

AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 148 32148

28. Gas Daily, September 27, 2006, Pg. 4, 265 words, NW Natural, TransCanada ponder joint gas pipeline project in Oregon, RAW

... pipeline are conducting an open season to determine customer interest ...

29. Gas Daily, September 15, 2006, Pg. 3, 196 words, Sabine Pipe Line plans to boost delivery capacity to Henry Hub

In an open season announcement, the pipeline said the ...

... acceptable bid in the open season is 50,000 Dt/d. ...

30. Gas Daily, September 14, 2006, Pg. 4, 124 words, Iroquois launches open season for 2008-2009 expansion project

... launch-ed an open season for its 2008-2009 Expansion Project. The open season, which runs to October 6, is ...

31. Gas Daily, September 7, 2006, Pg. 6, 203 words, Sempra finalizing plans for Mexican LNG terminal expansion, CEO says, MT

... strong response to an open season it held earlier this ...

32. Gas Daily, August 24, 2006, Pg. 5, 112 words, DTE offers firm gas storage services at Michigan facility

... it has launched an open season for firm storage ...

... term, the company said. The open season ends at 3 ...

... hubs. To obtain an open season package, or for more ...

33. Gas Daily, August 24, 2006, Pg. 7, 311 words, Florida P&L to take 500,000 Mcf/d on planned Southeast Supply pipeline, JB

... shippers that responded to an open season earlier this year. The 270- ...

34. Gas Daily, August 18, 2006, Pg. 1, 346 words, Northwest gets FERC nod for Piceance lateral ... ago. After an open season that ended last November, ...

... Lateral. A subsequent open season in December did not ...

35. Gas Daily, July 27, 2006, Pg. 4, 268 words, Firms propose new pipeline from eastern Canada to Ohio, SGS

... determined by an open season for the project scheduled ...

... More information on the open season can be obtained from Tony ...

36. Gas Daily, July 21, 2006, Pg. 7, 116 words, Northwest holds open season for capacity on Colorado lateral

... subsidiary is conducting an open season for long-term ...

... commitment received during the open season, which ends at 5 ...

37. Gas Daily, July 20, 2006, Pg. 6, 240 words, Rockies Express garners interest in 1 Bcf/d of expansion capacity, MT

A recent open season for the Oakford extension of the ...

... binding commitments during the open season, which ended July 14, " ...

38. Gas Daily, July 19, 2006, Pg. 1, 391 words, Transco files D.C.-area pipeline expansion plan, SGS

... agreed after an open season last year to sign ...

39. Gas Daily, July 18, 2006, Pg. 6, 82 words, CIG pipeline seeks interest in North System capacity

... Company is conducting an open season to solicit shipper interest ...

... starting October 1. The open season runs until 3 ...

40. Gas Daily, July 17, 2006, Pg. 1, 624 words, Ethanol boom expected to increase gas demand, JMM

... a non-binding open season to expand the Kinder Morgan ...

41. Gas Daily, July 7, 2006, Pg. 3, 223 words, Kinder Morgan eyes expansion of interstate line to Nebraska, BH

... a non-binding open season Wednesday to determine shipper ...

... Kansas, Missouri and Nebraska. The open season lasts through 5 ...

42. Gas Daily, July 6, 2006, Pg. 4, 365 words, TransColorado files 250,000 Dt/d expansion project with FERC, JK

... pipeline stems from an open season held earlier this year ...

43. Gas Daily, June 28, 2006, Pg. 7, 272 words, AES announces open season for LNG-linked pipeline system, MT

... Tuesday began an open season for firm transportation ...

... depending on the results of the open season. Open season participants will be responsible ...

... no later than 2010. The open season ends at 5 ...

44. Gas Daily, June 27, 2006, Pg. 6, 273 words, Texas Eastern holds open season for West-to-Northeast gas pipeline

... Monday launched an open season to gauge interest in ...

The non-binding open season for the proposed Texas ...

45. Gas Daily, June 26, 2006, Pg. 7, 119 words, Heartland Gas solicits interest in capacity on Indiana pipeline

... launched a binding open season Friday to gauge shipper ...

... date of October 1. The open season is slated to close at ...

46. Gas Daily, June 23, 2006, Pg. 3, 263 words, MoBay files FERC application for proposed Gulf storage facility

... a non-binding open season held in March, ...

47. Gas Daily, June 23, 2006, Pg. 6, 240 words, Tennessee seeks interest in proposed expansion from Ohio to New York City

... a non-binding open season to gauge interest in ...
 ... years," Tennessee said. The open season, scheduled to close at ...
 ... a subsequent binding open season is necessary. If the project moves ...

48. Gas Daily, June 21, 2006, Pg. 6, 276 words, Rockies Express holds open season for Ohio-to-Pennsylvania extension, SGS
 ... launched a binding open season to solicit interest in their ...
 ... eastward from Ohio to Pennsylvania. The open season ends at 5 ...
 ... Additional information related to the open season is available at www.rockiesexpress.com ...

49. Gas Daily, June 8, 2006, Pg. 3, 588 words, Official: New England no longer constricted market, CC
 ... week launched an open season for Mid-Continent ...

50. Gas Daily, June 2, 2006, Pg. 1, 640 words, CenterPoint, Duke plan 1,600-mile pipeline, RAW
 ... a non-binding open season closes July 31. ...
 ... said an initial open season for an 800- ...
 ... jointly held an open season on a proposed ...
 ... new 60-day open season to solicit interest from producers ...
 ... Regulatory Commission after the open season closes. The non-binding open season began June 1. ...

51. Gas Daily, June 2, 2006, Pg. 3, 746 words, Rockies Express files FERC application for first leg, JK
 ... plans to begin an open season in about a ...

52. Gas Daily, May 24, 2006, Pg. 6, 121 words, El Paso extends its open season on Continental Connector project
 ... June 8 the binding open season for a project ...
 ... Connector Pipeline subsidiary. The open season originally was slated to end ...
 ... information on the binding open season package and related items ...

53. Gas Daily, May 23, 2006, Pg. 4, 228 words, New Dominion 'hub' would serve fast-growing gas demand in East, MD
 ... a non-binding open season beginning today and ending ...
 ... More information on the open season can be obtained from Josh ...

54. Gas Daily, May 16, 2006, Pg. 6, 201 words, Sempra says it received strong interest in Mexico LNG expansion
 ... launched the non-binding open season last month (GD 3/14). "This successful open season demonstrates the strategic significance" of the ...

55. Gas Daily, May 12, 2006, Pg. 6, 60 words, Transwestern holds open season for capacity at several locations

56. Gas Daily, May 9, 2006, Pg. 3, 744 words, Mackenzie gas pipeline dispute headed to NEB, GP

... MEG. A 2003 open season offering rights to book ...

57. Gas Daily, May 9, 2006, Pg. 3, 744 words, Mackenzie gas pipeline dispute headed to NEB, GP
... MEG. A 2003 open season offering rights to book ...

58. Gas Daily, May 8, 2006, Pg. 5, 108 words, Mississippi Hub to hold storage open season beginning May 15
... a non-binding open season for a proposed ...

59. Gas Daily, May 8, 2006, Pg. 1, 906 words, Kinder Morgan expands Express project eastward, BH
... company received to its binding open season on Rockies Express where ...
... a non-binding open season completed last week ...

60. Gas Daily, May 5, 2006, CORRECTION; Pg. 3, 41 words, Correction
... on a binding open season El Paso is conducting ...

61. Gas Daily, May 4, 2006, Pg. 3, 115 words, Bobcat receives strong interest in proposed La. storage facility
... recent non-binding open season for firm gas ...

62. Gas Daily, May 3, 2006, Pg. 4, 422 words, Marketing segment drives Sempra's earnings higher, MT
... said. In addition, the open season for a possible ...

63. Gas Daily, May 2, 2006 Correction Appended, Pg. 4, 315 words, El Paso holds binding open season for Continental Connector pipeline, MT
... begun a binding open season for its proposed Continental ...
The open season, which began at 10 ...
... a non-binding open season held late last ...
... 713-823-4338. Open season documents can also be downloaded ...
... on a binding open season El Paso is conducting ...

64. Gas Daily, May 1, 2006, Pg. 3, 329 words, Duke eyes storage capacity additions at three sites, RAW
... a non-binding open season that begins today. The others ...
... Interest expressed during the open season, which runs through May ...
... more information about the open season should contact Janice Devers ...

65. Gas Daily, April 27, 2006, Pg. 7, 185 words, CenterPoint launches open season for next phase of Gulf Coast pipeline
... binding, 30-day open season to gauge interest in ...

66. Gas Daily, April 25, 2006, Pg. 4, 728 words, Report: Alaska pipeline more cost-effective than LNG, MT
... plans to participate in the open season being held by ...

67. Gas Daily, April 21, 2006, Pg. 3, 189 words, Caledonia begins open season for 1.7 Bcf of Mississippi storage, SGS

... it has launched an open season for 1.7 Bcf of ...

... Caledonia will administer the open season as well as manage nominations, ...

... four cycles/year. The open season concludes at 5 ...

68. Gas Daily, April 17, 2006, Pg. 1, 455 words, Kinder Morgan proposes another major pipeline, BH

... a non-binding open season Thursday for the MidContinent ...

... GD 2/22). The open season for MidContinent Express ...

69. Gas Daily, April 12, 2006, Pg. 4, 213 words, KM holds binding open season for proposed expansion of NGPL

... launched a binding open season to gauge interest in ...

... Henry Hub. The binding open season concludes at 3 ...

70. Gas Daily, March 28, 2006, Pg. 1, 593 words, TransCanada expansion to serve US Northeast, MT

... it held an open season last spring to gauge ...

71. Gas Daily, March 28, 2006, Pg. 3, 245 words, Bobcat launches open season for proposed Louisiana facility

... a month-long open season offering service at its ...

... Investments LLC, is conducting the open season for only the initial ...

... Dt/d, respectively. The open season, which started Monday, will ...

72. Gas Daily, March 23, 2006, Pg. 1, 672 words, Storage increasingly seen as insurance policy, SGS

... just conducted an open season for Mobile Bay- ...

73. Gas Daily, March 17, 2006, Pg. 1, 441 words, CenterPoint plans 1.25 Bcf/d Midwest pipeline, MT

... Thursday launched an open season to gauge interest in ...

... after the non-binding open season, CEGT said a ...

... jointly held an open season on a proposed ...

... 17). In the latest open season, which runs through 3 ...

... in participating in the open season should contact Haynes at ...

74. Gas Daily, March 15, 2006, Pg. 3, 472 words, Charge causes Southern Union to report \$111.1 million Q4 loss, MT

... Bond also noted that an open season held for Panhandle ...

75. Gas Daily, March 14, 2006, Pg. 5, 210 words, Sempra plans open season for Mexican LNG terminal, MT

... a non-binding open season to seek shipper interest ...

... response received" during the open season. The open season is set to begin at ...
... Commission. "The proposed expansion and open-season process represent a ...

