requires licensees to accept certification by the FERC or RCA, as appropriate. Licensees must sanction the project within one year of FERC or RCA certification if they have credit support sufficient to finance the project. If they lack credit support sufficient to finance the project, they have five years from certification to sanction the project or transfer the license to another entity designated by the state.

Section 220 allows amendments to the project proposal necessitated by unforeseeable changes, provided the proposal remains consistent with the Section 140 requirements and does not diminish the value of the project to the state.

Section 230 requires the licensee to maintain records for seven years of all expenditures that the state will be asked to match, and makes those records auditable.

Section 240 describes the circumstances that would violate the license and allows the state to halt its matching contributions and recover all matching funds distributed to date. If the licensee does not agree that a violation has occurred, it allows for an expedited hearing.

Article 3 of the bill describes the inducements and the AGIA coordinator's duties.

Section 300 states that any person that commits gas during the first open season is qualified for royalty and tax inducements.

Section 310 requires the state to adopt regulations defining the method of valuing its royalty share. The regulations must describe a methodology to value royalty that minimizes retroactive adjustments and is based on reliable industry sources. The regulations must also establish the methodology that the state will use to exercise its rights to alternate between taking its royalty in kind and in value in a way that will not cause the lessee to bear disproportionate transportation costs or interfere with the lessee's long term marketing plans. A person that commits gas in the first binding open season may elect to calculate the royalty on gas shipped in the project under the person's existing lease and unit agreements or under the regulations. The Commissioner of Natural Resources must review the regulations every two years after commercial production begins to make sure that they are accomplishing the statutory goals. A person may change its election when new regulations are adopted.

Section 320 entitles persons who made firm transportation commitments during the first open season to an exemption from the state's production tax on gas shipped in the project equal to the difference between the production tax rate in effect at the end of the first open season and the production tax rate in effect when taxes are due in each of the ten years after commercial production begins; provided they agree not to protest any rolled-in rate treatment of expansion costs subject to the limit in section 140(7).

Section 330 allows the Governor to appoint, subject to legislative confirmation, an AGIA coordinator who is empowered to coordinate among the state agencies that have regulatory authority and with the federal pipeline coordinator to insure that the pipeline project moves forward.

Section 340 requires all state agencies to conduct their reviews expeditiously and prevents them from imposing any unessential requirements that will result in delay.

Article 4 of the bill includes miscellaneous provisions.

Section 400 establishes a fund for appropriated matching funds.

Section 410 enables the Commissioners of Natural Resources and Revenue to implement regulations.

Section 420 requires legal actions challenging a license to be filed within 90 days of the license award.

Section 430 describes the applicable rate of interest.

Section 440 provides that if the state offers preferential tax or royalty treatment to facilitate construction of a competing pipeline project after a license has been awarded, the state must pay damages equal to three times the costs that the licensee has reasonably expended.

Section 450 allows licensee to transfer the license with the commissioners' approval and allows the licensee to transfer its rights to the royalty and tax inducements described in sections 310 and 320.

Section 460 resolves conflicting law disputes.

Article 5 of the bill is General Provisions.

Section 900 includes definitions.

Section 990 names the chapter the Alaska Gasline Inducements Act.

Other provisions make conforming amendments to other statutes and make the act effective upon passage.

LEGAL SERVICES

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

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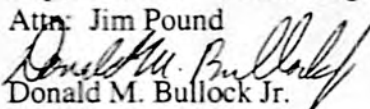
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Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 7, 2007

SUBJECT: Analysis of HB 177 (HB 177; Work Order No. 25-GH1060\B)

TO: Representative Vic Kohring
Attn: Jim Pound

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

You have requested a sectional analysis of the above-described bill.

As a preliminary matter, note that a sectional summary or analysis of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

The following is a summary of the governor's Alaska Gasline Inducement Act. At your request, this analysis is more detailed than the usual sectional summaries we provide to you. However, the cautionary note in the paragraph above continues to apply, the bill itself is the best statement of its contents.

Section 1. Adds a new chapter, AS 43.90, to Title 43 that contains the following:

Article 1. Inducement to Construction of a Natural Gas Pipeline in this State.

Sec. 43.90.010. Purpose. Explains that the purpose of the chapter is to encourage expedited construction of the gasline and sets four goals for the pipeline.

Article 2. Alaska Gasline Inducement Act License.

