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contracts, rights-of-way, and other work product of the licensee that is related to the licensed project.

Sec. 43.90.240. Abandonment of project. (a) If the commissioners and the licensee agree that the project is uneconomic, the project shall be abandoned, the inducement provided for in AS 43.90.110 terminated, and the state and the licensee no longer have an obligation under this chapter with respect to the license except for requirements imposed on the licensee under (f) of this section and AS 43.90.220.

(b) If the commissioners or the licensee determine the project is uneconomic and the other party disagrees, the disagreement shall be settled by arbitration administered by the American Arbitration Association under the substantive and procedural laws of this state, and judgment on the award rendered by the arbitrators may be entered in a superior court in the state. In the event of arbitration, each party shall select an arbitrator from the American Arbitration Association's National Roster and the two arbitrators shall appoint a third arbitrator from the American Arbitration Association's National Roster who shall serve as the chair of the three-member arbitration panel. If the arbitration panel determines that the project is

(1) uneconomic, the state and the licensee no longer have any obligation under this chapter with respect to the license, except for requirements imposed on the licensee under (f) of this section and AS 43.90.220; or

(2) not uneconomic, the obligations of the licensee and the state continue as provided under this chapter and the license.

(c) The arbitration panel in (b) of this section shall make a determination that the project is uneconomic only if the panel finds that the party claiming the project is uneconomic has proven by a preponderance of the evidence that the

(1) project does not have credit support sufficient to finance construction of the project through firm transportation commitments, government assistance, or other sources of financing; and

(2) predicted costs of transportation at a 100 percent load factor, when deducted from predicted gas sales revenue using publicly available predictions of future gas prices, would result in a producer rate of return that is below the rate typically accepted by a prudent oil and gas exploration and production company for

Amendment #31

subjective

objective

1 incremental upstream investment that is required to produce and deliver gas to the
2 project.

3 (d) In an appeal of a final determination rendered by the arbitrators under (b)
4 of this section, the person making the appeal has the burden of proof.

5 (e) If the state makes a payment to the licensee under AS 43.90.440, the
6 license is considered abandoned, and the state and the licensee no longer have any
7 obligations under this chapter with respect to the license, except that the licensee must
8 comply with the

9 (1) requirements imposed on the licensee under AS 43.90.220
10 regarding state money received by the licensee before the license was considered
11 abandoned; and

12 (2) requirements of AS 43.90.440.

13 (f) If the commissioners and the licensee agree that the project is uneconomic
14 or an arbitration panel makes a final determination that the project is uneconomic, the
15 licensee shall deliver to the state or the state's designee all engineering designs,
16 contracts, permits, and other data relating to the project that are acquired by the
17 licensee during the term of the license upon reimbursement by the state of the net
18 amount of expenditures incurred and paid by the licensee that are qualified
19 expenditures for the purposes of AS 43.90.110.

20 **Sec. 43.90.250. Alaska Gasline Inducement Act coordinator.** (a) There is
21 created in the office of the governor the position of Alaska Gasline Inducement Act
22 coordinator. Administrative support for the position shall be provided by the office of
23 the governor. The position shall continue until one year after commencement of
24 commercial operations of the project.

25 (b) The governor shall appoint a person to the position of Alaska Gasline
26 Inducement Act coordinator. The initial appointment is subject to confirmation by the
27 legislature and an appointment is subject to reconfirmation by the legislature during
28 the first regular legislative session after a general election at which a governor is
29 elected. The individual serving as the Alaska Gasline Inducement Act coordinator may
30 be removed from the position at the discretion of the governor.

31 (c) The Alaska Gasline Inducement Act coordinator is entitled to receive an

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1 annual salary equal to Step A, Range 28, of the salary schedule set out in
2 AS 39.27.011(a) for Juneau.

3 (d) The Alaska Gasline Inducement Act coordinator shall, in conjunction with
4 the commissioners,

5 (1) coordinate expeditious performance of all activities by state
6 agencies for the project;

7 (2) ensure compliance by state agencies with the provisions of this
8 chapter; and

9 (3) coordinate with the Office of the Federal Coordinator for Alaska
10 Natural Gas Transportation Projects (29 U.S.C. 720d) for natural gas transportation
11 projects in the state.

12 **Sec. 43.90.260. Expedited review and action by state agencies.** (a) A review
13 conducted and action taken by a state agency relating to the project shall be expedited
14 in a manner consistent with the completion of the necessary approvals in accordance
15 with this chapter.

16 (b) Notwithstanding any contrary provision of law, a state agency may not
17 include in any project certificate, right-of-way, permit, or other authorization issued to
18 the licensee a term or condition that is not required by law if the coordinator
19 determines that the term or condition would prevent or impair in any significant
20 respect the expeditious construction and operation or expansion of the project.

21 (c) Unless required by law, a state agency may not add to, amend, or abrogate
22 a certificate, right-of-way, permit, or other authorization issued to a licensee if the
23 coordinator determines that the action would prevent or impair in any significant
24 respect the expeditious construction, operation, or expansion of the project.

25 **Article 3. Resource Inducement.**

26 **Sec. 43.90.300. Qualification for resource inducement.** (a) Notwithstanding
27 any contrary provision of law, a lessee or other person that demonstrates to the
28 satisfaction of the commissioners that the person has committed to acquire firm
29 transportation capacity in the first binding open season of the project is qualified to
30 receive the resource inducement set out in AS 43.90.310 and 43.90.320 for gas
31 produced on the North Slope and shipped in firm transportation capacity acquired in

1 the first binding open season of the project. The inducement in AS 43.90.310 is
2 contractual.

3 (b) A gas producer receiving a voucher under AS 43.90.330 is qualified to
4 receive the resource inducement in AS 43.90.310 and 43.90.320 for the gas shipped in
5 the firm transportation capacity described in the voucher for the period described in
6 AS 43.90.330.

7 **Sec. 43.90.310. Royalty inducement.** (a) Before the start of the first binding
8 open season to be conducted by the licensee, the commissioner of natural resources
9 shall adopt regulations that provide a method to determine the monthly value of the
10 state's royalty share of gas production and provide terms under which the state will
11 exercise its right to switch between taking its royalty in value or in kind for gas
12 committed for firm transportation in the first binding open season of the project or
13 shipped in the firm transportation capacity described in a voucher received by the gas
14 producer under AS 43.90.330. The regulations must

15 (1) minimize retroactive adjustments to the monthly value of the state's
16 royalty share of gas production;

17 (2) provide a method for establishing a fair market value for each
18 component of the state's royalty gas that is based on pricing data from reliable and
19 widely available industry trade publications and that uses appropriate adjustments to
20 reflect

21 (A) deductions for actual and reasonable transportation costs
22 for the state's royalty gas, including a reasonable share of the costs associated
23 with unused capacity commitments on gas pipelines from the North Slope to
24 the first destination market with reasonable market liquidity;

25 (B) location differentials between the destination markets
26 where North Slope gas could be sold;

27 (C) reasonable and actual costs for gas processing; and

28 (D) deductions permitted under the 1980 Royalty Settlement
29 Agreement for Prudhoe Bay gas; and

30 (3) establish terms under which the state will exercise its authority to
31 switch between taking its royalty gas in value and in kind to ensure that the state's

1 actions do not unreasonably

2 (A) cause the lessee or other person to bear disproportionate
3 transportation costs with respect to the state's royalty gas;

4 (B) interfere with the lessee's or other person's long-term
5 marketing of its production.

6 (b) If a lessee or other person qualified for resource inducement under
7 AS 43.90.300 agrees under (c) of this section, the lessee or other person is entitled to
8 elect whether

9 (1) to calculate its gas royalty obligation under the regulations adopted
10 under (a) of this section for natural gas transported on a firm contract negotiated
11 during the project's first binding open season or under the methodology set out in the
12 existing leases from which the gas is produced, and

13 (A) upon the request of the lessee, the commissioner of natural
14 resources shall contractually amend the existing lease to effect the election
15 under this paragraph and ^{incorporate as fixed contract terms} ~~incorporate~~ into the lease terms of the relevant
16 regulation as fixed contract terms; and

17 (B) the election under this subsection remains in effect until
18 new regulations are adopted as a result of a review under (d) of this section, at
19 which time, a lessee or other person qualified under AS 43.90.300 may change
20 its election under this paragraph; upon the request of the lessee, the
21 commissioner of natural resources shall contractually amend the lease to
22 incorporate as fixed contract terms the relevant revised regulatory provisions;
23 or

24 (2) to enter into a contract with the state that amends the existing lease
25 terms by

26 (A) extending the required period of notice ^{amendment #42} that the state must
27 provide before exercising the state's right to switch between taking its royalty
28 in value or in kind for gas committed for firm transportation in the first binding
29 open season of the project; or

30 (B) ~~eliminating the ability of the state to take its royalty in kind~~
31 for gas in the quantity and volume committed to the firm transportation

Relevant Amend No. 6 to #44 Rules

Do not delete 13-15

amendment #42

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1 capacity acquired during the first binding open season of the project, if the
 2 person entitled to this election agrees to provide gas for in-state residential and
 3 commercial uses at the delivery points described in the license at the same
 4 value as would be received by the state if the state receives its royalty in value
 5 with the corresponding distance-sensitive transportation charges; if the lessee
 6 or other person exercising this election fails to adequately supply the in-state
 7 gas requirements, after reasonable notice, or if the contract effectively prevents
 8 the state from exercising its rights with other lessees to switch between taking
 9 its royalty in value or in kind because of various unit agreements among
 10 lessees, the election is considered to terminate, and the provisions of the
 11 original lease relating to the state's taking its royalty gas in kind or in value
 12 apply.