76. Gas Daily, March 10, 2006, Pg. 1, 374 words, Merrill Lynch, Sempra sign LNG capacity deal,
MT
... preparations for an open season related to a possible ...

77. Gas Daily, March 9, 2006, Pg. 4, 145 words, Equitrans holds open season for firm capacity in
Kentucky
... a non-binding open season to solicit interest in ...

Greenberg Traurig

Memorandum

TO: Antony Scott

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

DATE: March 14, 2007

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

The attached table -- which, as requested, contains more detail than the one we sent you on March 10 -- lists several major new pipelines and expansion projects, and the capital structure and return on equity ("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. The table also indicates that 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 a capital structure of 45 percent debt and 55 percent equity.

In addition, this table provides: (1) a short description of each project; (2) the project's length, diameter, and capacity; and (3) the project's cost. Of course, none of the listed projects is as large as the anticipated size of an Alaska natural gas pipeline project, either in terms of capacity or cost. Nevertheless, the table provides a reasonable sample of recent major new or expansion projects in the Lower 48 states, including some that have a capacity greater than 1 billion cubic feet per day ("Bcf/day"), along with several projects with a capacity significantly less than 1 Bcf/day.

FERC Certificate Orders

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

Pipeline	Project Description ¹	Capital Structure (Debt/Equity)	ROE	Length, Diameter and Capacity ²	Project Cost (estimate from application; older projects not in 2007 dollars)
Millennium Pipeline Co., LLC, 117 FERC ¶ 61,319 (2006)	Proposal to construct new pipeline in New York state to serve increased demand in the New York City area	70/30	14.00%	181.7 miles of 30-inch pipeline Approx. 525,400 Dth/d	\$664 million
North Baja Pipeline, LLC, 117 FERC ¶ 61,022 (2006)	Expansion of existing natural gas pipeline running from the Arizona/California border into Southern California, and then into Mexico, to accommodate anticipated LNG supplies; also modification of the pipeline to accommodate bi-directional gas flow	70/30	14.00%	New loop of 68.1 miles of 48-inch pipeline and 11.2 miles of 42-inch pipeline, and smaller lateral facilities Expansion from approx. 512,500 Dth/d to 2.7 Bcf/d	\$291 million
Entrega Gas Pipeline, Inc., 112 FERC ¶ 61,177 (2005)	New pipeline for Rockies gas extending from the Piceance Basin in Colorado to the Cheyenne, Wyoming Hub (Note: this pipeline has since been consolidated into Rockies Express -- see next entry)	35/65	12.00%	136 miles of 36-inch pipeline and 191 miles of 42-inch pipeline Approx. 1.5 Bcf/d	\$664 million
Rockies Express Pipeline, LLC, 116 FERC ¶ 61,272 (2006)	An extension of the former Entrega pipeline, which ultimately will ship Rockies gas to Ohio; this is the "REX-West" portion, which primarily involves new pipeline facilities extending from the Cheyenne Hub to an interconnection with Panhandle Eastern Pipe Line Company located in Missouri	45/55	13.00%	Primarily 713 miles of 42-inch pipeline Approx. 1.5 Bcf/d	\$1.6 billion

¹ All of the information contained in this chart was derived from the orders cited in the "Pipeline" column.

² Compression associated with these facilities has not been specifically discussed on this chart, although it is reflected in the capacity figures that are listed.

Colorado Interstate Gas Co. and Cheyenne Plains Gas Pipeline Co., 105 FERC ¶ 61,095 (2003)	A new interstate natural gas pipeline receiving Rockies supplies at the Cheyenne Hub and extending southeastward across Colorado and Kansas to a terminus in southwestern Kansas	69/31	14.00%	380 miles of 30-inch diameter pipeline 560,000 Dth/d	\$332 million
Islander East Pipeline Co., LLC, 97 FERC ¶ 61,363 (2001)	A proposed new pipeline extending from an interconnection with Algonquin near North Haven, Connecticut, across Long Island Sound and terminating on Long Island	70/30	14.00%	Approximately 50 miles of 24-inch pipeline 285,000 Dth/d	\$149.6 million
Iroquois Gas Transmission System, LP, 100 FERC ¶ 61,275 (2002)	Named the Eastern Long Island Expansion Project (ELI Project), this project was designed to provide service to eastern Long Island, New York	75/25	12.38%	29.1 miles of 20-inch pipeline 175,000 Dth/d	\$105 million
Guardian Pipeline, LLC, 91 FERC ¶ 61,285 (2000)	A new natural gas pipeline serving Wisconsin, extending from the Chicago Hub to a terminus in Wisconsin, together with a lateral off of its mainline to another point in Wisconsin	70/30	14.00%	140.3 miles of new 36-inch pipeline 750,000 Dth/d	\$224.3 million
Gulfstream Natural Gas System, LLC, 91 FERC ¶ 61,119 (2000)	New natural gas transmission facility designed to transport up to 1.13 Bcf per day from supply areas in Alabama and Mississippi across the Gulf of Mexico to load centers in central and eastern Florida	70/30	14.00%	744 miles of pipeline of diameters ranging from 36-inch to 24-inch 1.13 Bcf/d	\$1.654 billion
Vector Pipeline LP, 85 FERC ¶ 61,083 (1998)	New pipeline extending from near Chicago through Indiana and Michigan to the U.S.-Canada border near St. Clair, Michigan	70/30	14.00%	270 miles of 42-inch pipeline 1 MMDth/d	\$447 million
Alliance Pipeline LP, 80 FERC ¶ 61,149 (1997)	New pipeline from British Columbia to the U.S./Canada border near Sherwood, North Dakota, to an interconnection with Peoples Gas Light and Coke Company near Chicago (figures are for U.S. portion only)	70/30	14.00%	887 miles of 36-inch pipeline 1.325 Bcf/d	\$1.34 billion
Nautilus Pipeline Co., LLC, 78 FERC ¶ 61,325 (1997)	Facilities that transport natural gas from offshore Louisiana to onshore Louisiana	50/50	13.25%	101 miles of 30-inch diameter pipeline 600 MMcf/d	\$121 million

Maritimes & Northeast Pipeline, LLC, 76 FERC ¶ 61,124 (1996)	New pipeline extending from a point of interconnection with Tennessee Gas Pipeline in Massachusetts to a point of interconnection with Granite State Gas Transmission in Maine	75/25	14.00%	64 miles of 24-inch pipeline 60,000 MMBtu/d	\$82 million
Portland Natural Gas Transmission System, 76 FERC ¶ 61,123 (1996)	New pipeline extending from an interconnection with TransCanada at the Canadian border near North Troy, Vermont to points in Maine, New Hampshire, and Massachusetts	75/25	14.00%	242 miles of 20-inch pipeline 178 MMcf/d	\$271 million
Kern River Gas Transmission Co., 98 FERC ¶ 61,205 (2002)	2003 Expansion of Kern River's system, which ships Rockies gas from points in Wyoming to delivery points located primarily in California	70/30	13.25%	634.3 miles of 36-inch pipeline and 82.4 miles of 42-inch pipeline 885.6 MMcf/d	\$1.27 billion

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

LEGAL SERVICES

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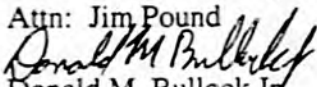
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MEMORANDUM

March 14, 2007

SUBJECT: HB 177 drafting issues and concerns
(Work Order No. 25-GH1060\B)

TO: Representative Vic Kohring
Chair of the House Special Committee on Oil and Gas
Attn: Jim Pound

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

I write to you in your capacity as the chair of the first committee for referral for HB 177, the governor's proposed Alaska Gasline Inducement Act.¹ This memorandum is a supplement to the sectional summary of the bill I have already provided to you.

As a general observation, the bill as drafted should be edited to conform to the 2007 edition of the Manual of Legislative Drafting. The use of the Manual of Legislative Drafting makes the form of the Alaska Statutes internally consistent and facilitates the interpretation of Alaska law by those responsible for the administration of the law and the courts. Nonsubstantive edits may be made by the attorneys and editor in the course of preparing amendments and new versions of the bill unless we are specifically directed not to. Should these edits not be included as this bill and the House companion bill proceed through the legislature, corrections may be required in a future Revisor's bill.

Although there is only a single tax provision relating to tax in the bill -- the gas production tax exemption in AS 43.90.320 on page 16 -- the bill places the Act in Title 43, relating to revenue and taxation. Based on the bill's purpose as an inducement for the construction of a natural gas pipeline, the substance of the bill may be more consistent with Title 31, relating to oil and gas, or Title 42, relating to public utilities and carriers.

What follows are specific revisions, comments, and questions arising from my review of the bill as introduced, House Bill 177, Version 25-GH1060\B. Suggested language is subject to review and revision as required by our review process and should not be accepted as final.

Sec. 43.90.010. Edits: change "this state" to "the state". "This state" is used when referring to Alaska as opposed to another state; when only Alaska is addressed in a provision, "the state" is appropriate. "This state" should be changed to "the state"

¹ The bill proposes a new word for the Alaska Statutes. Although "gas pipeline" and "gas line" are present in existing law, "gasline" is a term not used in the current statutes.

throughout the bill except where Alaska is to be distinguished from another state.

Sec. 43.90.100. This section could be expanded to include generally applicable provisions from sec. 43.90.130 on page 4 of the bill as follows:

Sec. 43.90.100. Gas project. (a) The commissioners may award an Alaska Gasline Inducement Act license as provided in this chapter.

(b) The commissioners may enter into contracts with independent contractors for the purpose of developing provisions for the application for a license under this chapter and for evaluating applications submitted to obtain a license.

(c) A person awarded a license under this chapter is entitled to the inducement set out in AS 43.90.110.

Sec. 43.90.110. I recommend restructuring of the section for clarity:

Sec. 43.90.110. Natural gas pipeline project construction inducement.

(a) A license issued under this chapter entitles the licensee or its designated affiliate to receive the benefits in this section as inducement to proceed with the development of the project.

(b) Subject to appropriation, the state shall provide a total of not more than \$500,000,000 in matching funds for qualified expenditures. Of this amount, the state shall contribute:

(1) 50 percent of the qualified expenditures incurred before the close of the first binding open season; and

(2) subject to an amount remaining after all payments have been made under (1) of this subsection, the lesser of 80 percent or the percentage proposed by the licensee under AS 43.90.140(9) of the qualified expenditures incurred after the close of the first binding open season and before the licensee receives a certificate of public convenience and necessity for the Federal Energy Regulatory Commission or the Regulatory Commission of Alaska, as appropriate.

(c) The Alaska Gasline Inducement Act coordinator appointed under AS 43.90.330(a) shall work with the licensee and assist with the development of the project as required under AS 43.90.330(b).

(d) The licensee may benefit from a state program that provides training for employment in gas pipeline project management, construction, operation, maintenance, and other positions related to the development and operation of the project.