Sec. 43.90.100. Gas project. Authorizes the commissioner of the Department of Natural Resources and the commissioner of the Department of Revenue, acting jointly, to award an Alaska Gasline Inducement Act license that entitles the licensee to the inducement in AS 43.90.110.

Sec. 43.90.110. Natural gas pipeline project construction inducement. Lists the inducement a licensee is entitled to receive. Provides for

payments totalling up to a total of \$500,000,000 over 5 years as matching contributions for the licensee's qualified expenditures. Provides for the state to match the licensee's dollar-for-dollar cost through the close of the first binding open season, and provide up to 80 percent of the qualified expenditures after the close of the first binding open season. Defines qualified expenditures as costs that occur after the license is issued and that are related to obtaining a certificate of public convenience and necessity from the Federal Regulatory Commission or the Regulatory Commission of Alaska, as appropriate. Qualified expenditures may not include overhead costs, litigation costs, assets or work product predating the issuance of the license, or civil or criminal penalties or fines.¹ Other incentives include the benefit of an Alaska Gasline Inducement Act coordinator and a state program that provides training for employment in gas pipeline project management, construction, operations, maintenance, and other gas pipeline-related positions.

Sec. 43.90.120. Abandonment of project. Provides for the abandonment of a project if the commissioners and the licensee agree that the project is uneconomic and should be abandoned. If the licensee and the commissioners do not agree, provides for an impartial third party to take evidence and make a determination of whether the project is uneconomic and should be abandoned. Requires the commissioners to adopt regulations establishing the procedures for the third-party selection and review process. Also, provides for the abandonment of the project if the state violates the exclusivity enjoyed by the licensee by extending to another person preferential royalty, tax, or monetary treatment for purposes of facilitating the construction of a competing gasline. (See AS 43.90.440.)

Sec. 43.90.130. Request for applications for the license. Requires commissioners to commence public process to request applications for the license. Authorizes use of independent contractors to develop provisions in the application for a license and to evaluate applications received. States that the requests for applications are not subject to the procurement code (AS 36.30).

Sec 43.90.140. Application requirements. Lists requirements for the application and requires the application to be consistent with the terms established under AS 43.90.130. The application must:

- (1) be filed by the deadline established by the commissioners;

¹ I think the drafter of the governor's bill may have intended to include the *costs* of assets or work product in this list of exclusions because this is a list of expenditures, i.e. money paid out.

(2) provide a detailed description for the proposed gasline project from the North Slope to market, including route, receipt and delivery points; size and design capacity; an analysis of the project's economic and technical viability; viable work plan, timeline, and budget; explain how applicable state, federal, and international requirements will be met; for a route through Canada, provide a description for obtaining rights-of-way; for a project using marine transportation, provide a description of transportation services to be provided by third parties, proposed access and tariff terms, a description of proposed schemes for liquefaction and marine transportation, and explain how the Federal Energy Regulatory Commission (FERC) and/or export requirements will be satisfied;

(3) for a project subject to FERC, commit to conclude an open season within 36 months after obtaining the license; commit to apply for FERC approval to use pre-filing procedures and to use the procedures before filing for a certificate of public convenience and necessity; commit to apply for a certificate of public convenience and necessity;

(4) for a project subject to the Regulatory Commission of Alaska (RCA), commit to conclude a binding open season within 36 months after receiving the license, and to apply for a certificate of public convenience and necessity to authorize construction;

(5) after first binding open season, provide for the assessment of market demand for additional gasline capacity every two years;

(6) commit to expand the proposed project in "reasonable engineering increments" and "commercially reasonable terms" that encourage exploration and development of gas resources;

(7) with regard to expansion, commit to recover costs through rolled-in or partially rolled-in rates that would increase shippers' rates by no more than 15 percent of the "initial maximum recourse rates" from the North Slope to the downstream terminus; the application may include a proposal for any combination of incremental or rolled-in rates for cost recovery that exceed the 15 percent level; agree not to enter into any negotiated rate agreement that would preclude the applicant from collecting the roll-in rates from any shipper;

(8) commit to seek certificate authority from FERC or RCA for a North Slope gas treatment plant owned all or in part by the applicant, and to use net book value for rate-making purposes;

(9) propose a percentage of state contribution for qualified expenditures (up to 80 percent) after the close of the first binding open season;

(10) commit to no less than 70 percent debt as a basis for rate setting for any North Slope gas treatment plant owned all or in part by the applicant;

(11) describe plans to manage and mitigate cost overruns, if any;

(12) commit to at least five in-state delivery points;

(13) commit to offer firm transportation service to in-state delivery points without regard to whether producers bid successfully for firm transportation service to in-state delivery points; commit to offer distance sensitive rates for in-state delivery points;

(14) commit to establish project headquarters in the state;

(15) commit to hire qualified state residents to the extent permitted by law; and

(16) demonstrate ability to perform the work described in the plan, within the plan's timeline and budget.