13 (c) To claim the inducement under (b) of this section, a lessee or other
 14 qualified person shall agree, on an application form provided by the Department of
 15 Natural Resources, that the lessee or person, and the lessee's or person's affiliates,
 16 successors, assigns, and agents will not protest or appeal a filing by the licensee to roll
 17 in expansion costs of the mainline up to a level that is required in AS 43.90.130(7).
 18 The agreement not to protest may not preclude the lessee or other qualified person, or
 19 the affiliates, successors, assigns, and agents of the lessee or other qualified person,
 20 from protesting a filing to roll in mainline expansion costs that licensee is not required
 21 to propose and support under AS 43.90.130(7).

22 (d) The commissioner of natural resources shall provide for review of the
 23 regulations adopted under (a) of this section at least every two years after the
 24 commencement of commercial operations to determine whether the regulations
 25 continue to minimize retroactive adjustments to the monthly value of the state's
 26 royalty share of gas production under current conditions; the commissioner shall
 27 amend the regulations when the requirement is not being met.

28 (e) No provision of this chapter precludes the election set out in (b) of this
 29 section, nor may the commissioner of natural resources assert any provision of any
 30 existing lease or unit agreement as precluding the elections set out in (b) of this
 31 section.

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1 **Sec. 43.90.320. Gas production tax exemption.** (a) If a person qualified for
 2 resource inducement under AS 43.90.300 agrees under (c) of this section, the person is
 3 entitled to an annual exemption from the state's gas production tax in an amount equal
 4 to the difference between the amount of the person's gas production tax obligation
 5 calculated under the gas production tax in effect during that tax year and the amount of
 6 the person's gas production tax obligation calculated under the gas production tax in
 7 effect at the start of the first binding open season held under this chapter. If the
 8 difference is less than zero, the gas production tax exemption is zero.

9 (b) The exemption under this section may be applied within the 1 years
 10 immediately following commencement of commercial operations and only applied to
 11 production taxes that are levied on North Slope gas shipped through firm
 12 transportation capacity the person acquired during the first binding open season or
 13 shipped in the firm transportation capacity described in a voucher received by the gas
 14 producer under AS 43.90.330.

15 (c) The person claiming the exemption under this section shall agree that the
 16 person and the person's affiliates, successors, assigns, and agents will not protest or
 17 appeal a filing by the licensee to roll in mainline expansion costs up to the level that
 18 the licensee is required to propose and support under AS 43.90.130(7); the agreement
 19 required under this subsection may not preclude the person or the person's affiliates,
 20 successors, assigns, and agents, from protesting a filing to roll in mainline expansion
 21 costs that the licensee is not required to propose and support under AS 43.90.130(7).

22 **Sec. 43.90.330. Inducement vouchers.** (a) A person that acquires firm
 23 transportation capacity in the first binding open season of the project, that does not
 24 hold an oil and gas lease on the North Slope, and that is not an affiliate of a person that
 25 holds an oil and gas lease on the North Slope, may apply to the commissioners for a
 26 voucher under this section. A voucher issued by the commissioners must describe the
 27 firm transportation capacity in the project to which the voucher is applicable.

28 (b) A voucher issued by the commissioners under this section entitles the
 29 holder of the voucher to the resource inducements in AS 43.90.310 and 43.90.320 for
 30 gas shipped in the firm transportation capacity ~~acquired by the person applying for the~~
 31 voucher during the first binding open season of the project and described in the

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1 voucher. The voucher may be transferred to a gas producer that has a binding
2 obligation to sell gas to the person transferring the voucher under a gas purchase
3 agreement.

4 (c) A gas producer holding a voucher may claim the resource inducements for
5 gas shipped through the firm transportation capacity described in the voucher and only
6 on gas that is produced and delivered to the purchaser on the North Slope. A gas
7 producer may claim the resource inducements under this subsection until the earlier of
8 the termination of the binding gas purchase agreement or the expiration of the
9 inducements by operation of law.

10 Article 4. Miscellaneous Provisions.

11 **Sec. 43.90.400. Alaska Gasline Inducement Act matching contribution**
12 **fund; disbursements; audits.** (a) There is established in the general fund a Alaska
13 Gasline Inducement Act matching contribution fund. The fund consists of money
14 appropriated to it by the legislature for disbursement to pay the state's matching
15 contributions under AS 43.90.110. Money appropriated to the fund may be spent for
16 the purposes of the fund without further appropriation. Appropriations to the fund do
17 not lapse under AS 37.25.010, but remain in the fund for future disbursements.
18 Nothing in this subsection creates a dedicated fund.

19 (b) The Department of Revenue shall manage the fund, and may invest money
20 in the fund so as to yield competitive market rates as provided in AS 37.10.071.
21 Income earned on the fund shall be accounted for separately and may be appropriated
22 annually to the fund.

23 (c) The commissioners shall adopt regulations that provide for application to
24 receive matching contributions for qualified expenditures as provided under
25 AS 43.90.110, and that provide for periodic audits of the use of money disbursed as
26 matching contributions under this chapter.

27 (d) Within 10 days after the convening of each regular session of the
28 legislature, the commissioners shall submit to the legislature a report that lists the
29 disbursements from the fund during the preceding fiscal year with a written
30 justification for each disbursement and the projected amount of money that will be
31 required for contributions in each of the next three fiscal years.

1 **Sec. 43.90.410. Regulations.** The commissioner of revenue may adopt
2 regulations on behalf of the commissioners for the purpose of implementing the
3 provisions of this chapter. The commissioner of revenue and the commissioner of
4 natural resources may change regulations adopted under authority outside of this
5 chapter as necessary to implement the provisions of this chapter.

6 **Sec. 43.90.420. Statute of limitations.** A person may not bring a judicial
7 action challenging the constitutionality of this chapter or a license issued under this
8 chapter unless the action is commenced in a court of the state of competent
9 jurisdiction within 90 days after the date that a license is issued.

10 **Sec. 43.90.430. Interest.** When a payment due to the state under this chapter
11 becomes delinquent, the payment bears interest at the rate applicable to a delinquent
12 tax under AS 43.05.225.

13 **Sec. 43.90.440. Licensed project assurances.** (a) Except as otherwise
14 provided in this chapter, the state grants a licensee assurances that the licensee has
15 exclusive enjoyment of the inducement provided under this chapter before the
16 commencement of commercial operations. If, before the commencement of
17 commercial operations, the state extends to another person preferential royalty or tax
18 treatment or grant of state money for the purpose of facilitating the construction of a
19 competing natural gas pipeline project in this state, and if the licensee is in compliance
20 with the requirements of the license and with the requirements of state and federal
21 statutes and regulations relevant to the project, the licensee is entitled to payment from
22 the state of an amount equal to three times the total amount of the expenditures
23 incurred and paid by the licensee that are qualified expenditures for the purposes of
24 AS 43.90.110 that the licensee incurred in developing the licensee's project before the
25 date that the state first extended preferential treatment to another person. The payment
26 under this subsection is subject to appropriation. Upon payment by the state of the
27 amount owed under this section, the licensee shall, at no additional cost to the state,
28 assign to the state or the state's designee all engineering designs, contracts, permits,
29 and other data related to the project that were acquired by the licensee during the term
30 of the license.

31 (b) In this section,

1 (1) "competing natural gas pipeline project" means a project designed
2 to accommodate throughput of more than 500,000,000 cubic feet a day of North Slope
3 gas to market;

4 (2) "preferential royalty or tax treatment" does not include

5 (A) the state's exercise of its right to resolve disputes involving

6 royalties and taxes;

7 (B) the state's exercise of its right to modify royalties as

8 authorized by law in effect on the effective date of this section; or

9 (C) the benefits of a large project permit coordinator authorized

10 by a law in effect on the effective date of this section.