(e) In (b) of this section, "qualified expenditures" means costs incurred by a licensee after receiving a license under this chapter that are directly and reasonably related to receiving a certificate of public necessity and convenience from the Federal Regulatory Agency or the Regulatory Commission of Alaska, as appropriate, for the development of the project; "qualified expenditures" do not include overhead costs, litigation costs, the cost of assets or work product incurred or paid before receiving the license, and civil or criminal penalties.

The commitment of \$500,000,000 to the project involves subsidizing the application process over two time intervals. The first interval starts when the license is issued and

continues through the end of the first binding open season. The second interval starts when the first interval ends and continues until the certificate of public convenience and necessity is issued. You may wish to limit the amount dedicated for each interval because of the factor in AS 43.90.140(9) that makes the percentage of match during the second interval a factor for evaluating the application. Perhaps testimony during your hearings will provide insight into the reasons for the two intervals, the fixed 50 percent match in the first, and the flexible match in the second.

This section also refers to a state training program for gas pipeline-related jobs. Is there another bill coming that will create this program? If there is an existing program, reference to that program could be added here.

Sec. 43.90.120. This section seems out of place chronologically. I would expect that it should be inserted after AS 43.90.220, after the provisions that establish the project. Regardless of where the section ultimately falls, I recommend revising the section as follows:

Sec. 43.90.120. Abandonment of project. (a) The project shall be abandoned upon a determination that the project is uneconomic and should be abandoned or if the state extends to a person other than the licensee preferential royalty, tax, or monetary treatment for the purpose of facilitating the construction of a competing natural gas pipeline project in the state.

(b) If the project is abandoned under this section,

(1) the inducement under AS 43.90.110 terminates; and

(2) the licensee continues to be subject to the requirements imposed on the licensee under AS 43.90.230 for state money received by the licensee before the abandonment of the project.

(c) A determination that the project is uneconomic and should be abandoned may be made

(1) jointly by a written agreement between the licensee and the commissioners; or

(2) if the commissioners and the licensee are in disagreement as to whether the project should be abandoned, by an impartial third party selected and agreed upon by the commissioners and the licensee that makes the determination after taking evidence and receiving arguments on the economic viability of the project.

(d) The commissioners shall establish by regulation the procedures for the selection of and determination by the third-party in (c) of this section.

Sec. 43.90.130. Several comments:

Subsection (a) could be added as uncodified law at the end of the bill through a statement such as, "The legislature intends that the commissioners commence the public process to solicit applications for a license under this Act within three months of the effective date of this Act."

An uncodified provision expresses the same intent for acting quickly, but avoids the question that a provision like this raises, "what happens if the commissioners do not act timely"? What if the commissioners do not commence the public process within three

months? If you want the provision in statutory form, you might direct the commissioners to begin the process "as soon as practicable," or similar language sufficient to get things moving in a timely manner.

The speed at which applications may be solicited may also be affected by the timeliness of the adoption of regulations that may be required to implement the Act.

The substance of subsections (b) and (c) could be moved to AS 43.90.100, which authorizes the commissioners to award the license.

Sec 43.90.140. A few comments:

For your information, the requirements for the application in the bill are similar to provisions that are required in a notice of open season under 18 C.F.R. 157.134(c). One difference is that the bill requires analyses and commitments that are impliedly firm and final in the application while the FERC regulation states, "[H]owever, to the extent that any item of such information is not known or determined at the time the notice is issued, the prospective applicant shall make a good faith estimate based on the best information available of all unknown or undetermined items of required information and further, must identify the source of information relied on, explain why such information is not presently known, and update the information when and if it is later determined during the open season period[.]"

On page 4, line 11, I suggest deleting the words "consistent with" and inserting "responsive to." The request for applications under AS 43.90.130 will include requirements that an applicant must meet to be considered; an application will be responsive if it meets the requirements in the application.

Some of the items listed in this section could be moved, and might be better placed in AS 43.90.130, if they are requirements that an applicant must meet in order to qualify for consideration. The deadline in AS 43.90.140(1) is a good example.

Some of the requirements of the application are very complex, particularly those in AS 43.90.140(2), and may affect the speed with which a potential applicant can respond.

The alternative routes, overland through Canada or the intrastate-LNG option,² are quite different and may be difficult to compare. There may be differences in economic life, the length of time before gas can be shipped, the economic life of the project, and netbacks that affect the wellhead value on which the state's royalties and production taxes are based. Does AS 43.90.170, in sec. 9 of the bill, provide the commissioners the criteria they need to consider to decide whether a viable overland route is better than the intrastate LNG option or vice versa? For example, is the risk of cost overruns greater for one route over another? AS 43.90.140(12) provides for a minimum of five delivery points in the state; will the location of those points be different for the overland route compared with the intrastate LNG route?

Structurally, it may make the requirements more clear if one statutory section covers requirements applicable to all project proposals, and subsequent sections address issues that are specific to projects requiring FERC approval and those requiring RCA approval.

² This is shorthand for a project that ships the gas via pipeline to tidewater, liquefies the gas, then uses marine transportation for the next leg of delivery.

Sec. 43.90.140(9): With regard to my comments above concerning how much of the \$500,000,000 may be available during each of the two increments, you may wish to consider changing paragraph (9) to request an estimate of the amount of state money that would be required through the end of the first binding open season and then a percentage to be applied during the subsequent interval leading up to the certificate of public convenience and necessity.

Sec. 43.90.140(12): Do you want to specify where the five delivery points should be? You might use a standard such as how far apart they should be, or within certain mileage of, for example, Fairbanks, Tok, or Anchorage.

Sec. 43.90.140(13): What does firm transportation service to delivery points in the state mean? Does it only mean that there will be a filed tariff for delivery to those points or does this provision also require the applicant to solicit shippers that were not successful during the first open season to ship gas to the in-state delivery points?

Sec. 43.90.150. This section uses the phrase, at page 8, lines 22-23, "consistent with the terms of the request for applications" that could be replaced with language that addresses whether the application is "responsive." Although this solicitation is not subject to the State Procurement Code, AS 36.30, the request for applications is similar to a request for proposals and the standard for accepting an application is similar to determining whether an application is responsive to the solicitation.

Sec. 43.90.170. This section is important to the state's defense if an unsuccessful applicant challenges the award of the license by the commissioners.

I suggest inserting a reference to the criterion of maximizing the benefits to the state to tie into the determination reference in AS 43.90.190 on page 10, lines 9 - 11. On page 9, line 8, following "upon," you could add language such as, "whether the application sufficiently maximizes the benefits to the people of the state and merits issuance of a license, taking into consideration."

You may want to strengthen the language. For example, on page 9, line 11, you could replace "how the applicant plans to manage overruns in costs" with "how the applicant plans to minimize cost overruns." This criteria seems to overlap with the third criteria regarding cost overruns and the effect on the tariff.

Sec. 43.90.170(4). "Low cost" may be too vague to be a helpful standard for the commissioners to apply. Low relative to what?

Sec. 43.90.170(5). This paragraph requires speculation on the amount of the \$500,000,000 that may be available after the end of the first binding open season. As I suggested above, you may wish to expand this criteria to include the amount that is expected to be used during the first interval and then the percentage or amount to be provided by the state during the second interval, up to the time when the certificate of public convenience and necessity is obtained.

Sec. 43.90.180. When would this notice, review, and comment period occur? Is it after the commissioners have applied their criteria, in which case a favored applicant may already be identified? Or is it earlier, after the commissioners have made a determination that an application is complete under AS 43.90.150?

If the notice, review, and comment follow the determination under AS 43.90.150(d), the public may help evaluate the applications using the same criteria the

commissioners apply under AS 43.90.170. If the public review is after the commissioners have applied the criteria, the public notice and review could focus on the application(s) the commissioners find to be the most satisfactory under the criteria.

Sec. 43.90.190. This section includes two appealable determinations by the commissioners. Under AS 43.90.190(a)(1), the commissioners' determination that an application would sufficiently maximize the benefits to the people of the state and merits issuance of a license is a final agency action and is therefore subject to appeal.³ Note, however, that the date the decision is final is determined under AS 43.90.200(a). Under AS 43.90.190(b) and (c), a finding by the commissioners that no application satisfies the requirement of maximization of benefits is also a final action for appeal purposes.

Sec. 43.90.200. Subsection (a) makes the commissioners' determination in AS 43.90.190(a) "final agency action[] effective under this chapter on the 30th legislative day after the date of referral to the legislature[.]" The "30th legislative day" language may need to be refined. If the commissioners make the determination with less than 30 days left in the first regular legislative session, say 20 days before, would the determination not be final until 10 days into the next regular session? What if there is an intervening special session with limited subject matter? Thirty days coincides with the length of a special session, which may be contemplated by the drafter of the bill, but the circumstances of a regular session should also be addressed.

Sec. 43.90.200(c): The words "Alaska Rules of Appellate Procedure" are unnecessary; when the right to appeal vests, the court rules establish the procedure to be followed without this language.

Sec. 43.90.210. In subsection (a), you might want to check with the tariff experts in the Department of Law concerning whether the RCA would regulate tariffs to the in-state delivery points even though the interstate part of the pipeline is regulated by FERC. If RCA and FERC both may be involved, subsection (a) should be reworded to allow for the acceptance of a certificate from each regulatory agency. The subsection could simply read as follows:

(a) A licensee that is awarded a certificate of public convenience and necessity for the project shall accept the certificate.

Subsections (b) and (c) read like additional grounds for abandonment to those listed in AS 43.90.120. It seems to me that a finding that the project is "uneconomic" for the purpose of AS 43.90.120 may at least be intertwined with the licensee who may fail to secure financing and sanction the project as required in AS 43.90.210(c). I suggested above that the abandonment provision be moved later in the chapter; perhaps the remedies for failure to sanction and abandonment could either be combined or placed together because both address the failure of a project and the ensuing consequences.

³ *Bethel Utilities Corp. v. City of Bethel*, 780 P.2d 1018, 1022 (Alaska 1989) ("Unless the legislature provides otherwise, administrative decisions are presumed to be judicially reviewable.")

Sec. 43.90.220. Page 12, line 11: I suggest also inserting AS 43.90.130 in addition to AS 43.90.140, so that the project plan is consistent with the original solicitation.

Sec. 43.90.230. Look at AS 43.99.010 that (since 1949) requires a person subject to tax to keep tax records in the state. You may wish to require that the records subject to audit be available in the state. Although this may seem to be redundant to the requirement in AS 43.90.140(14) to "commit to establish a local headquarters in [the] state," you may wish to clearly require in-state recordkeeping so that an affiliate developing the project makes the records available here rather than at its parents' headquarters.

Sec. 43.90.240. In the situation of an unresolved violation that results in the revocation of the license, the follow-up for revocation could follow a similar course to that for abandonment under AS 43.90.120, and the failure to sanction in AS 43.90.210.

Sec. 43.90.240(e). Page 13, lines 27 - 28: The words, "under the Alaska Rules of Appellate Procedure," are unnecessary.