Sec. 43.90.150. Initial application review; additional information requests; complete applications. Requires commissioners to review a plan submitted for consistency with requirements in the request for applications as well as the specific requirements in AS 43.90.140. Authorizes commissioners to request additional information for a plan that is not rejected, and provides that a plan will be rejected if required additional information is not submitted. Requires commissioners to determine that an application is complete.

Sec. 43.90.160. Proprietary information and trade secrets. Allows proprietary and trade secret information to be confidential and not subject to disclosure as public records. Requires an applicant to identify and demonstrate information that is confidential under this section.

Sec. 43.90.170. Application evaluation criteria. Requires the commissioners to evaluate each application based upon the following criteria: the timing of proposed actions; the plan to manage cost overruns; transportation rates and minimization of the effect of cost overruns; initial design capacity and expandability; percentage of state's contribution after the first binding open season; reasonableness, specificity, and feasibility of work plan, timeline, and budget; applicant's financial resources, project history, ethics and integrity, business operation, and access to equipment for carrying out the project.

Sec. 43.90.180. Notice, review, and comment. Requires notice, public review, and comment on all complete applications. Classifies applications to not be public records until notice for public review is published. Requires commissioners to summarize proprietary and trade secret information that is not subject to public disclosure.

Sec. 43.90.190. Notice to the legislature of intent to issue license; denial of license. After commissioners determine an application will "sufficiently maximize the benefits to the people of the state and merits issuance of a license," requires commissioners to issue the determination with written findings, publish a notice of intent to issue a license, and

forward the intent to issue notice and supporting materials to the legislature. Requires the commissioners to make a written finding if no application "sufficiently maximizes the benefits to the people of the state and merits issuance of a license" and makes that finding a final determination for purposes of appealing the determination to the court.

Sec. 43.90.200. Legislative action; issuance of license. Makes the intent to issue a license a final agency determination, effective, and subject to court appeal "on the 30th legislative day" after the referral to the legislature, unless the notice of intent is disapproved by a joint resolution.² Authorizes the commissioners to proceed with a new request for application process if the legislature disapproves the intent to issue.

Sec. 43.90.210. Certification by regulatory authority and project sanction. Requires the licensee to accept a certificate of public convenience and necessity issued by FERC or RCA, as applicable. Requires the licensee to sanction the project within one year after the effective date of the certificate of public convenience and necessity if the licensee has credit support to finance construction, or within five years if the licensee does not have credit support on the effective date of the certificate. Sufficient credit support is to be determined by considering ownership of rights to produce and market gas resources, firm transportation commitments, or government financing. If the project is not timely sanctioned, requires the licensee to abandon and transfer the certificate to the state or state's designee, and assign to the state's designee all project data, engineering designs, and permits. Provides that the transfer is without cost to the state or the state's designee if the licensee fails to accept the certificate of public convenience and necessity or, having credit support on the effective date of the certificate, fails to sanction the project within one year. A transfer required if the licensee did not have sufficient credit support on the effective date of the certificate and fails to sanction the project within five years is at the licensee's "net cost." Sanction is defined in AS 43.90.900, to mean "procurement commitments to go forward with the project as evidenced by entering into procurement commitments of at least \$1,000,000,000 with third parties."

Sec. 43.90.220. Amendment of or modification to the project plan. Authorizes the commissioners to approve modifications or amendments to the project plan if consistent with the requirements of AS 43.90.140, were required by factors outside of the licensee's control, and were not reasonably foreseeable before the license was issued.

² I do not know how this works if the legislature is not in session or if there are fewer than 30 days remaining in a regular or special session.

Sec. 43.90.230. Records, reports, conditions, and audit requirements.