11 **Sec. 43.90.450. Assignments.** (a) A licensee may transfer all or part of the
12 license, including the rights and obligations arising under the license, if, after
13 publishing notice of the proposed transfer, providing notice to the presiding officer of
14 each house of the legislature, and providing a period not less than 30 days for public
15 review and comment,

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

18 (2) the transfer does not increase or diminish the obligations created by
19 the license or diminish the likelihood of success of the project or the net present value
20 of the license to the state.

21 (b) Notwithstanding the commissioners' approval of a transfer of all or part of
22 a license under (a) of this section, the transferor of the license remains subject to the
23 requirements of AS 43.90.220 regarding all state money received by the licensee
24 before the effective date of the transfer.

25 (c) A person may transfer that person's rights to the royalty inducement under
26 AS 43.90.310 and the gas production tax exemptions under AS 43.90.320 only in
27 connection with a sale or merger that results in transfer of all the person's assets in the
28 North Slope of this state, along with the person's firm transportation capacity contracts
29 in the project.

30 (d) Except for the transfer of a voucher to a producer under AS 43.90.330(b),
31 a person receiving a voucher under AS 43.90.330 based on the person's acquisition of

1 firm transportation capacity in the first binding open season of the project may transfer
2 the voucher only if the transfer is in connection with the permanent assignment by the
3 person of 100 percent of the firm transportation capacity acquired in the first binding
4 open season of the project.

5 **Sec. 43.90.460. Conflicting laws.** Nothing in this chapter shall be construed to
6 repeal or abrogate the administrative, regulatory, or statutory procedures and functions
7 of state and federal law governing the development and oversight of a project.

8 **Sec. 43.90.470. State pipeline employment development.** The commissioner
9 of labor and workforce development shall develop a job training program that will
10 provide training for Alaskans in gas pipeline project management, construction,
11 operations, maintenance, and other gas pipeline-related positions.

12 **Article 5. General Provisions.**

13 **Sec. 43.90.900. Definitions.** In this chapter, unless the context otherwise
14 requires,

15 (1) "affiliate" means another person that controls, is controlled by, or is
16 under common control with a person and includes a division that operates as a
17 functional unit;

18 (2) "Alaska Gasline Inducement Act coordinator" and "coordinator"
19 means the person appointed under AS 43.90.250;

20 (3) "commencement of commercial operations" means the first flow of
21 gas in the project that generates revenue to the owners;

22 (4) "commissioners" means the commissioner of revenue and the
23 commissioner of natural resources;

24 (5) "control" means the possession of ownership interest or authority
25 sufficient to, directly or indirectly, and whether acting alone or in conjunction with
26 others, direct or cause the direction of the management or policies of a company, and
27 is rebuttably presumed if the voting interest held is 10 percent or more;

28 (6) "equity holder" means the

29 (A) stockholders of a corporation;

30 (B) members of a limited liability company;

31 (C) partners of a partnership;

- 1 (D) joint venturers of a joint venture;
- 2 (E) members of a governmental authority and similar persons;
- 3 or
- 4 (F) holders of any other entity or person;
- 5 (7) "gas processing" means the treatment of gas downstream of the
- 6 point of production to extract natural gas liquids;
- 7 (8) "governing body" means a corporation's board of directors, a
- 8 limited liability company's managing members, a partnership's general partners, a joint
- 9 venturer's joint venturers, a governmental authority's board or council members, and
- 10 similar entities;
- 11 (9) "lease" means an oil and gas or gas lease issued by this state;
- 12 (10) "lessee" means a person that holds a working interest in an oil and
- 13 gas or gas lease issued by this state;
- 14 (11) "license" means a license issued under this chapter;
- 15 (12) "licensee" means the holder of a license issued under this chapter
- 16 and all affiliates, successors, assigns, and agents of the holder;
- 17 (13) "North Slope" means that part of the state that lies North of 68
- 18 degrees North latitude;
- 19 (14) "North Slope gas" means natural gas produced on the North
- 20 Slope;
- 21 (15) "open season" means the process that complies with 18 C.F.R.
- 22 Part 157, Subpart B (Open Seasons for Alaska Natural Gas Transportation Projects);
- 23 (16) "project" means a natural gas pipeline project authorized under a
- 24 license issued under this chapter;
- 25 (17) "recourse rates" means cost-based rates with a minimum and
- 26 maximum range that are approved by the Federal Energy Regulatory Commission, the
- 27 Regulatory Commission of Alaska, or the National Energy Board of Canada, as
- 28 appropriate, and set out in the pipeline's tariff; "recourse rates" includes only those
- 29 rates that the pipeline must make available to all shippers;
- 30 (18) "sanction" means financial commitments to go forward with the
- 31 project as evidenced by entering into financial commitments of at least

1 \$1,000,000,000 with third parties;

2 (19) "under common control with" has the meaning given "control" in
3 this section;

4 (20) "unit agreement" means an agreement executed by the working
5 interest owners and royalty owners creating the unit.

6 Sec. 43.90.990. Short title. This chapter may be cited as the Alaska Gasline
7 Inducement Act.

8 * Sec. 2. AS 36.30.850(b) is amended by adding a new paragraph to read:

9 (45) contracts for an arbitration panel to determine whether a project is
10 uneconomic under AS 43.90.240, and contracts for the development of application
11 provisions for licensure and for the evaluation of those applications under AS 43.90.

12 * Sec. 3. AS 39.25.110 is amended by adding a new paragraph to read:

13 (41) the Alaska Gasline Inducement Act coordinator appointed under
14 AS 43.90.250.

15 * Sec. 4. AS 40.25.120(a) is amended to read:

16 (a) Every person has a right to inspect a public record in the state, including
17 public records in recorders' offices, except

18 (1) records of vital statistics and adoption proceedings, which shall be
19 treated in the manner required by AS 18.50;

20 (2) records pertaining to juveniles unless disclosure is authorized by
21 law;

22 (3) medical and related public health records;

23 (4) records required to be kept confidential by a federal law or
24 regulation or by state law;

25 (5) to the extent the records are required to be kept confidential under
26 20 U.S.C. 1232g and the regulations adopted under 20 U.S.C. 1232g in order to secure
27 or retain federal assistance;

28 (6) records or information compiled for law enforcement purposes, but
29 only to the extent that the production of the law enforcement records or information

30 (A) could reasonably be expected to interfere with enforcement
31 proceedings;

1 (B) would deprive a person of a right to a fair trial or an
2 impartial adjudication;

3 (C) could reasonably be expected to constitute an unwarranted
4 invasion of the personal privacy of a suspect, defendant, victim, or witness;

5 (D) could reasonably be expected to disclose the identity of a
6 confidential source;

7 (E) would disclose confidential techniques and procedures for
8 law enforcement investigations or prosecutions;

9 (F) would disclose guidelines for law enforcement
10 investigations or prosecutions if the disclosure could reasonably be expected to
11 risk circumvention of the law; or

12 (G) could reasonably be expected to endanger the life or
13 physical safety of an individual;

14 (7) names, addresses, and other information identifying a person as a
15 participant in the Alaska Higher Education Savings Trust under AS 14.40.802 or the
16 advance college tuition savings program under AS 14.40.803 - 14.40.817;

17 (8) public records containing information that would disclose or might
18 lead to the disclosure of a component in the process used to execute or adopt an
19 electronic signature if the disclosure would or might cause the electronic signature to
20 cease being under the sole control of the person using it;

21 (9) reports submitted under AS 05.25.030 concerning certain
22 collisions, accidents, or other casualties involving boats;

23 (10) records or information pertaining to a plan, program, or
24 procedures for establishing, maintaining, or restoring security in the state, or to a
25 detailed description or evaluation of systems, facilities, or infrastructure in the state,
26 but only to the extent that the production of the records or information

27 (A) could reasonably be expected to interfere with the
28 implementation or enforcement of the security plan, program, or procedures;

29 (B) would disclose confidential guidelines for investigations or
30 enforcement and the disclosure could reasonably be expected to risk
31 circumvention of the law; or

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(C) could reasonably be expected to endanger the life or physical safety of an individual or to present a real and substantial risk to the public health and welfare;

(11) the written notification regarding a proposed regulation provided under AS 24.20.105 to the Department of Law and the affected state agency and communications between the Legislative Affairs Agency, the Department of Law, and the affected state agency under AS 24.20.105;

(12) records that are

(A) proprietary or a trade secret in accordance with AS 43.90.150;

(B) applications that are received under AS 43.90.120 - 43.90.140 until notice is published under AS 43.90.160.

* Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to read:

FIRST REQUEST FOR APPLICATIONS FOR THE LICENSE. It is the intent of the legislature that the first request for applications for the license by the commissioners under AS 43.90.120, enacted by sec. 1 of this Act, be issued within 90 days after the effective date of this Act.

* Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to read:

EXPEDITED CONSIDERATION OF COURT CASES. It is the intent of the legislature that the courts of the state, when considering a case related to the development and construction of a natural gas pipeline under this Act or to the commitment of a shipper to acquire firm transportation capacity during the first binding open season for a project developed under this Act, expedite the resolution of the case by giving the case priority over all other civil cases to the extent permitted under the Alaska Rules of Court.

* Sec. 7. The uncodified law of the State of Alaska is amended by adding a new section to read:

SEVERABILITY. Under AS 01.10.030, if any provision of this Act, or the application of it to any person or circumstance, is held invalid, the remainder of this Act and the application to other persons or circumstances are not affected.

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*** Sec. 8.** This Act takes effect immediately under AS 01.10.070(c).

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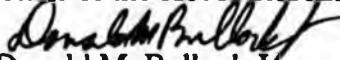
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 9, 2007

SUBJECT: Changes in CSHB 177(O&G) from HB 177
(Work Order No. 25-GH1060\M)

TO: Representative Carl Gatto
Chair of the House Resources Committee

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

You asked for a description of changes that appear in CSHB 177(O&G) compared with HB 177.

This memorandum is a summary and should not be considered a separate analysis of each of the two bills. What follows is a description of the concepts and provisions that are either new in the CS or are different from the original bill. For the policy issues behind the changes, you would be wise to contact the makers of amendments that are incorporated in the CS.

Structural and editing changes

The changes between the original bill and the CS are structural and substantive. The structural changes included moving the abandonment provision to the end of Article 2 so that it now appears after the section relating to license violations and damages in the CS. Also, provisions relating to the Alaska Gasline Inducement Act coordinator and expedited review and action by state agencies were moved from Article 3 to Article 2 because those provisions are directly related to the licensee. Finally, the provision relating to notice, review, and comment by the public was moved so that it precedes the section relating to application, evaluation, and ranking. These changes affect the numbering of the statutes that would be enacted by the bill, so be aware of these changes when comparing the original bill and the CS.

The CS also has changes made during editing to conform the style of the bill to the Manual of Legislative Drafting. For example, the words "the state" are used in the CS in place of "this state," except in a section distinguishing Alaska from another state.

Substantive changes

The following substantive changes from the original bill appear in the CS. Section numbers refer to the statutory section numbers in the CS. Where the section number varies from the original bill, the section number before the "/" is the number in the CS and the section number following the "/" is the section number in the original bill. For example, "Sec. 43.90.120/43.90.130" indicates that Sec. 43.90.120 in the CS contains similar subject matter to Sec. 43.90.130 in the original bill. Where a single section number appears, the number relates to similar subject matter in both bills. Only sections that were changed by the CS are discussed.

Section 1 of CSHB 177(O&G) contains the following changes:

Sec. 43.90.100. Language was added to state that the commissioner of revenue and the commissioner of natural resources act jointly.

Sec. 43.90.110. Language was added to state that the contribution by the state is subject to appropriation; that the contribution is to be paid during the five years immediately following the issuance of the license; that the amount of the contribution is to be set in the license and that the state's contribution will not exceed 50% of the qualified expenditures before the end of the first binding open season; and that the commissioner of revenue is to adopt regulations for determining whether an expenditure is a qualified expenditure. Provides that the licensee will benefit from coordination with qualified training organizations that prepare individuals for employment in the construction and operation of the project.

Sec. 43.90.120/43.90.130. The CS requires the commissioners to begin the process for requesting applications for the license "as soon as practicable" after the effective date of the Act. An uncodified section would be enacted by sec. 6 of the CS that states the intent that the request for applications be issued within 90 days after the effective date. The CS also directs the commissioners to adopt regulations based on AS 36.30.550 - 36.30.699, to provide the appeal procedures relating to the solicitation of applications and the award of the license.

Sec. 43.90.130/43.90.140. The CS supplements the application requirements in the original bill and excludes the route described in AS 38.05.017(b) from consideration. Additional information is required relating to rates and charges for a project going through Canada and a project involving liquefaction and marine transportation. The CS adds language to the description of "commercially reasonable terms" in the context of capacity expansion. The CS also requires more information regarding the costs and operation of a North Slope gas treatment plant, including the identity of ownership and plan of operation. New requirements were added to require the licensee to waive the right to appeal the award of the license to another applicant or a decision not to award the license, to negotiate a project labor agreement, to commit to not include the state's cash contribution in the applicant's rate base and to use the contribution as a credit against the

Representative Carl Gatto

April 9, 2007

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licensee's cost of service, and to provide a detailed description of the applicant, related parties, and parties on whom the applicant intends to rely when developing the project.

Sec. 43.90.140/43.90.150. The CS adds authority for the commissioners to request additional information relating to the application from an applicant.

Sec. 43.90.150/43.90.160. The CS states that the commissioners determine information that initially may not be disclosed because it is either proprietary or a trade secret and describes what information may be considered proprietary. Under the CS, such information may not be disclosed except when the information was provided by an applicant that is awarded the license or was provided by an unsuccessful applicant who challenges the process of awarding the license or the award to another applicant.

Sec. 43.90.160/43.90.180. The CS allows information that is otherwise confidential to be disclosed to the legislative auditor, the head of the legislative finance division, agents and contractors of the legislative auditor and legislative finance division, and members of the legislature if the person to whom the disclosure is to be made requests the information and signs a confidentiality agreement prepared by the commissioners.

Sec. 43.90.170. The CS completely rewrote the application evaluation and ranking criteria. The CS requires the commissioners to evaluate proposed projects based on the net present value of the anticipated cash flow to the state and the likelihood of success for the project. The CS lists factors to be considered by the commissioners when evaluating the net present value of the anticipated cash flow to the state and the project's likelihood of success.

Sec. 43.90.180/43.90.190. The CS requires the commissioners to send notice of the proposed award of a license to the presiding officer of each house of the legislature. The CS also authorizes the commissioners to begin the process for soliciting license applications again if the commissioners find that no adequate application was received.

Sec. 43.90.190/43.90.200. The CS requires legislative approval in the form of a bill before the commissioners may issue a license. The bill to approve the license is to be introduced by the rules committee in each house. Under the CS, if the legislature fails to pass a bill, the license may not be issued and the commissioners may request new applications. The commissioners may award the license any time after the effective date of the Act. For purposes of appeal to the superior court, the date the license is issued is the date of the final administrative action relating to the issuance of the license.

Sec. 43.90.200/43.90.210. The CS uses language that recognizes the possibility that a project may be subject to either the Federal Energy Regulatory Commission (FERC) or the Regulatory Commission of Alaska (RCA), or both.

Sec. 43.90.210/43.90.220. The CS requires the commissioners to take into consideration the effect on net present value to the state or the likelihood of success for the project

when considering a modification or amendment to the project plan.

Sec. 43.90.220/43.90.230. The CS authorizes the audit of records of the entity actually receiving the state contributions rather than just the licensee. The CS also requires the commissioners to continue to have access to meetings and information of the licensee so long as the terms of the license apply.

Sec. 43.90.230/43.90.240. The CS provides the commissioners the option of requiring a licensee that does not cure a violation to assign to the state, or the state's designee, data, designs, contracts, and permits acquired by the licensee during the term of the license. If the commissioners revoke the license because of a violation, the licensee may not submit a new application if the commissioners solicit new applications, and the licensee must deliver to the state all data, designs, contracts, and permits that relate to the project and were acquired by the licensee during the term of the license.

Sec. 43.90.240/43.90.120. If the commissioners and the licensee disagree on the issue of whether the project is uneconomic, the CS provides that the issue is to be submitted to arbitration administered by the American Arbitration Association, rather than "an impartial third party" as provided in the original bill. The CS describes the expectations and the obligation of the state and the licensee if the decision by the arbitration panel finds the project is uneconomic or not uneconomic. If the project is uneconomic, the licensee is required to deliver to the state all data, designs, contracts, and permits that relate to the project after the state reimburses the licensee for qualified expenditures incurred and paid by the licensee.