Sec. 43.90.330 and Sec. 43.90.340. It seems that AS 43.90.330 (Alaska Gasline Inducement Act coordinator) and AS 43.90.340 (Expedited review and action by state agencies) should either be placed here at the end of art. 1 or in among the miscellaneous provisions in art. 4. The reason for this suggestion is that these two sections primarily are directed at facilitating the gasline, not the shippers whose inducement is offered in art. 3. If the two sections are also intended to facilitate the inducements in art. 3 as well as art. 2, they may be better placed in art. 4, among the miscellaneous provisions.

Sec. 43.90.310. This section offers a shipper an election to change the calculation of its royalty obligation from that set out in an existing lease or unit agreement to the calculation provided in new regulations to be adopted by the commissioner of natural resources. Every two years the regulations are to be reviewed, and if amended, the producer may elect to return to the obligation under the lease or unit agreement or to be subject to the amended regulations. This approach seems to avoid an issue under the contracts clause in art. I, sec. 15 of the state constitution because it does not actually and unilaterally change the contractual obligations of a producer under the lease or unit agreement, and thus there is no impairment. The producer is given the opportunity to compare royalty obligations under the regulations with those in the contractual agreements and elect to choose the most favorable.

I am not sure how this section is intended to work. Under AS 43.90.310(a), the regulations to be adopted must "establish terms under which the state will exercise its right to switch between taking its royalty in-value or in-kind." Is this a separate issue from the determination of the value of the state's royalty share or are they somehow intertwined? Paragraphs (b)(1) and (2) seem to be related to the value determination part of the mandated regulations and (b)(3) seems to be related to the switching terms. Is this correct? My impression is that how the state intends to exercise its switching rights will be a factor in a shipper's evaluation of how much of its production the state will take in-value rather than in-kind so that the shipper knows how much capacity to commit during the first open season. For example, if a shipper commits all of its own production to its share of pipeline capacity acquired during the first open season, to what extent could the shipper also commit a portion of the state's royalty production for which the shipper

expects the state to take in-value? Would you want to include in the bill a limitation on how often the state may switch between taking royalty in-kind or in value to give stability to a shipper? Is this even a factor?

Sec. 43.90.310(b)(2)(D) requires that regulations adopted under the section reflect the 1980 Royalty Settlement Agreement for Prudhoe Bay gas for the purpose of determining a fair market value. Is this agreement public? If the agreement is not already public, it may be helpful to have that agreement entered into the legislative record so that an interested person could evaluate whether the regulations are consistent with that agreement and consistent with the statutory directive.

Sec. 43.90.310(b)(4). You may wish to make this a subsection within this section rather than merely requiring the condition to be adopted as part of the regulations. As a separate subsection, (4) would become (c), and delete "require that in" and insert "In". This makes the requirement in this new subsection similar to the requirement for the tax exemption in AS 43.90.320(c). The following subsections would be relettered to reflect the addition of an additional subsection.

Sec. 43.90.310(e). If there are no new leases contemplated by DNR between now and the end of the first binding open season, then the only leases that may be in conflict with making the election are leases entered into before the effective date of the Act. However, do you want a new lease to disallow the election in (d)?

Sec. 43.90.320. Although written in terms of an exemption, this section actually provides a credit, a dollar for dollar reduction in tax obligation based on an increase in tax following a change in the production tax. While a credit reduces the amount of tax for which a person would otherwise be liable, an exemption removes a subject from the imposition of the tax. The use of the term "exemption" to describe the credit is probably intended to coincide with the exception in art. IX, sec. 4 to art. IX, sec. 1 of the state constitution.

Art. IX, sec. 4 reads as follows:

Exemptions. The real and personal property of the State or its political subdivisions shall be exempt from taxation under conditions and exceptions which may be provided by law. All, or any portion of, property used exclusively for non-profit religious, charitable, cemetery, or educational purposes, as defined by law, shall be exempt from taxation. Other exemptions of like or different kind may be granted by general law. All valid existing exemptions shall be retained until otherwise provided by law.

Sec. 43.90.320 could be rewritten to make the inducement an exemption rather than a tax credit by exempting from tax a percentage of the gas production committed to the pipeline during the first binding open season. An exemption like this would be more aligned with the examples of exemptions in art. IX, sec. 4, that exempt all or part of certain property from a tax.⁴

⁴ It may be possible to include a tax increase as a basis for calculating an exemption. For example, if the tax increased four percent, then four percent of the production committed to the pipeline would be exempt from tax.

Whether AS 43.90.320 is amended or not, the section should clarify whether the tax obligation is the nominal obligation determined by the nominal or minimum tax determined under AS 43.55.011, or its successor, or after applying the credits authorized in AS 43.55.023, 43.55.024, and 43.55.025. If the section is amended to exempt part of the production committed to the pipeline from tax, you should address whether credits and allowable lease expenditures used to determine the taxable value of the gas should be allocated between taxable and non-taxable gas, or may be fully applied to the taxable portion of the gas.

Sec. 43.90.330. As noted above, I suggest moving this section into art. 2, the article that provides inducement for a pipeline project, or art. 4, if the coordinator is to benefit both shippers and the project licensee.

I suggest adding provisions for the coordinator to hire staff and to designate where the coordinator will be situated within state government for administrative purposes. Will the position be in the governor's office, the Department of Revenue, the Department of Natural Resources, or some other department? You may wish to authorize the coordinator to hire exempt or partially exempt staff or specify that administrative support will be provided by the department in which the position is placed.

Do you want to add minimum qualifications for this position? Besides coordinating state agency activity to expedite the project, the position must also be capable of gauging Alaska law against agency action for the purpose of determining whether the agency action is contrary to the prohibitions in AS 43.90.340(b) and (c).

Sec. 43.90.340. As noted earlier, this section could be moved to art. 2, if it is intended to relate to the pipeline project, or art. 4, if it is intended to relate to both the pipeline project and to shippers.

AS 43.90.340(b). The drafter used the phrase, "notwithstanding any contrary provision of law." If the drafter had particular provisions in mind that may interfere with the intent of this section, those provisions could be addressed directly.

Sec. 43.90.400. This provision establishes the fund in the general fund that holds the \$500,000,000 that will be appropriated for the gasline inducement.

I suggest adding additional language to state that the fund is not a dedicated fund and that money may be expended without further appropriation. See for example AS 26.05.263(d) and (e) (fund for service members group life insurance premiums).

Sec. 43.90.410. I suggest deleting "jointly" on page 18, line 6. Each commissioner could be authorized to adopt regulations necessary to implement the chapter. I expect that there will also be a need for regulations that relate to the Alaska Gasline Inducement Act coordinator and the operation of that office.

Sec. 43.90.430. An alternative to this interest provision would be to incorporate the interest due on delinquent taxes under AS 43.05.225.

Sec. 43.90.440. Although the section makes the licensee entitled to "an amount equal to three times the total of the reasonable costs that the licensee has incurred" the payment

Representative Vic Kohring
March 14, 2007
Page 10

would be subject to appropriation. Note that the breach of the assurance by the state constitutes project abandonment under AS 43.90.120.

Sec. 43.90.450(c). As drafted, this subsection does not make sense. How does the phrase "include the firm transportation capacity contracts in the project" fit with the first part of the subsection? I think the intent was to require transfer of the capacity acquired during the first binding open season when the gas (and oil?) interests in the North Slope are transferred.

Sec. 43.90.900. A definition for "North Slope" should be added. For example, AS 43.55.011(f) uses the description "oil and gas produced north of 68 degrees North latitude" to refer to North Slope production.

On page 20, line 4, delete "and 'controlling'" as "controlling" is not used in the bill.

"Gas processing" is defined in AS 43.55.900 and that definition could be incorporated by reference.

"Lease" could be defined to mean "state lease" as that term is defined in AS 38.06.080.

I am not sure "under common control with" needs to be defined in this bill. The phrase is only used in the definition of "affiliate." If necessary, limit the term to "common control."

If I may be of further assistance, please advise.

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Petroleum NEWS

March 4, 2007

NATURAL GAS

Cash, but no ownership

Alaska gas pipeline act has state investing up to \$500M for certification

By KRISTEN NELSON

Petroleum News

Alaska would contribute to upfront costs of an Alaska natural gas pipeline project, but would not be an owner, Gov. Sarah Palin said Feb. 28 from Washington, D.C.

The governor, in the nation's capital meeting with key energy officials, provided a press briefing on the Alaska Gasline Inducement Act she plans to introduce to the Legislature March 2.

Palin said Alaska will provide a trained local workforce, predictable regulatory requirements and a state contribution to early development of the line. That contribution would be up to \$500 million, on a 50/50 basis, of the estimated \$1 bil-



GOV. SARAH PALIN

lion it will take for a project to receive certification from the Federal Energy Regulatory Commission.

Palin met with FERC Chairman Joseph Kelliher Feb. 26, and said in a statement that it was an opportunity to walk Kelliher through her proposal. "I recognize, as does the chairman, that a natural gas pipeline is not only in the state's best interest, but in the nation's best interest as well," the governor said.

Kelliher said he believes the governor's plans "represent the best hope for building a pipeline to bring Alaska's vast natural gas resources to the energy-consuming Lower 48 states." He said the commission stands "ready to help to the extent we

see PLAN page 18

continued from page 1

PLAN

can."

The governor also met with Interior Secretary Dirk Kempthorne, Energy Secretary Sam Bodman and Alaska's congressional delegation.

One-stop regulatory shopping

Marty Rutherford, deputy commissioner of the Department of Natural Resources, and head of the administration's gas pipeline team, was also in Washington for the meetings. She said the \$500 million capital match will be toward the cost of obtaining a FERC certificate and could not be rolled into the tariff, so it would result in a lower tariff for all shippers. Over 25 to 30 years the state would recoup a good deal of that \$500 million because of lower tariffs.

The state will mimic what the federal government has done and provide a single point of contact, a state pipeline coordinator, for coordinating among state regula-

tory agencies on permitting. Rutherford said the federal government has indicated it is willing to integrate its regulatory process with that of the state. The goal, she said, is to provide one-stop shopping for state and federal regulatory processes.

On the upstream side of the project, the state would reward producers making commitments to ship in a first open season with a contractual commitment that if the Legislature changed the production tax rate for gas in the first 10-year period, the producers would be reimbursed the difference as a tax credit. Rutherford said the state will change its existing lease provisions to provide predictability in how royalty rates are determined. The formula used now is complicated, she said, and the state would make the formula more certain for producers who commit gas into the project. The state will also



MARTY RUTHERFORD

change lease provisions on how it switches between royalty in value and royalty in kind to give producers longer notice and will take the transportation commitment to market for RIK.

All of this, she said, is intended to provide some elimination of risk for parties who will develop natural gas.

State wants commitments

What does the state want?

Rutherford said applicants would have to commit to hold an open season within three years of a licensee being determined and commit to a firm date for an application to FERC. Applicants would have to identify interim steps they intend to take and timing within the application and would need to tell the state how they intend to use matching funds.