Requires the licensee to maintain records of all expenditures and commitments of state money received, and authorizes the commissioners to audit the records. Requires the licensee to retain all required records and reports for seven years. Requires the licensee to allow the commissioners to have the same access to information, receive all relevant reports, notices, and information sent to the governing body and equity holders of the licensee, and to allow the commissioners to have a representative at all meetings of the licensee's governing body and equity holders that relate to the project.

Sec. 43.90.240. License violations; damages. Identifies four acts that constitute a violation of the license: committing state money received under AS 43.90 for an unauthorized purpose, departing from the specifications in the application without state approval of an amendment or modification; violating a state or federal law material to the license; or violating a material term in the license. Provides for notice of violation and a period for informal resolution of the violation. Authorizes the commissioners to suspend disbursement of state matching contributions effective on the date of the notice of violation and to resume disbursement when the violation is cured. If the violation is not resolved within 90 days or after notice and hearing, requires the commissioners to make a final written determination of the violation that may be appealed to the court. Provides as remedies for an unresolved violation the discontinuance of state matching contributions, recoupment of state money received by the licensee plus interest, revocation of the license, and any other remedy provided in law or equity.

Article 3. Resource Inducement; Alaska Gasline Inducement Act Coordinator.

Sec. 43.90.300. Qualification for resource inducement. Qualifies a person that has committed to acquire firm transportation capacity in the first binding open season of the project to receive a royalty inducement and a gas production tax exemption for gas shipped in the firm transportation capacity acquired in that first binding open season.

Sec. 43.90.310. Royalty inducement. Requires the commissioner of natural resources to adopt regulations establishing a method to determine the monthly value of the state's royalty share of gas production, and establish terms under which the state will exercise its right to switch between taking its royalty share in-kind or in-value. Requires the regulations to minimize retroactive adjustments, provide a means for establishing a fair market value for each component of the royalty gas

(taking into consideration reliable and available industry data), and for making appropriate adjustments based on transportation costs, location differentials, costs of gas processing, and deductions allowable under the 1980 Royalty Settlement Agreement for Prudhoe Bay gas. Requires the regulations to establish terms for the state to exercise its authority to switch between in-kind and in-value royalty without unreasonable impact on a lessee. Requires the regulations to require a person making an election under this section (including affiliates and subsequent interest holders) to agree not to protest or appeal a filing by the licensee to roll-in or partially roll-in expansion costs up to the level that is required in AS 43.90.140(7).³ The regulations may not preclude the person or the person's affiliates from protesting a filing to roll in mainline expansion costs that the licensee is not required to propose and support under AS 43.90.140(7). Requires the commissioner of natural resources to review the regulations at least every two years and amend the regulations as necessary. If new regulations are adopted, authorizes a lessee qualified for the royalty inducement to elect to calculate its gas royalty obligation under the new regulations or use the methodology set out in the existing leases or unit agreements; the election continues until the regulations are subsequently amended. Prohibits the commissioner of natural resources or the interpretation of any provision in AS 43.90 from prohibiting the exercise of the election between the royalty inducement under new regulations adopted after review and the method in existing leases or unit agreements.

Sec. 43.90.320. Gas production tax exemption. Entitles a person that has committed to acquire firm transportation capacity in the first binding open season of the project to an annual exemption from the production tax on gas equal to the difference between the amount of the person's production tax obligation under the law in effect during that tax year and the tax obligation under the production tax in effect at the conclusion of the first binding open season. Provides that the exemption may not be less than zero. Limits the exemption to the 10 years immediately following the first commercial operation of the gasline and to production taxes that are

³ Although this agreement not to protest is included within the requirements for the regulations, I think the intent may have been to make it a condition precedent for receiving the inducement similar to the requirements for a tax exemption in AS 43.90.320. AS 43.90.320(c) requires the agreement before claiming the tax exemption. The roll-in level in AS 43.90.140(7) is 15 percent of the initial maximum recourse rates from the North Slope to the proposed projects downstream terminus. AS 43.90.140(7) requires an applicant for the license to propose and support mainline capacity expansion costs from all mainline system users through rolled-in or partially rolled-in rates that do not exceed the 15 percent level.

levied on North Slope gas shipped through firm transportation capacity the person qualifying for the exemption acquired during the first binding open season. Requires, as a condition of claiming the exemption, a person making an election under this section (including affiliates subsequent interest holders) to agree not to protest or appeal a filing by the licensee to roll-in or partially roll-in expansion costs up to the level that is required in AS 43.90.140(7).⁴

Sec. 43.90.330. Alaska Gasline Inducement Act coordinator. Establishes the position of Alaska Gasline Inducement Act coordinator, to be filled by a person appointed by the governor and approved by the legislature. Provides that the coordinator shall serve until one year after the commencement of commercial operations of the gasline. Requires the Alaska Gasline Inducement Act coordinator to coordinate action by all state agencies with respect to the project, ensure that state agencies comply with AS 43.90, and coordinate with the federal coordinator for natural gas transportation projects in the state.