Sec. 43.90.250/43.90.330. The CS places the Alaska Gasline Inducement Act coordinator in the office of the governor and requires the office of the governor to provide administrative support. The CS requires the person appointed to the position to be confirmed by the legislature and reconfirmed by the legislature following a general election at which a governor is elected. The CS allows the removal of the person appointed at the discretion of the governor. The CS establishes the salary for the position.

Sec. 43.90.260/43.90.340. The CS renumbers the section but makes no substantive change relating to the expedited review and action by state agencies.

Sec. 43.90.300. The CS states that a "lessee or other person" is eligible for the resource inducements and specifies that the resource inducements apply to gas produced on the North Slope. The CS adds the statement that the royalty inducement and tax inducement "are contractual."

Sec. 43.90.300. The CS requires the commissioner of natural resources to adopt regulations relating to the royalty inducement before the start of the first binding open season. The CS makes the required agreement relating to the protest or appeal before FERC a statutory requirement rather than a subject to be included in the regulations. The

CS requires the commissioner to "contractually amend" existing lease agreements with lessees that elect to have royalty obligations determined under the new regulations. Under the CS, a recipient of a royalty inducement may not protest or appeal a filing by the licensee to roll in expansion costs if FERC does not have a policy in effect that presumes that rolled-in rates apply. The CS requires the commissioner of natural resources to review the regulations to determine whether the regulations continue to "minimize retroactive adjustments to the monthly value of the state's royalty" and to amend the regulations if the retroactive adjustments are not being minimized.

Sec. 43.90.320. The CS requires the commissioner of revenue to issue a certificate providing for the tax inducement and states that "the certificate shall constitute a contract between the person [receiving the certificate] and the state." Under the CS, the certificate must be signed by both the person receiving the certificate and the commissioner of revenue. The certificate must include a contractual commitment that the holder of the certificate will not protest or appeal a filing by the licensee to roll in expansion costs if FERC does not have a policy in effect that presumes that rolled-in rates apply.

Sec. 43.90.400. The CS states that the Alaska Gasline Inducement Act matching contribution fund is not a dedicated fund and that money appropriated to the fund may be spent for the purposes of the fund without further appropriation.

Sec. 43.90.410. Under the CS, the commissioner of revenue may adopt regulations on behalf of the commissioners for the purpose of implementing the chapter.

Sec. 43.90.420. The CS refers to a court of "competent jurisdiction."

Sec. 43.90.430. The CS requires interest on delinquent payments to the state to be paid at the rate applicable to delinquent taxes.

Sec. 43.90.440. The CS limits the period for the project assurances to the period before the commencement of commercial operations and defines a "competing natural gas project" in terms of throughput and source of gas. The CS limits the basis for the payment of damages to the amount incurred and paid for expenditures that are qualified expenditures.

Sec. 43.90.450. The CS requires that an assignment of the licensee's interest may not diminish the likelihood of success of the project or the net present value of the license to the state. Under the CS, a person transferring the royalty and tax inducement must also transfer the firm transportation capacity in the project.

Sec. 43.90.460. This section is added in the CS to require the commissioner of labor and workforce development to develop a job training program for jobs related to the project.

Sec. 43.90.900. The CS adds definitions for "coordinator," "North Slope," "North Slope gas," and "open season." The CS expands the definition of "gas processing" to refer to

Representative Carl Gatto
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the treatment of gas "downstream of the point of production."

Section 2 of the CS refers to the arbitration panel that determines whether a project is uneconomic.

Section 4 of the CS describes the period during which applications are not available for public inspection.

Section 5 of the CS is a new section that establishes the gas utility revolving loan fund.

Section 6 of the CS is a new section that expresses the intent that the request for applications be issued by the commissioners within 90 days after the effective date of the Act.

Section 7 of the CS is a new section that provides for the severability of a provision that is held invalid without affecting what remains of the Act.

Section 8 of the CS is a new section that states the conditions under which the section providing for the gas utility revolving loan fund may take effect.

Section 9 of the CS is a new section that identifies the date the section providing for the gas utility revolving loan fund takes effect if the conditions in sec. 8 are met.

Section 10. The CS provides for an immediate effective date except as provided in sec. 9.

DMB:med
07-225.med

LEGAL SERVICES

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

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

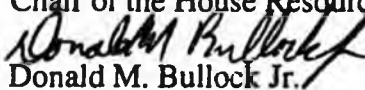
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 9, 2007

SUBJECT: Sectional summary of CSHB 177(O&G)
(Work Order No. 25-GH1060\M)

TO: Representative Carl Gatto
Chair of the House Resources Committee

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

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

As a preliminary matter, note that a sectional summary 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.

Section 1. Adds a new chapter to AS 43.90 to include the Alaska Gasline Inducement Act. The chapter includes the following provisions:

AS 43.90.010. States the purpose of the chapter.

AS 43.90.100. Authorizes the commissioner of revenue and the commissioner of natural resources (commissioners) to act jointly and award a license for a gas pipeline project. Entitles a person awarded a license to receive the inducement in the next section.

AS 43.90.110. Provides for the inducement to a person awarded a license for a gas pipeline project. The inducement consists of cash contributions, the benefit of the Alaska Gasline Inducement Act coordinator, and the benefit of coordination with qualified training organizations.

AS 43.90.120. Requires the commissioners to begin the public process to solicit applications for a gas pipeline project. Authorizes the commissioners to use independent contractors to assist them in developing the application and evaluating applications that are received. Requires the commissioners to adopt regulations that provide a procedure for protests and appeals relating to the application process and award of a license.

AS 43.90.130. Lists the duties, information, commitments, project descriptions, and plans required to be submitted in an application.

AS 43.90.140. Requires the commissioners to review each application and identify applications that meet or do not meet the application requirements. Authorizes the commissioners to request additional information relating to an application that is not rejected.

AS 43.90.150. Provides for the protection and confidentiality of proprietary information and trade secrets, and describes when the information may be disclosed.

AS 43.90.160. Requires the commissioners to solicit public review and comment on all complete applications. Provides that applications are not public records until the notice for public review and comment is published, and requires an applicant to provide a summary of confidential information. Allows for limited disclosure to certain state officials who sign a confidentiality agreement.

AS 43.90.170. Provides the criteria for evaluating and ranking applications.

AS 43.90.180. Requires the commissioners to notify the presiding officer of each house of the legislature if the commissioners find that an application supports the issuance of a license. Requires the commissioners to make a finding if no application merits the issuance of a license. Authorizes the commissioners to begin a new application process if no application merits the issuance of the license.

AS 43.90.190. Requires the legislature to approve the issuance of a license by passing a bill. If the legislature fails to pass a bill authorizing the issuance of a license, authorizes the commissioners to request new applications.

AS 43.90.200. Requires a licensee to make certain financial commitments within a certain period of time after a certificate of public convenience and necessity is issued for the project. Provides remedies if the financial commitments are not made as required.

AS 43.90.210. Authorizes the commissioners to approve amendments or modifications to a project plan.

AS 43.90.220. Provides for the audit and inspection of the records of a person receiving state money for the project. Requires a licensee to provide the commissioners with access to meetings and information relating to the project so long as the terms of the license continue to apply.

AS 43.90.230. Provides the process for identifying and resolving violations of the license and remedies if a violation is not cured.

AS 43.90.240. Provides for the abandonment of the project if the project is found to be uneconomic. In case of disagreement between the licensee and the commissioners on the issue of whether the project is uneconomic, provides for the settlement of the dispute by

Representative Carl Gatto

April 9, 2007

Page 3

an arbitration panel. If the project is uneconomic, requires the licensee to deliver to the state all designs, permits, data, and other information related to the project and provides the basis for determining the amount the state shall pay for what is delivered.

AS 43.90.250. Creates the position of Alaska Gasline Inducement Act coordinator and requires legislative confirmation and reconfirmation of a person appointed by the governor to the position.

AS 43.90.250. Provides for the expedited review and action by state agencies on issues relating to the project.

AS 43.90.300. Establishes the basic qualifications for a person to receive royalty and tax inducement for making a firm transportation commitment during the first binding open season for the project. Makes the royalty and tax resource inducement contractual.

AS 43.90.310. Provides a royalty inducement for a person qualifying under AS 43.90.300. Authorizes the amendment of lease contracts based on regulations adopted by the commissioner of natural resources that relate to the determination of the amount and value of the state's royalty interest. Requires the recipient of the royalty inducement to agree to certain limitations in a tariff proceeding.

AS 43.90.320. Provides for a limitation on the tax rate applicable to the production of gas qualifying for the inducement. Requires the commissioner of revenue to issue a certificate that is a contract providing for the inducement. Requires the recipient of the tax inducement to agree to certain limitations in a tariff proceeding.