The state wants financial provisions that will ensure that the tariff rate is low for all upstream companies and a commitment to solicit for expansion demand on the pipeline every two years and, when reasonable, to expand the pipeline.

The state also wants applicants to indicate how they intend to deal with the risk of cost overruns, and how they might take on some of that risk in the tariff structure. The state wants at least five off-take points within Alaska and a commitment to hire Alaskans to the degree allowed by law.

The state wants to make sure, Rutherford said, that applicants are able to perform commitments they are making to the state. The purpose of AGIA is to move the project forward and put Alaska skin in the game so the nation and applicants know the state is willing to share some of the risk, Rutherford said.

The administration will ask the Legislature to pass AGIA this session and hopes to have a request for proposals out by June or July, with applications due Oct. 1. Rutherford said the timeline would be for state and public review and a written decision to the Legislature by the end of January 2008, with a goal to have a license issued April 1, 2008, so that field work can begin in the summer of 2008. ●

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Anchorage Daily News

Print Page

Close Window

Palin's plan for gas line takes first public licks**NEW ENERGY: About 30 people air views on governor's legislation.**

By RICHARD RICHTMYER

Anchorage Daily News

(Published: March 6, 2007)

A week before state lawmakers are scheduled to take their first crack at Gov. Sarah Palin's natural gas pipeline legislation, members of her pipeline project team took the proposal directly to the people.

Revenue Commissioner Pat Galvin, Resources deputy commissioner Marty Rutherford and other Palin administration officials gave an overview of the governor's bill during a town hall-style meeting in Anchorage on Monday night. They also took questions from the group of about 30 people who showed up for the event.

Many who turned out voiced comments or aired concerns instead of asking questions.

For example, one man said he was pleased that the legislation included provisions aimed at ensuring Alaskans get to work on the project but was disappointed that it didn't require a project-labor agreement. Another voiced concerns about how the state, since it would be soliciting proposals from a wide range of potential builders, would be able to fairly weigh drastically different pipeline plans against one another.

This was the first of several public meetings Palin officials said they plan to hold throughout the state in the coming weeks. The governor wants to get the bill passed before the Legislature adjourns in mid-May.

She unveiled her pipeline plan, called the Alaska Gasline Inducement Act, on Friday. The 21-page bill would provide cash and other incentives to potential builders of a pipeline that would carry the North Slope's vast reserves of natural gas to Lower 48 markets.

Legislative committee work on the bill isn't scheduled to begin until next week. In the meantime, members of Palin's pipeline team got a head start addressing some of the questions that are expected to emerge in the Legislature.

One of the biggest inducements in Palin's bill is a state gift of up to \$500 million, to be matched by a pipeline builder, to help offset early upfront costs.

That was the first issue that came up during Monday's question-and-answer session.

"Why should the state of Alaska subsidize Exxon, Conoco Phillips and BP to get natural gas to market to the tune of \$500 million?" an audience member asked.

Galvin defended the plan, asserting that in return for that money the state would be "buying" project terms that are valuable to Alaska.

"It's not a subsidy. It's actually a purchase," Galvin said.

Among the givebacks are a pipeline that can be expanded to allow a wide range of gas explorers to tap it; commitments by a pipeline builder to provide at least five places where the gas could be drawn off for in-state use at rates below those charged to Lower 48 buyers; and project timelines and benchmarks, the governor's people said.

Some of the questions narrowly focused on specific points in the legislation. For instance, why does Palin's proposal call for five in-state taps instead of four, as proposed in former Gov. Frank Murkowski's plan?

The answer, Rutherford said, is that the number of taps isn't as important as ensuring a good supply of gas for Alaska. Other components of the legislation, such as requiring the builder to set rates for in-state gas that only charge for transportation from the North Slope and not all the way to the end of the line, are more important.

Murkowski last year presented a deal with Exxon, Conoco and BP setting tax and other terms for a possible pipeline. That deal died after most state lawmakers criticized it as giving too much to the oil companies.

The former governor's critics cast doubt on his plan, arguing that it was impossible to know if the deal he struck with the producers was the best deal for Alaskans because there hadn't been adequate public scrutiny of other proposals.

Palin's plan allows for anyone interested in building a pipeline to submit a project plan and for all the proposals that meet the state's guidelines be released for public review before state officials select the winner.

That might achieve the transparency that the new governor has promised in the process, but some participants in Monday's meeting said that might ultimately weaken the state's bargaining position.

Galvin acknowledged the quandary.

"It's all going to be laid out there, and within that framework is one of the problems that we just inherently have to recognize," he said. "We're a democracy, and we have to make a public decision. That by its nature puts us at a disadvantage."

Reporter Richard Richtmyer can be reached at rrichtmyer or 257-4344.

Print Page

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Daily News - Miner

State showcases new gas line plan

By Eric Lidji

Published March 6, 2007

Tom Irwin, the commissioner of the Alaska Department of Natural Resources, unveiled details of Gov. Sarah Palin's plan for getting North Slope natural gas to market on Monday night, presenting the plan as the state's way of moving into an active role to bring about a natural gas pipeline.

"The state is moving forward," Irwin said. "We're not waiting."

The Alaska Gas Inducement Act, or AGIA, Irwin said, issues a list of the state's demands for a pipeline, paired against incentives, or "inducements," for the agency ultimately chosen to build the project.

More than 35 people gathered in the Lathrop High School library to hear Irwin and a panel of representatives from the state Division of Oil and Gas discuss the plan.

The Palin administration held a simultaneous town hall meeting in Anchorage on Monday night.

While the crowd seemed enthusiastic about the proposal, many also expressed concern that AGIA did not adequately guarantee Alaskan employment on a pipeline project.

Irwin acknowledged the concerns, but said that weighing the proposal down with too many specifics now could jeopardize the entire plan, and that the details of any labor agreement could be settled after legislative approval of AGIA.

Employment for Alaskans is one of six goals Palin had for the plan, according to Bruce Anders, a leasing manager with the Division of Oil and Gas.

Other goals include creating a competitive marketplace for project proposals, ensuring long-term development and expansion of North Slope facilities, setting reasonable tariffs on gas moving through the pipeline and guaranteeing a natural gas supply for Alaskans.

One of the inducements would match initial state or federal permitting costs up to \$500 million. Another would offer certain tax exemptions to producers for natural gas committed to a pipeline.

Irwin set out a rough timeline for the plan leading to preparations for construction as early as the summer of 2008.

The timeline begins with legislative approval this session.

AGIA entered the legislative process Monday when senators and representatives referred mirroring versions of Palin's proposal to six different committees for review.

According to Irwin, the state would take two months after legislative approval to finalize the act and issue a call for application from groups interesting in building the pipeline.

Those groups would have three months, or somewhere around Oct. 1, to return the application.

After a 15-day review by the state, the public would have two months to review and comment on all the applications.

The state would then make a recommendation to the Legislature next January, and the process would be finalized by the end of next year's session.

Alaska's North Slope has 35 trillion cubic feet of proven natural gas reserves.

Contact staff writer Eric Lidji at 459-7504 or elidji@newsminer.com.

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Palin bets her image on gas line

With a \$500 million incentive on the line, some lawmakers say stakes are too high

Gov. Sarah Palin is staking half a billion dollars and much of her popularity on an effort to give Alaska a \$20 billion to \$30 billion natural gas pipeline and send the state's vast reserves of the clean-burning fuel to market.

Palin and others say the \$500 million state offer to help a developer get permits for the pipeline is far less than former Gov. Frank Murkowski was willing to pay in his failed gas line effort.

Still, the \$500 million incentive in Palin's Alaska Gasline Inducement Act has raised eyebrows among Democrats and her own Republican Party.

"Half a billion dollars is no small chump change," said Rep. John Coghill, R-North Pole, a key member of the House's Republican leadership.

"Why are we giving away \$500 million?" asked Rep. Mike Doogan, D-Anchorage, a freshman Democrat.

"It sounds like a jaw-dropping figure," Palin acknowledged.

Previous efforts, including Murkowski's, cost less up front, but would have cost the state dearly over the long term, Palin said. Because it didn't guarantee a pipeline would be built quickly, the Murkowski plan also added the risk and cost of additional delay, she said.

Under Murkowski's plan "the state was at risk for \$13-14 billion, plus unquantifiable value of our resource development future," she said.

Palin's plans to invest the money early, hoping that a smaller amount spent in the critical early stages will have more impact than a larger amount later.

If it works, it could bring more of the benefits of Alaska's gas reserves to Alaskans.

Trillions and trillions

Those reserves are huge, said Commissioner of Natural Resources Tom

Irwin.

Companies looking for oil have located 35 trillion cubic feet of natural gas in proven reserves. Geologists who have studied the terrain think there are another 250 trillion cubic feet to be found once they start looking for it, he said.

And gas hydrates locked in ocean floor sediments probably amount to much more, he said.

Some scientists, Irwin said, are thinking there are "hundreds, maybe a thousand, maybe thousands of trillion cubic feet" of gas available.

Once the pipeline is in place, that entire resource can be exploited.

Palin's plan would match money spent by whoever is licensed to build the line while they go through the initial process of getting Federal Energy Regulatory Commission approval.

The match would be "dollar for dollar," said Patrick Galvin, commissioner of the Department of Revenue, and a member of Palin's gas line team. That upfront incentive would have to be approved by the Legislature.

A tough sell

Senate President Lyda Green, R-Wasilla, said the hearings on the bill are likely to begin this week, and likely will be "very vigorous."

Sen. Hollis French, D-Anchorage, said he appreciated that Palin's proposal lets candidates for the pipeline make their offers more attractive by taking less than the \$500 million.

Some think that's too much to be offering anyway.

"If the company can't afford the \$500 million to do the design and engineering, to do the initial licensing, how the heck are they going to afford the \$25 billion" total cost, asked Rep. Kevin Meyer, R-Anchorage.

Rep. Beth Kerttula, D-Juneau, was skeptical of the incentive amount but said it might be needed to get smaller companies into the deal.

"I'm not sure how necessary it is for the big oil companies, but for the smaller companies that are going to be so critical to Alaska and critical to our future it may be very important," Kerttula said.

"I think the governor's using it as a carrot, and it might work," Sen. Tom Wagoner, R-Kenai, said from Washington, D.C., where he was attending meetings of the Energy Council and advocating for the pipeline.

The tariff charged to companies shipping gas through the line will be lower if

it costs less to build. Having the state contribute up front could mean Alaska will get more for its gas later, he said.

That's how an early investment can be magnified to benefit the state, Palin said.

"It will be returned to Alaska again and again over the years in the form of those lower tariffs," she said.

Wagoner said Palin's incentive was far less than what Murkowski's gas contract would have eventually cost, which he estimated at \$15 billion.

"It pales in comparison to what the Murkowski proposal did," he said.

Kerttula agreed. "Five hundred million dollars is a lot of money, but in the grand scheme of things ... it is a whole lot less than what we were going to see going out in the bill before," she said.