Sec. 43.90.340. Expedited review and action by state agencies. Requires expedited review by state agencies relating to the project. Prohibits a state agency from including, in any certificate, right-of-way, permit, or other authorization, a term or condition, or an amendment to a condition or term that is not required by law if the Alaska Gasline Inducement Act coordinator determines the term or condition would prevent or significantly impair the "expeditious construction and operation or expansion of the project."

Article 4. Miscellaneous Provisions.

Sec. 43.90.400. Alaska Gasline Inducement Act matching contribution fund; disbursements; audits. Creates the Gasline Inducement Act matching contribution fund in the general fund and provides that appropriations to the fund do not lapse. Requires the Department of Revenue to manage the fund and authorizes investment of the fund. Requires the commissioners to adopt regulations for applying to

⁴ The level in AS 43.90.140(7) is 15 percent of the initial maximum recourse rates from the North Slope to the proposed projects downstream terminus. AS 43.90.140(7) requires an applicant for the license to propose and support mainline capacity expansion costs from all mainline system users through rolled-in or partially rolled-in rates that do not exceed the 15 percent level.

Although the tax break in this section is referred to as an "exemption," it operates more like a credit because it reduces the tax but does not exempt gas from taxation.

receive matching contributions for expenditures related to obtaining a certificate of public convenience and necessity, and regulations for the audit of the use of contributed funds. Requires the commissioners to report disbursements, justification for each disbursement, and projected amount of money needed for disbursements during the following three fiscal years.

Sec. 43.90.410. Regulations. Provides general authority for the commissioner of revenue and the commissioner of natural resources to adopt regulations for implementing AS 43.90.

Sec. 43.90.420. Statute of limitations. Limits to 90 days after the date a license is issued for a person to bring a judicial action challenging the constitutionality of the chapter or a license issued under the chapter.

Sec. 43.90.430. Interest. Provides an interest rate to be applied to a payment to the state when the payment is delinquent.

Sec. 43.90.440. Licensed project assurances. Provides the assurance by the state that the licensee "has exclusive enjoyment of the inducement provided under [AS 43.90]." Entitles a licensee that is in compliance with the requirements of the license and applicable law to a payment from the state equal to three times the licensee's reasonable costs in developing the project as of the date the state first extends preferential treatment to another person for facilitating the construction of a competing gasline. Requires the licensee receiving payment under the entitlement to assign to the state data, designs, contracts, and permits related to the project.

Sec. 43.90.450. Assignments. Allows the assignment of the license by the licensee if the transfer is approved by the commissioners and does not increase or diminish the obligations created by the license or diminish the value of the license to the state. Subjects the transferor to continued recordkeeping, reporting, conditions, and audit requirements for all state money received by the licensee/transferor before the effective date of the transfer. Limits the transfer of a persons' right to the royalty inducement to be done only in connection with a sale or merger that results in the transfer of all of the transferor's assets in the North Slope of the state. As written in the bill as introduced, AS 43.90.450(c) is unclear regarding the connection between the firm transportation capacity contract in the gasline and the transfer of the royalty inducement.⁵

⁵ It would make sense that the transfer of the firm transportation commitment would transfer with the royalty inducement and the assets capable of producing gas to take advantage of the capacity.

Sec. 43.90.460. Conflicting laws. States that nothing in the chapter shall be construed to repeal or abrogate procedures and functions under state or federal law governing the development and oversight of the gasline.

Article 5. General Provisions.

Sec. 43.90.900. Definitions. provides definitions of "affiliate," "Alaska Gasline Inducement coordinator," "commencement of commercial operations," "commissioners," "control" and "controlling," "equity holder," "gas processing," "governing body," "lease," "lessee," "license," "licensee," "project," "recourse rates," "sanction," "under common control with," and "unit agreement."

Sec. 43.90.990. Short title. The short title for the Act is the Alaska Gasline Inducement Act.