AS 43.90.400. Creates the Alaska Gasline Inducement Act matching contribution fund and provides for the management of the fund. States that the fund is not a dedicated fund.

AS 43.90.410. Authorizes the commissioner of revenue to adopt regulations on behalf of the commissioners and each of the commissioners to make changes under separate authority that are necessary for the implementation of the chapter.

AS 43.90.420. Requires a person challenging either the constitutionality of the chapter or a license issued under the chapter to bring the action within 90 days after the date a license is issued.

AS 43.90.430. Requires a delinquent payment to the state under the chapter to bear interest at the rate applicable to delinquent taxes.

AS 43.90.440. Requires the state to pay a licensee three times the total amount of the costs that are incurred and paid by the licensee for qualified expenditures if the state extends to another person the preferential royalty, tax, or monetary treatment for the purpose of facilitating the construction of a competing natural gas pipeline project, and if

Representative Carl Gatto

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the licensee is in compliance with the terms of the license and other legal requirements. Defines "competing natural gas project."

AS 43.90.450. Provides for assignments by the licensee and the recipients of the resource inducement upon approval by the commissioners.

AS 43.90.460. States that nothing in AS 43.90 shall be construed to conflict with other state or federal law governing the development or oversight of the project.

AS 43.90.470. Requires the commissioner of labor and workforce development to develop a job training program for jobs related to the construction and operation of the project.

AS 43.90.900. Defines terms used in the chapter.

Section 2. Exempts contracts for the arbitration panel and contracts for assistance in the development and evaluation of project applications from the procurement code.

Section 3. Makes the Alaska Gasline Inducement Act coordinator an exempt position.

Section 4. Exempts proprietary information, trade secrets, and license applications from public inspection, except as provided in AS 43.90.

Section 5. Establishes the gas utility revolving loan fund and provides for loans from the fund.

Section 6. States the intent that the first request for license applications be issued within 90 days after the effective date of the Act.

Section 7. Provides for severability if a provision of the Act is found invalid.

Section 8. Makes the creation of the gas utility revolving loan fund conditioned upon the issuance of a license for the project.

Section 9. If the condition in sec. 8 is satisfied, makes the section creating the gas utility revolving loan fund effective on the date a license is issued.

Section 10. Except as provided in sec. 9, makes the Act effective immediately.

DMB:med
07-226.med

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

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 Phone 783-1221
 Division Alaska Oil and Gas Conservation Commission Date/Time 3/2/07 3:19 PM
 Approved by: Rachael Petro, Deputy Commissioner Date 3/2/2007 1:00pm
 Agency Department of Administration

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
 Title Alaska Gasline Inducements Act RDU Regulatory Commission of Alaska (399)
 Component Regulatory Commission of Alaska
 Sponsor Rules
 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
 Division: Regulatory Commission of Alaska
 Approved by: Emil Notti, Commissioner
 Agency: Commerce, Community, and Economic Development

Phone 907.276.6222
 Date/Time 2/28/07 3:06 PM
 Date 2/28/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

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						
CHANGE IN REVENUES ()						

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 Phone 907-269-8800
 Division Oil & Gas Date/Time 3/1/2007
 Approved by: Tom Irwin, Commissioner Date 3/1/2007
 Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title: Alaska Gasline Inducement 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	281.3	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 #4

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. HB 177

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: 5
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title AGIA 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:

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 Phone 269-0082
 Division: Tax Division Date/Time 2/28/07 12:00 AM
 Approved by: Jerry Burnett Date 2/28/2007
 Agency: Department of Revenue

FISCAL NOTE #5

**STATE OF ALASKA
2007 LEGISLATIVE SESSION**

BILL NO. HB 177

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.

SARAH PALIN
GOVERNOR
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March 2, 2007

The Honorable Lyda Green
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Green:

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 Lyda Green

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 Lyda Green

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 Honorable Lyda Green
March 2, 2007
Page 4

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

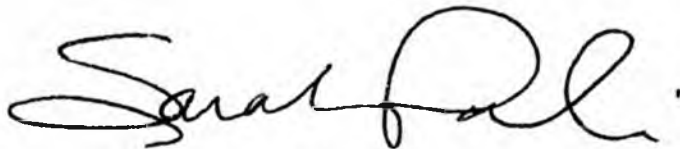
The Honorable Lyda Green

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 initial "S" and a distinct "P".

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.

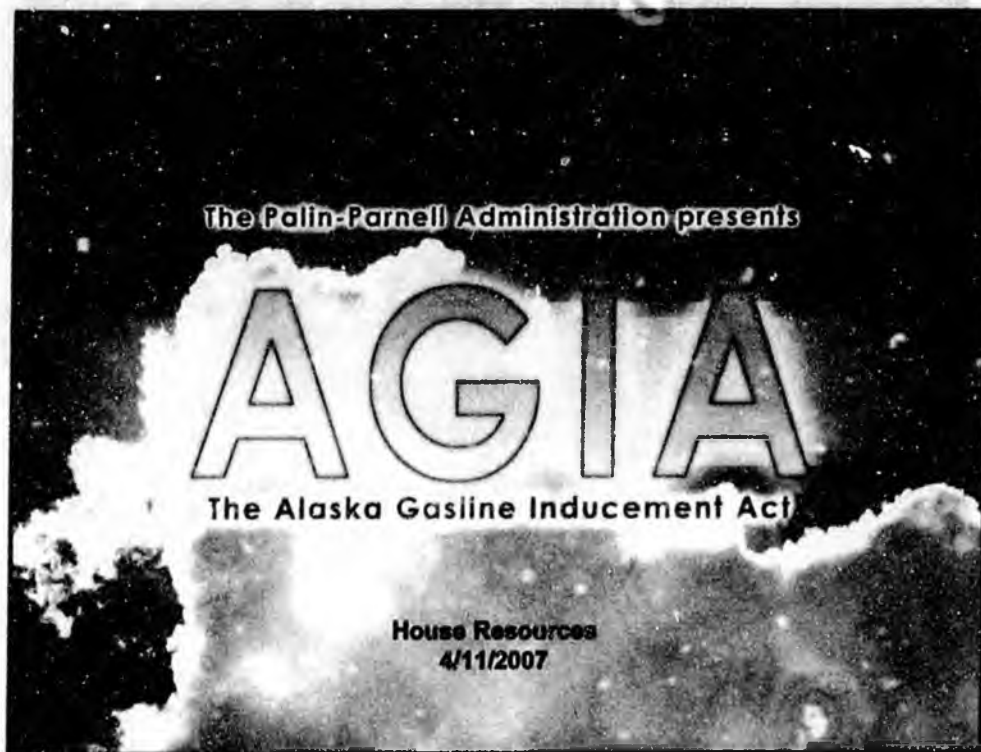
After a license is awarded, the licensee must complete an application to the Federal Energy Regulatory Commission or Regulatory Commission of Alaska. The licensee must sanction the project within a year of receiving a certificate from the Federal Energy Regulatory Commission if it has adequate financing. 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.

HB

177

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AGIA Overview

AGIA
The Alaska Gasline Inducement Act

AGIA:

- Is a commercial vehicle that creates a competitive market
- Provides a pipeline sooner and on Alaska's terms
- Is a transparent process with transparent inducements

Commercial Vehicle

AGIA

The Alaska Gasline Inducement Act

- AGIA is not a negotiation
- Successful bidding process requires AGIA's inducements:
 - Midstream inducement of \$500 million to reduce licensee's project development risks
 - Upstream tax and royalty inducements to encourage open season participation and ensuring that state will support its licensed partner
 - Requirement to obtain pipeline certificate
 - Known, clearly quantified, and transparent

A Project on the State's Terms

AGIA

The Alaska Gasline Inducement Act

- State's "must haves" focus on its future:
 - A competitive and vibrant oil and gas industry
 - Jobs and careers, not only from the pipeline itself, but from broader energy sector
 - Gas for Alaskans

Transparent Process



- AGIA creates a competitive process, not a negotiated process
- Bids will be submitted, commented upon by the public, and evaluated
- A winner chosen by the Commissioners
- Legislative review and approval
- Government involvement requires a public process

Expansion Provisions



- important to foster competitive and vibrant gas industry
- In 2005 order FERC recognized the Alaska exception
 - A single pipeline from Alaska requires different treatment of expansion costs
 - Subsidies created by federal law
 - Federal loan guaranties
 - Tax depreciation rate
- AGIA also offers \$500 MM capital contribution

Expansion Provisions



- Initial pipeline expansions likely to lower tariffs
- AGIA caps rolled-in rate cost recovery at 15% over initial tariff rates
- Same cap applies to both initial and early expansion shippers
- Rolled-in rates are standard in Canada