A popular governor and an unpopular one

Palin brings something to the negotiations that Murkowski didn't: her own jaw-dropping popularity numbers.

A February survey by Hellenthal & Associates of Anchorage found Palin with a 73 percent approval rating, with negatives of only seven percent, for an unheard of 10-1 ratio.

"This was the highest I've ever had," pollster Marc Hellenthal said.

Murkowski, politically damaged last year by actions such as appointing his daughter to his old U.S. Senate seat and buying a jet lawmakers opposed, did not have the political clout to get his deal done.

Murkowski concluded that only three big Alaska oil producers were capable of building the pipeline. He spent a hectic last year of his administration negotiating a contract with them and trying to shepherd it through the Legislature.

Lawmakers never did approve that effort, and Palin rejected it when she took office in December.

She has since told producers, BP, ConocoPhillips and Exxon Mobil, who had a favored position with Murkowski, that they'd have to compete with independent explorers and pipeline companies to win building rights.

Palin has managed to get a host of companies, including the producers, to endorse her strategy.

"We're ready to roll up our sleeves and get to work," said Doug Suttles, president of BP-Alaska, at the press conference rolling out the inducement

act.

Palin said the state investment will show everyone - producers, federal regulators and investors - that the state is serious about building the line.

"It's up front, it's on the table for all to see," she said. "It's our real skin in the game here."

To get her bill through the Legislature, Palin will have to persuade skeptics such as Coghill that it's a good deal.

"I just hope we don't get skinned alive on it," Coghill said.

- Pat Forgey can be reached at patrick.forgey@juneauempire.com.

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SCOMM

148:7

The Palin-Parnell Administration presents

AGIA

The Alaska Gasline Inducement Act

Last Updated: March 12th, 2007

Introduction

Presentation 1

**Need for the AGIA approach
State value for the \$500M (Part I)**

Presentation 2

**State value for the \$500M (Part II)
Increasing Resource Owner Predictability**

Need for the AGIA Approach

Overview of AGIA principals



- **Get project built, quickly**
- **Open the North Slope gas basin**
- **Open and competitive process**
- **Low tariffs**
- **Gas for Alaska**
- **Jobs for Alaska**
- **Reduce uncertainties for the Producers**

State Value for \$500 million

- **Project moves forward**
- **Lower tariffs**
- **Expansion Commitments**
- **Rolled-in rates**

Prototype Pipeline Model



Economic analyses based on:

- 4.3 Bcf/day to Alberta
- 70/30 debt to equity, 14% ROE
- Current PPT tax structure (no GTP credit)
- Pipeline cost of \$20.5B (\$2007)
- 30 year project life
- Gas flow 2016-2046
- Oil to Gas ratio = 7 (fixed)
- Oil price of \$36.50 fixed real for project life
- \$ values increase at 2%/yr

State Value for \$500 million



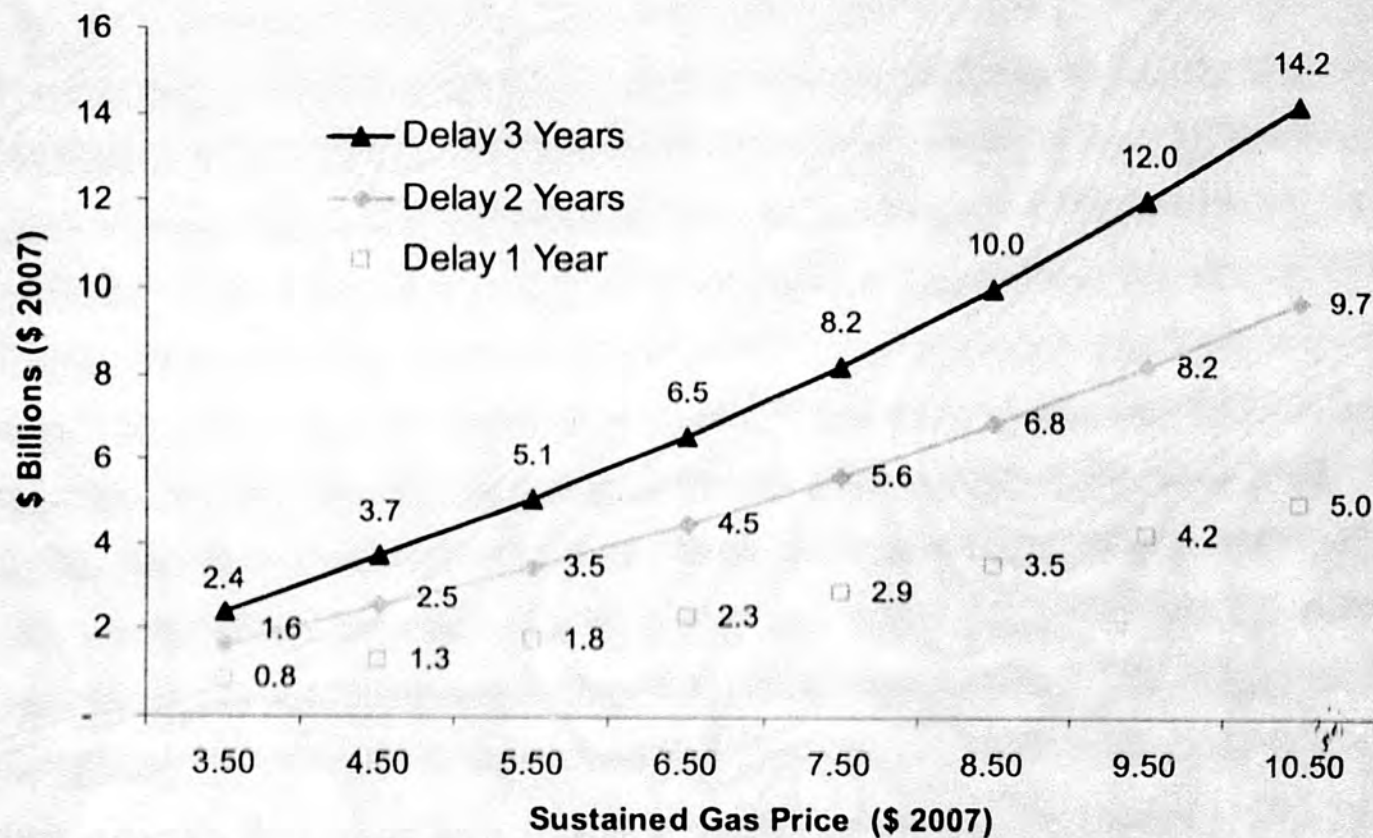
1. Project moves forward quicker

Losses to State For Each Year Delay

Discounted at 5% per Year

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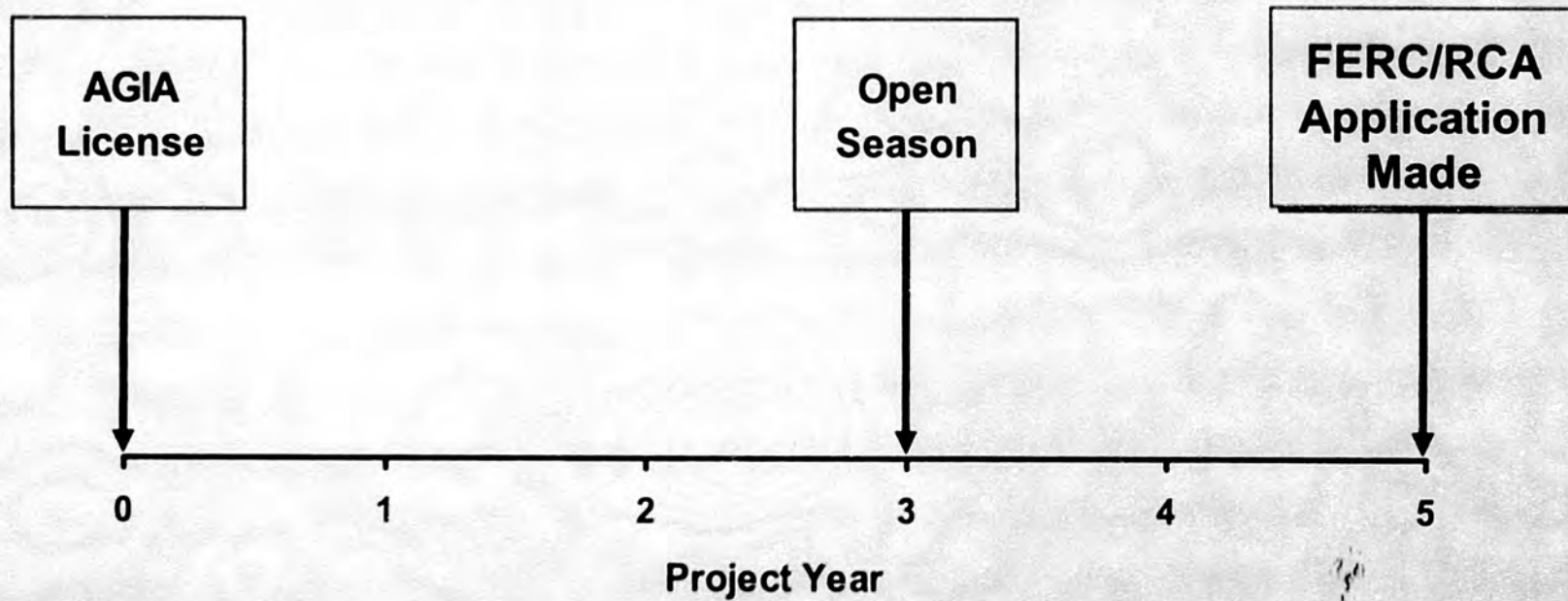
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Timeline