Section 2. AS 36.30.850(b) is amended to exclude certain contracts issued in conjunction with the Act from the state's procurement code.

Section 3. AS 39.25.110 is amended to make the Alaska Gasline Inducement Act coordinator an exempt position.

Section 4. AS 40.25.120(a) is amended to exclude records that are proprietary or are a trade secret under the Act, and applications submitted under the Act before a notice is published for soliciting public comment from public disclosure.

Section 5. Makes the Act effective immediately and will require a 2/3 majority vote in each house.

DMB:med
07-155.med

Greenberg Traurig

Memorandum

TO: Antony Scott

FROM: Kenneth M. Minesinger cc: Donald C. Shepler

DATE: March 10, 2007

RE: Examples of Approved Capital Structure and Return on Equity ("ROE") for Major New/Expansion Projects (Initial Rates)

As you know, a major driver of the rates for a natural gas pipeline project is capital structure (debt/equity ratio), along with return on equity ("ROE"). The attached table lists several major new pipelines and expansion projects, and the capital structure and ROE approved by the Federal Energy Regulatory Commission ("FERC") for each project as part of the initial rates approved in the pipeline's certificate proceeding. The table reflects an average capital structure for these projects of approximately 66 percent debt and 34 percent equity. A 70/30 debt/equity ratio, with a ROE of 13-14 percent, is fairly common for new/expansion projects. There are some notable exceptions, however, such as Rockies Express, which has only 45 percent debt and 35 percent equity.

FERC Certificate Orders
Examples of Approved Capital Structure and Return on Equity ("ROE") for
Major New/Expansion Projects (Initial Rates)

Pipeline	Capital Structure (Debt/Equity)	ROE
<i>Millennium Pipeline Co., LLC, 117 FERC ¶ 61,319 (2006)</i>	70/30	14.00%
<i>North Baja Pipeline, LLC, 117 FERC ¶ 61,022 (2006)</i>	70/30	14.00%
<i>Entrega Gas Pipeline, Inc., 112 FERC ¶ 61,177 (2005)</i>	35/65	12.00%
<i>Rockies Express Pipeline, LLC, 116 FERC ¶ 61,272 (2006)</i>	45/55	13.00%
<i>Colorado Interstate Gas Co. and Cheyenne Plains Gas Pipeline Co., 105 FERC ¶ 61,095 (2003)</i>	69/31	14.00%
<i>Islander East Pipeline Co., LLC, 97 FERC ¶ 61,363 (2001)</i>	70/30	14.00%
<i>Iroquois Gas Transmission System, LP, 100 FERC ¶ 61,275 (2002)</i>	75/25	12.38%
<i>Guardian Pipeline, LLC, 91 FERC ¶ 61,285 (2000)</i>	70/30	14.00%
<i>Gulfstream Natural Gas System, LLC, 91 FERC ¶ 61,119 (2000)</i>	70/30	14.00%
<i>Vector Pipeline LP, 85 FERC ¶ 61,083 (1998)</i>	70/30	14.00%
<i>Alliance Pipeline LP, 80 FERC ¶ 61,149 (1997)</i>	70/30	14.00%
<i>Nautilus Pipeline Co., LLC, 78 FERC ¶ 61,325 (1997)</i>	50/50	13.25%
<i>Maritimes & Northeast Pipeline, LLC, 76 FERC ¶ 61,124 (1996)</i>	75/25	14.00%
<i>Portland Natural Gas Transmission System, 76 FERC ¶ 61,123 (1996)</i>	75/25	14.00%
<i>Kern River Gas Transmission Co., 98 FERC ¶ 61,205 (2002)</i>	70/30	13.25%

Average Debt = 66 percent; High = 75 percent; Low = 35 percent

Greenberg Traurig

Memorandum

TO: Antony Scott
FROM: Kenneth M. Minesinger **cc:** Donald C. Shepler
DATE: March 10, 2007
RE: Examples of Approved Capital Structure in FERC Rate Case Orders

From time to time an existing natural gas pipeline will propose to increase its rates in a rate case proceeding at the Federal Energy Regulatory Commission ("FERC"). The attached table shows the capital structure (debt/equity ratio) approved in some of the pipeline rate cases decided at FERC from 1993 to the present.