Energy Business is Risky



Resource Risk

Resource Owner Risk



- **State's Risks as Resource Owner**
 - Development risk – through PPT credits
 - Transportation cost risk
 - Price risk
 - Risk of non-performance by lessee
 - Oil and gas business is risky- low success rate, geo-politics, price
 - State's risk cannot be mitigated by a broad (global) portfolio

AGIA Promotes Creativity



- Descriptive, not prescriptive
- "Must haves" provide framework
- Evaluative criteria encourage innovative alternatives that enhance value to state and other shippers

FERC Process Explained



- **Open Season**
 - Pre-approved by FERC
 - Binding solicitation of capacity interest
 - Precedent agreements define termination conditions
- **FERC Certification**
 - Pipeline meets public need
 - Detailed project description

Pipeline Transportation Rates



- **Recourse rate is the default rate**
- **Most initial shippers will negotiate**
 - Price terms
 - Cost over-run risk sharing
 - Additional contractual provisions
- **FERC approves negotiated rates**

Opportunities to Participate



- AGIA applications accepted from
 - Pipeline company
 - Producer
 - Other qualified applicant
- Open Season
 - Producer
 - Explorer
 - Gas Purchaser
- FERC certificate

Summary



- AGIA is a commercial vehicle
- Expansion provisions foster competition
- Project cost risk has commercial solutions
- AGIA allows commercial creativity
- FERC process guides fair terms
- AGIA allows options for participants

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB177CS(O&G)-DNR-O&G-04-10-07
 Bill Version: CS HB 177 (O&G)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title: Natural Gas Pipeline Project RDU: Resource Development
 Component: Alaska Gasline Inducements Act
 Sponsor: Rules Committee
 Requester: House Resources 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						
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	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						
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: 0.0

Check 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 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 4/10/2007
 Approved by: Tom Irwin, Commissioner Date 4/10/2007
 Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. CS HB 177 (O&G)

ANALYSIS CONTINUATION

Until the close of the first binding season, the state will match up to 50 percent of the licensee's qualified expenditures pursuant to the amount specified in the application. After the close of the first binding open season, the state may match the qualified expenditures at the amount specified 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.

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.

HB

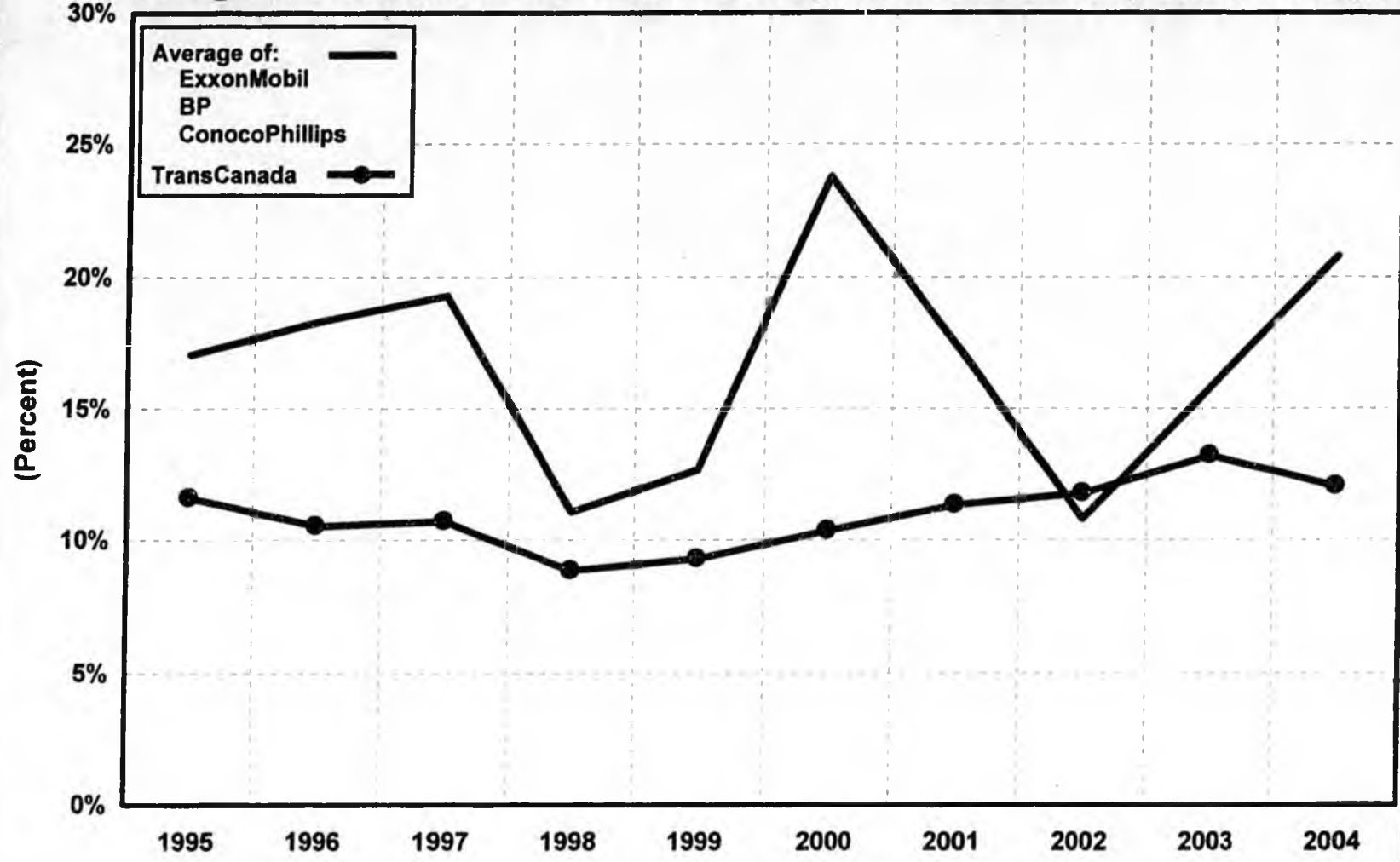
177

4/12/07

Return on Shareholder Equity

(1995 - 2004)

Average of Selected Petroleum Companies & Gas Pipeline Company



Source: Value Line (March 18, 2005).



HB

177

4/13/07

bp



BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 99519-6612
(907) 661-5111

April 30, 2007

The Honorable Carl Gatto, Co-Chair
House Resources Committee
State Capitol, MS 3100
Juneau, AK 99801

Representative Gatto:

Thank you for the opportunity to provide testimony to the House Resources Committee. Enclosed for your reference is my written response to the various questions raised by the committee which I was not able to fully answer during the course of testimony. Also enclosed is a copy of the public testimony BP provided on HB177.

Thank you again for the opportunity to participate in your deliberations.

Sincerely,

A handwritten signature in cursive script, which appears to read "David Van Tuyl", is written over a faint, larger version of the same signature.

David Van Tuyl
Gas Commercialization Manager, BP Alaska

Attachments (2)
cc: Committee Members

**Questions Raised by House Resources Committee
Following Testimony Provided by David Van Tuyl on April 13, 2007**

1. What is the longest duration of firm transportation commitment currently held by BP? What is the shortest?

The longest term of firm transportation (FT) commitment that BP has entered into is 20 years. This 20 year term was with Midwestern Gas Transmission Company on a gas pipeline project in Tennessee (Nov. 2006).

BP also enters into numerous short duration FT commitments. While monthly FT commitments by BP are more typical for these short duration contracts, the shortest term of FT commitment is daily. BP takes on numerous daily, weekly or monthly short term FT contracts.

2. How many open seasons has BP participated in?

We do not track open seasons in which BP has participated, but BP has a history of participating in basin opening, system debottlenecking and market development pipeline projects through the open season process. A few recent examples of successful pipeline projects which BP has supported through shipping commitments include:

- Cheyenne Plains – 40,000 Dth/d for 10 years starting in 2005 (basin opening)
- Centerpoint – 100,000 Dth/d for 5 years starting in 2007 (basin opening)
- Vector – 50,000 Dth/d for 10 years starting in 2007 (market expansion)
- Rockies Express – 100,000 Dth/d for 11.5 years starting in Jan 2008 (basin opening)

(where Dth = “decatherm”, or 1,000,000 Btus)

3. Can you cite an example in which competing pipeline proposals were submitted to FERC and advanced to the marketplace?

Yes. In 1999, both Gulfstream Natural Gas System, LLC and Buccaneer Gas Pipeline Company, LLC announced competing projects for a pipeline across the Gulf of Mexico from the Mobile Bay area, Alabama, to the growing market of central Florida. Gulfstream conducted an open season for its proposal in March 1999.