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AGIA Timeline

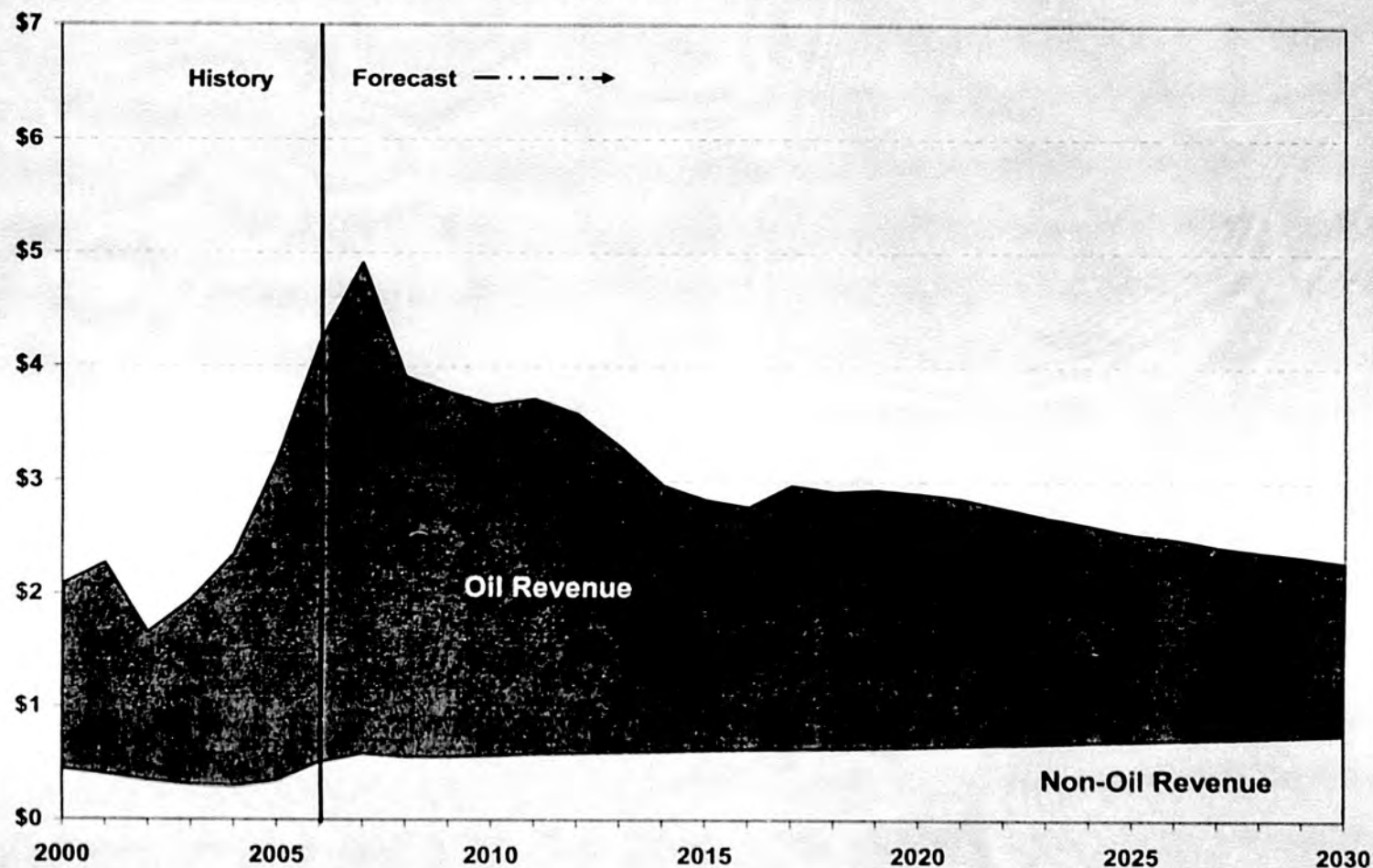


Declining Oil Revenue

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Alaska General Fund Unrestricted Revenue, Billions of Dollars



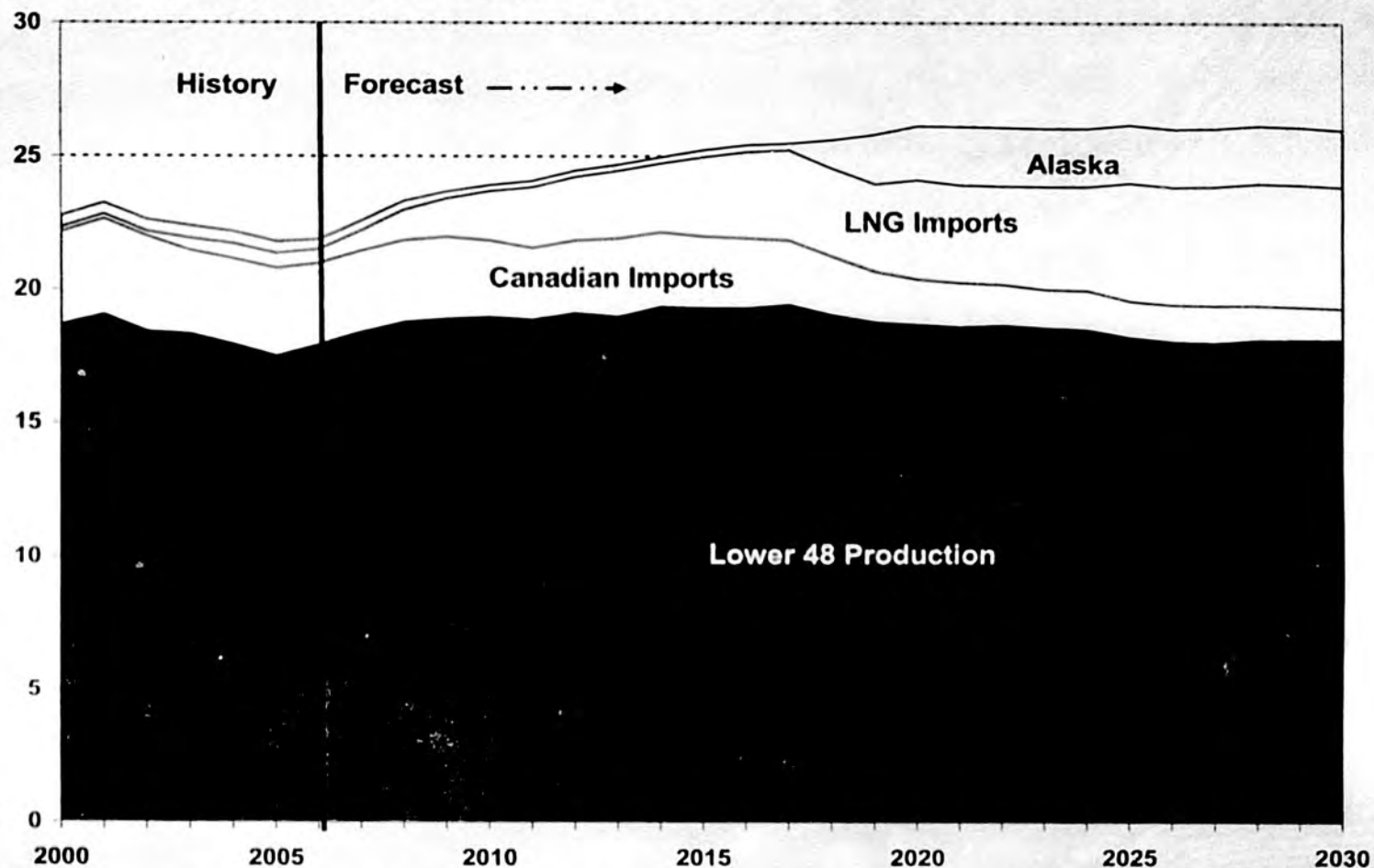
Source: Fall 2006 *Revenue Sources Book*, includes Cook Inlet

US Need for Alaska Gas

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US Demand, Trillions of Cubic Feet per Year



Source: US Department of Energy, Energy Information Administration, *Annual Energy Outlook 2007*, February 2007.

State Value for \$500 million

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2. Lower tariffs

How Transportation Charges Affect State Royalty and Production Tax - Hypothetical

Destination Price		\$6.25
Transportation Charges		
Gas Treatment Plant	\$0.49	
Pipeline Alaska-Canada	<u>\$1.65</u>	
Subtotal	\$2.14	
Netback Value of Gas		\$4.11

- A 1¢ change in the pipeline tariff is worth \$45 million in cumulative royalty and production tax proceeds to the State over project life.

Payback from reduced tariffs:

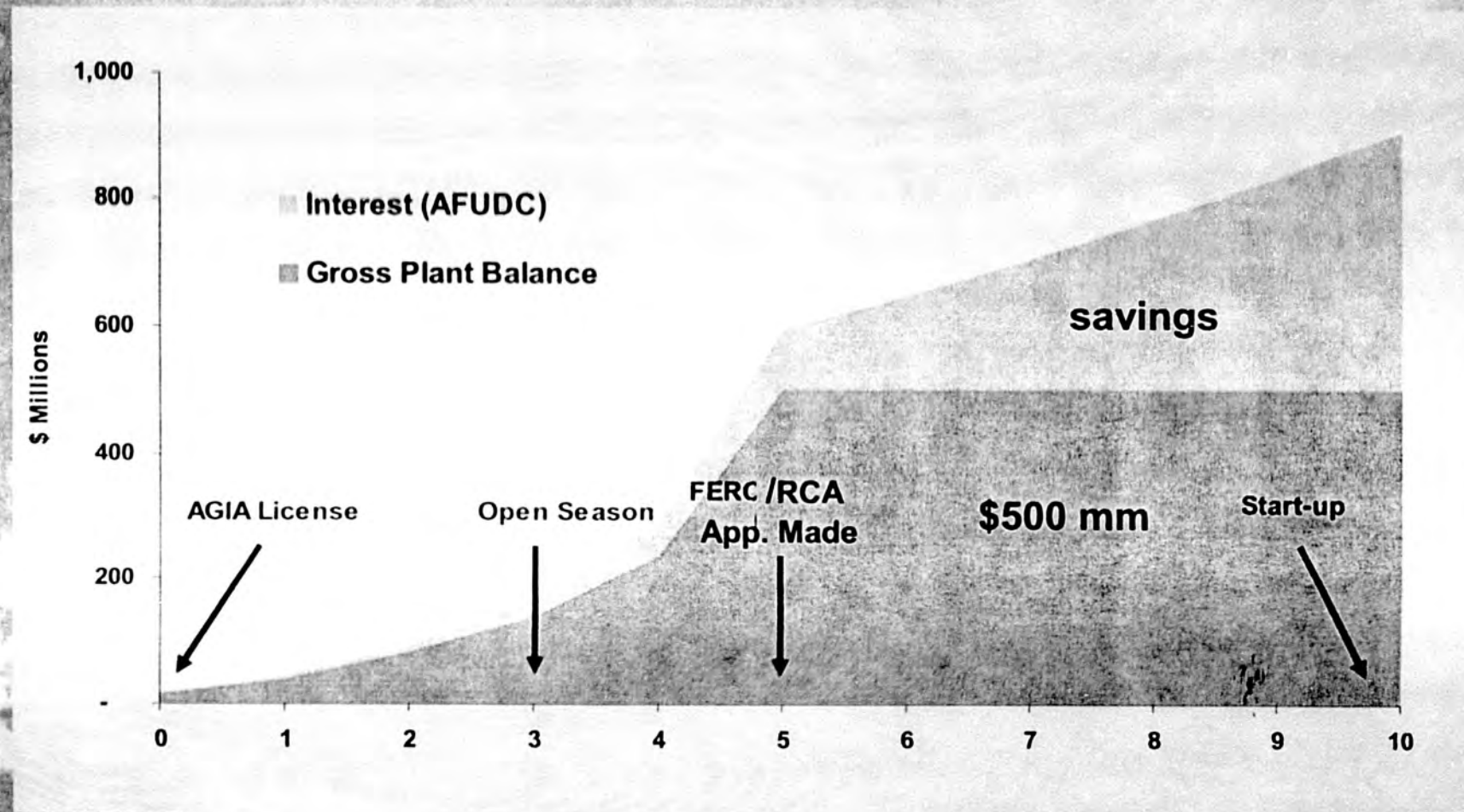


- Reduces pipeline tariff by 4-6¢ for next 30 years
- A 1¢ change in the tariff is worth \$45M in royalty and production tax to the state over project life
- At 5% discount rate, state receives 70% back

State Co-Pay Reduces Rate Base Elements by More than \$500 mm

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Capital Structure Requirements Reasonable, Provide Protection



- FERC has approved 70/30 capital structure for eight of fifteen recent major new-build or expansion projects
- Three projects had 75/25 capital structures
- Three had 50 percent equity or more, with one having 65 percent equity.