FERC Rate Case Orders
Examples of Approved Capital Structure

Pipeline	Capital Structure (Debt/Equity)
<i>Kern River Gas Transmission Co., 117 FERC ¶ 61,077 (2006)</i>	62/38
<i>High Island Offshore System, LLC, 110 FERC ¶ 61,043 (2005)</i>	51/49
<i>Northwest Pipeline Corporation, 92 FERC ¶ 61,287 (2000)</i>	45/55
<i>Transcontinental Gas Pipeline Corporation, 90 FERC ¶ 61,279 (2000)</i>	40/60
<i>Williams Natural Gas, 86 FERC ¶ 61,232 (1999)</i>	36/64
<i>Williams Natural Gas, 84 FERC ¶ 61,080 (1998)</i>	36/64
<i>Opinion No. 414-A, Transcontinental Gas Pipeline Corporation, 85 FERC ¶ 61,084 (1998)</i>	43/57
<i>Opinion No. 414-B, Transcontinental Gas Pipeline Corporation, 85 FERC ¶ 61,323 (1998)</i>	42/58
<i>Panhandle Eastern Pipeline Company, 74 FERC ¶ 61,109 (1996)</i>	40/60
<i>Panhandle Eastern Pipeline Company, 71 FERC ¶ 61,228 (1995)</i>	38/62
<i>Pacific Gas Transmission Co., 62 FERC ¶ 61,109 (1993)</i>	31/69

Greenberg Traurig

Memorandum

TO: Antony Scott
FROM: Donald C. Shepler
DATE: March 10, 2007
RE: Open Season postings in trade press for last 12 months

As we have discussed, in my experience interstate gas pipelines are constantly searching for new business opportunities and expansions. Under FERC policy any expansion must be preceded by an open season to ensure that capacity is made available to all parties and potential shippers on a non-discriminatory basis.

As confirmation of this proposition I recently did a *Lexis* search of articles in *Gas Daily* (a widely-read industry trade publication) that turned up over 70 articles in the last year regarding open seasons by various interstate pipelines. The results are attached. Some of the articles relate to binding open seasons and some relate to non-binding open seasons. I believe this confirms the fact that pipelines are actively testing the markets for new capacity and confirms the appropriateness of the provisions in AGIA relating to solicitations of interest in new capacity every two years.

1. Gas Daily, February 16, 2007, Pg. 4, 97 words, Lodi Gas Storage seeks bids for future expansion capacity
... a non-binding open season Friday for firm ...
... May. Questions regarding the open season, which ends at 3 ...
2. Gas Daily, February 16, 2007, Pg. 4, 136 words, Enterprise launches open season for 10-Bcf Texas storage project, SGS
... announced a binding open season for shipper support of ...
... US, the company said. The open season will begin at ...
3. Gas Daily, February 14, 2007, Pg. 6, 146 words, Sempra takes bids for expansion capacity at Liberty Gas Storage, SGS
... Storage have launched an open season to assess market interest ...
... Bcf of capacity. During the open season that ends March 2, the ...
4. Gas Daily, February 5, 2007, Pg. 3, 261 words, LNG-linked pipeline in Oregon solicits shippers, SGS
An open season for the \$850 ...
... More information on the open season can be obtained from Hank ...
5. Gas Daily, February 2, 2007, Pg. 3, 157 words, Enstor launches open season for storage services at three sites, SGS
... Thursday launched an open season for binding firm ...
... conduct a separate open season for its Waha Storage ...
6. Gas Daily, January 22, 2007, Pg. 6, 202 words, Black Bayou seeks bids for service at planned Louisiana storage facility
... in a binding open season for service at its ...
... Sabine Lake. In the open season, customers will be offered ...
7. Gas Daily, January 18, 2007, Pg. 4, 172 words, Northern Natural solicits bids for pipeline capacity in Iowa
... bids in two open seasons that run through 4 ...
In the first open season, Northern Natural is soliciting ...
... 2008. In the second open season, Northern Natural is accepting ...
... amount of capacity available. The open seasons also include solicitations to turn ...
8. Gas Daily, January 4, 2007, Pg. 3, 307 words, Texas Gas solicits shippers, considers expansion, JB
... launched a binding open season through January 24 ...
... More information on the open season is available at www. ...
9. Gas Daily, January 3, 2007, 341 words, Alabama storage project approved; open season planned for February, JK
... a non-binding open season in February for ...