Tariff and State Revenue Effects of Debt-Equity Structure

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Debt%	Equity%	Tariff	Present Value State Revenue \$ Billions
80%	20%	\$1.47	37.4
75%	25%	\$1.56	36.9
70%	30%	\$1.65	36.3
65%	35%	\$1.74	35.7
60%	40%	\$1.84	35.1
55%	45%	\$1.95	34.5
50%	50%	\$2.06	33.8
45%	55%	\$2.18	33.1

AGIA protects the states interest in low tariffs. It ensures that no less than 70/30 will be used rather than 50/50, with associated tariff benefits of 41 cents and state revenue benefits of \$2.5 billion.

State Value for \$500 million

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3. Expansion commitments

Access Delay Prevents Exploration

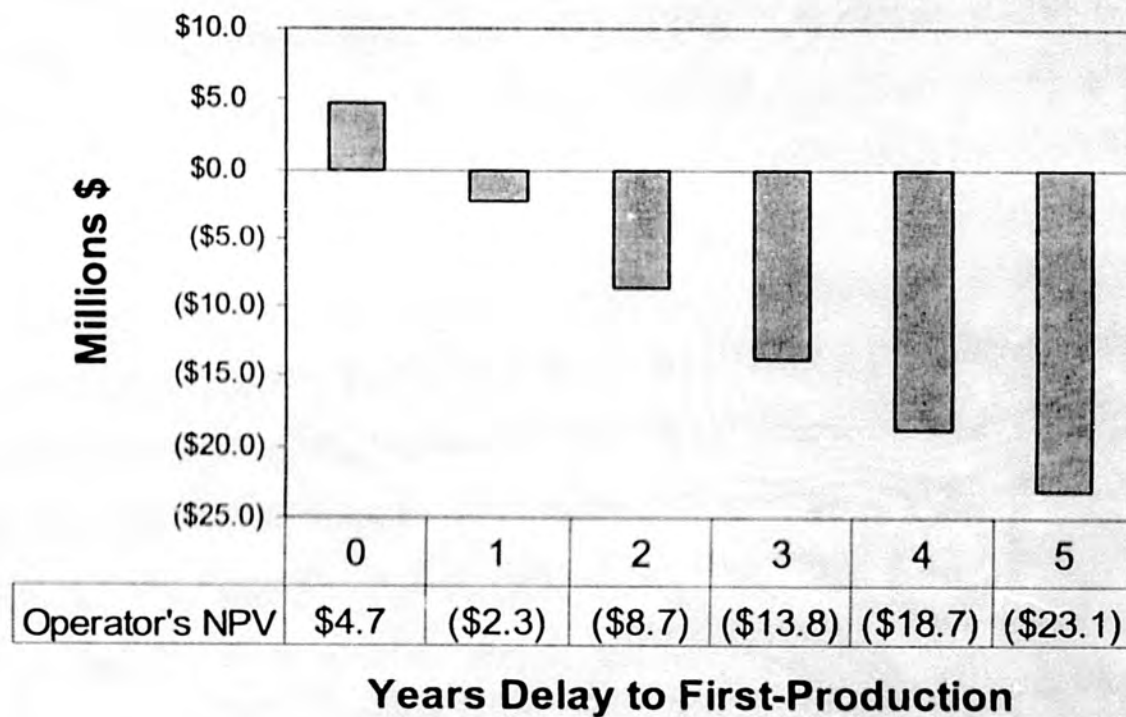


- FERC mandatory expansion process requires shippers to make capacity commitment
- Capacity commitment requires gas
- Getting gas requires investment in seismic, exploration drilling, and delineation drilling
- After investment, each year of delay in pipeline access reduces NPV of prospect by millions \$
- Threat of delay will cause explorer not to invest.

Cost-of-Delay To Explorer

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Expected Net Present Value (NPV 12) Generic North Slope Prospect



State Value for \$500 million

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4. Rolled-in Rates

Rolled-in Rates for Expansions



- Foster exploration and development
 - Expansion shippers pay lower rates, increasing likelihood of exploration
 - All shippers pay the same rate
 - Incremental rates result in some shippers paying more than other shippers

What Rolled-in Rates Are



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Initial Cost

\$100

Throughput

100

Initial Toll

\$100/100

= **\$1.00/unit**

Expansion Cost

\$30

Exp. Throughput

18

Rolled in Toll

$\$(100+30)/(100+18)$

= **\$1.10/unit**

Expansion Cost

\$30

Exp. Throughput

18

Increment. Toll

\$30/18 unit

= **\$1.67/unit**

Rolled-in Rates for Expansions Encourage Exploration



- Rolled-in rates make exploration prospects economic, which would not be economic under incremental rate treatment
- The expected value of an exploration project is greater with rolled-in rates
- This is true for both explorers and producer

Rolled-in Rates for Expansions Encourage Exploration



IMPACTS ON PROSPECT VALUE

1ST expansion: Add 1 Bcf/day with compression (from 4.5 to 5.5 Bcf/day)

Rolled-in

\$6.0 million

Incremental

\$6.5 million

2nd expansion: Add 1 Bcf/day with compression (from 5.5 to 6.5 Bcf/day)

Rolled-in

\$4.3 million

Incremental

-\$5.4 million

3rd expansion: Add 700 MMcf/day with looping (from 6.8 to 7.5 Bcf/day)

Rolled-in

\$.9 million

Incremental

-\$25.5 million

Rolled-in Rates for Expansions – Tariff Effects



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1st expansion

Add 1 Bcf/day with compression (from 4.5 to 5.5 Bcf/day)

	<i>Incremental</i>	<i>Rolled-in</i>
<i>Existing Shippers</i>		
Rate/Fuel Use	\$1.62 / 2.7%	\$1.47/4.3%
<i>Expansion Shippers</i>		
Rate/Fuel Use	\$1.07 / 11.6%	\$1.47/4.3%

2nd expansion

Add 1 Bcf/day with compression (from 5.5 to 6.5 Bcf/day)

	<i>Incremental</i>	<i>Rolled-in</i>
<i>Existing Shippers</i>		
Rate/Fuel Use	\$1.47 / 4.3%	\$1.51 / 5.6%
<i>Expansion Shippers</i>		
Rate/Fuel Use	\$1.73 / 13.3%	\$1.51 / 5.6%

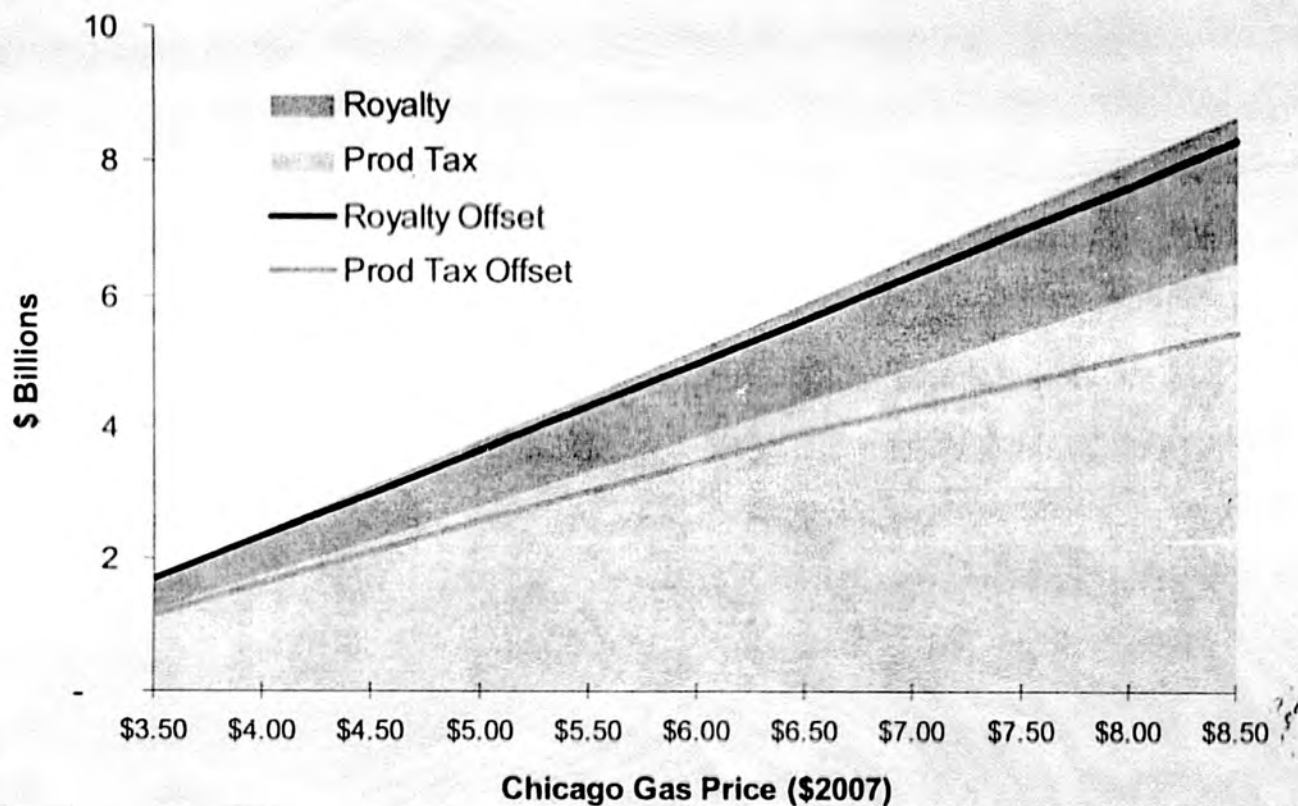
3rd expansion

Add 700 MMcf/day with looping (from 6.8 to 7.5 Bcf/day)

	<i>Incremental</i>	<i>Rolled-in</i>
<i>Existing Shippers</i>		
Rate/Fuel Use	\$1.57 / 6.1%	\$1.71 / 5.5%
<i>Expansion Shippers</i>		
Rate/Fuel Use	\$3.25 / 5.5%	\$1.71 / 5.5%

Incremental State Revenue 1 Bcfd Expansion¹ in 2021

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¹ Expansion through in-fill compression.

Incremental State Revenue, 700 mmcf Looping Expansion in 2023

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