10. Gas Daily, December 20, 2006, Pg. 4, 249 words, Shippers snag 1.6 Bcf/d of capacity on two planned Boardwalk pipelines, BH
... said it was extending its open season on Gulf Crossing to ...
... 85. "The Gulf Crossing open season has generated significant interest from ...
... on the ultimate results of the open season, we may expand the design ...
11. Gas Daily, December 18, 2006, RETAIL REPORT ... a weekly supplement to Gas Daily; Pg. 8, 571 words, PUC approves firm access rights for Semptra pipelines, SGS
... Access to be granted through open season process Access rights ...
... a three-step open season process that would be held every ...
12. Gas Daily, December 15, 2006, Pg. 6, 205 words, Arcadia launches open season for Louisiana storage capacity, VJ
... a non-binding open season today for salt- ...
In the open season, which is set to close at ...
13. Gas Daily, December 14, 2006, Pg. 1, 371 words, With ETP aboard, Midcontinent pipe may expand, BH
... outcome of a second open season launched Wednesday.
... result of an initial open season held by Kinder ...
... conducting a binding open season until 3 pm ...
... information on the project and open season materials are available from David ...
14. Gas Daily, December 7, 2006, Pg. 1, 342 words, Duke plans multi-pronged storage expansion, SGS
... Market Hub Partners open season earlier this year (GD ...
15. Gas Daily, November 20, 2006, Pg. 6, 180 words, Boardwalk launches open season for Gulf Crossing pipeline capacity, SGS
... it has begun an open season for some 650,000 ...
... Choctaw County, Alabama. The open season runs through December ...
16. Gas Daily, November 17, 2006, Pg. 1, 700 words, FERC backs flexible rates for storage projects, CN
... capacity in an open season and its capacity was fully subscribed ...
17. Gas Daily, November 17, 2006, Pg. 4, 387 words, FERC approves Big Sandy pipeline to move gas from eastern Kentucky, CN
... million. During two open seasons conducted earlier this year, ...
18. Gas Daily, November 16, 2006, Pg. 7, 169 words, EPP to conduct open season for Texas gas storage capacity
... a non-binding open season on November 20 to ...
... Belvieu, Texas, facility. The open season will run through ...

19. Gas Daily, November 10, 2006, 178 words, Algonquin pipeline system expansion draws 'exceptional' shipper interest, RAW
... during a recent open season, parent company Duke ...
... completed the non-binding open season on October 27. ...
20. Gas Daily, November 9, 2006, Pg. 5, 169 words, Texas Gas plans third expansion of market-area storage capacity
... area and has launched an open season for firm service.
... conducted two successful open seasons that will boost the pipeline's ...
... November 1, 2008. The open season ends at 5 ...
21. Gas Daily, November 2, 2006, Pg. 5, 254 words, NGS launches open season for Texas gas storage facility
... Wednesday launched an open season for capacity at ...
... Morgan County, Colorado. The open season for Tres Palacios ...
22. Gas Daily, October 31, 2006, Pg. 3, 227 words, Enterprise plans open season for up to 4 Bcf of storage capacity
... hold a binding open season to gauge shipper interest ...
... Pipeline. The company said the open season will begin at ...
23. Gas Daily, October 23, 2006, Pg. 1, 341 words, Two Mississippi gas storage projects advance
... Friday launched an open season for storage services ...
... Hub held an open season for the storage facility ...
24. Gas Daily, October 6, 2006, Pg. 1, 536 words, El Paso scraps its Continental Connector pipeline, JK
... a non-binding open season attracted shipper requests ...
... holding a binding open season and starting the prefiling process ...
25. Gas Daily, October 6, 2006, Pg. 3, 246 words, Bay Gas holds open season for Alabama storage capacity, MT
... a non-binding open season for 10 Bcf of ...
The open season is linked to the planned development of ...
... 5 Bcf of capacity. The open season began Thursday and will ...
26. Gas Daily, October 2, 2006, Pg. 1, 355 words, Algonquin eyes LNG-linked mainline expansion, SGS
... Friday launched an open season to gauge shipper interest ...
Depending on the response to the open season, which ends October 27, ...
... so we will see what the open season brings," he said, adding that ...
27. Gas Daily, September 27, 2006, Pg. 3, 275 words, Southern Natural soliciting bids for Mississippi storage project, SGS
... subsidiary launched an open season Tuesday for non- ...
... will depend upon the open season results and initial engineering ...