Because Buccaneer was proposed to be constructed under the FERC's then-existing optional certificate regulations,¹ it was not required to conduct an open season but approached shippers individually. In April 2000, both projects received Preliminary Determinations from the FERC allowing them to continue to compete in the market. [*Gulfstream Natural Gas System, LLC*, 91 FERC ¶61,119 (2000); *Buccaneer Gas Pipeline Company, LLC*, 91 FERC ¶61,117 (2000).]

Neither Gulfstream's initial open season nor Buccaneer's initial efforts resulted in contracts for all of the capacity on the respective systems. As a result of continued competition between the two projects after receipt of the Preliminary Determinations, by late 2000 Gulfstream had secured a solid customer base and received approval for their proposed landfall location in central Florida. As a result, Gulfstream gained the advantage in the marketplace over Buccaneer and the two projects ultimately were merged together in early 2001.

Other examples are identified in various Energy Information Agency (EIA) reports. In an appendix to its 1998 report on Deliverability on the Interstate Natural Gas Pipeline System, the EIA included a discussion of Natural Gas Pipeline and System Expansions, 1997-2000. One of the areas discussed was the effort then being made to move increased volumes of gas from the Western Canada Sedimentary Basin into the Midwest U.S. market. There, EIA explained as follows:

These efforts include several very large projects. For example, a new natural gas pipeline (the Alliance project) would bring gas from British Columbia to the Chicago, Illinois, area along the right-of-way of an existing oil pipeline. Several other projects are competing with the Alliance project, including the Viking Voyageur Pipeline, which is a 1.4 Bcf/d line between the Noyes, Minnesota, import point and the Chicago, Illinois, area, and the Northern Border Project 2000, which is a 400 MMcf/d expansion that includes a proposal to extend the system to Indiana and possibly to the Michigan-Canada border to serve the Ontario marketplace.

The Alliance project was filed with FERC in 1996 and the Viking Voyageur project was filed with the FERC in 1997. After competing in the marketplace for commitments, the Alliance project became fully subscribed and was completed. The application for the Viking Voyageur project was withdrawn from FERC in 1998.

¹ Because the Buccaneer project was announced prior to the issuance of a change in FERC policy terminating the optional certificate regulations, the project was permitted to proceed using the optional certificate approach.

In a 2004 report on U.S. Natural Gas Pipeline and Underground Storage Expansions in 2003, the EIA discussed efforts to bring additional supplies of gas to the Southeast United States, including competing projects to build pipelines to bring LNG being imported into the nearby Bahamas into the south Florida market. The EIA reported as follows:

Looking to the future, 19 pipeline expansion projects have been proposed that could tentatively add as much as 11,840 MMcf/d to gas pipeline capacity between 2004 and 2008. However, a large portion of this potential capacity represents volumes from competing proposals for several large new pipelines and several major expansion projects that remain in the planning stage.

Several proposals, such as the AES Ocean Express Pipeline, the Tractebel Calypso Pipeline LLC, and the El Paso Seafarer Pipeline projects, represent separate 750-850 MMcf/d capacity pipelines that would extend between LNG vaporization facilities located in the Bahama Islands and south Florida. The likelihood that all three projects will be built is marginal. All are competing for similar markets and predicated upon the future development of new gas-fired power plants in south Florida. While the first two pipelines have been tentatively approved by FERC, the Seafarer pipeline application was not submitted to FERC until April 2004.

Both the AES and Tractebel projects received a Preliminary Determination from FERC in 2003. As reported by the Oil & Gas Journal, after competing in the marketplace for commitments in late 2004 the three LNG projects were merged together into a single project. As of this date, the combined project continues to await approval for the construction of the revaporization terminal in the Bahamas.

**BP Testimony on AGIA (HB177)
House Resources Committee
April 13, 2007**

- Mr. Chairman, members of the committee, for the record my name is Dave Van Tuyl. I am the Gas Commercialization Manager for BP Alaska. Thank you for the opportunity to testify before you this afternoon.
- My testimony will start with some general comments about the importance gas pipeline project, then I'll provide some specific suggestions on the AGIA bill, then I'll turn to a brief discussion of financing and risk, and then I'll conclude with a summary.

BP's Vision for Alaska

- I'd like to spend a moment to look into the future and consider the opportunities we have before us.
- BP has a **long history in Alaska**. BP has been actively involved in the exploration, development and production of Alaska's North Slope energy resources for decades.
- And we see the opportunity for a bright future ahead. In fact, we envision our **50-year future in Alaska**. It's not just a slogan.
- So how might that vision look to our company?
- I'd like to turn your attention to the graph at the bottom of slide 2, which shows the **possibility of the future that BP sees** in Alaska, depicting BP's share of production through time.
- There are a few key points to draw from the graph.

- The days of **high plateau** production are behind us.
- We still have a significant level of production today, but that **production will continue to decline** with time. That's what the dotted red line depicts.
- That shows production declining at historic levels, which already would require **significant investment**.
- We can make up that decline in production with new investment that would result in new production from **heavy oil resources and from gas**.
- But it's not a given It's a view of what's **POSSIBLE**.
- That future is only made possible with an Alaska gas pipeline project.

BP Key Messages

- So **BP wants and needs a gas pipeline**. And we need that pipeline to be built for a low capital cost and then operated cost efficiently. We believe that is what is required to make the project happen and be successful. Low costs are good for both BP and the State because it results in lower tariffs, higher netbacks and more revenues for the State and BP.
- Also, a low cost project will provide incentive to explore for more gas to keep the pipeline full into the future. That is also good for the State and for BP.
- The best way to ensure there is gas exploration in the future is to get a gas pipeline built in the first place, and to get it built for a low cost.

- This is a **hugely important project to BP, to Alaska and to the nation**. It represents the largest, known, undeveloped gas resource in the United States, and in BP's global portfolio. The gas project is important in its own right – but it also extends the economic life of Alaska's oil production for decades. Extending oil production is good for the State, the nation and for BP.
- We **share the governor's and the legislature's desire** to get a successful gas project moving, and **BP stands ready** to engage with the administration and legislature to reach a balanced fiscal framework that works for all the parties.
- And finally, a successful framework will set the foundation for a **stable, healthy, and viable oil and gas business for decades** to come. BP's future in Alaska is directly linked to the gas pipeline project.
- That's why we are very encouraged by the Governor's and the legislature's enthusiasm about getting Alaska's gas to market. That is also our vision, and so we share your enthusiasm. It's the key to Alaska's future, and to BP's future in Alaska.
- Therefore, it's important that we get it right.
- BP sees AGIA as the Administration's expression of its commitment to advance the gas pipeline project in an open and transparent way. We applaud that good faith expression.
- Developing the right process is difficult. Since first seeing AGIA at its roll out to the legislature and the public on March 2nd, we have identified a number of important areas of concern for you to consider.

- We believe AGIA CAN be successful if some key issues are addressed, and I've summarized those concerns here, and will discuss them in more detail shortly.
- We believe AGIA may create some unintended consequences that could jeopardize the vision of getting Alaska's gas to market quickly, and at low cost. We believe it is important for the Legislature to consider these areas of concern as you deliberate on AGIA.
- Why do we feel these changes are so important? It's because we want the project to be a success, because there is much at stake for BP and for Alaskans.

What A Successful Gasline Means

- It's worth a brief reminder of the importance of a successful project. And I'd like to emphasize that what we need is a SUCCESSFUL gas pipeline, not just ANY gasline.
- As we've said, this is a project of tremendous scope and scale and that's what the picture reminds us of. Because of this it presents tremendous risk. But if it's done right, it also presents the opportunity for great benefits as well.
- Because there is much at stake, we need to get it right.
- The project creates the opportunity for jobs for Alaskans, and if we deliver a successful, low cost project, for revenues to the State and to BP well into the future.

- We can create a whole new industry of gas exploration with a successful, low cost project. Gas exploration and expansion are only possible if the pipeline gets built in the first place, and if it's built for a low capital and operating cost. That will make it attractive for bringing new volumes into the project, which benefits the State, gas explorers, and initial shippers as well.
- A successful gas pipeline project will provide the opportunity to bring a long term gas supply source for use by Alaskans.
- And finally, gas sales will diversify Alaska's economy for decades into the future.
- As I said, there's a lot at stake, so we need to get it right.
- Now I'll turn specifically to our suggestions on AGIA that would help AGIA deliver a success gas pipeline.
- Each of the next three slides starts out with the statement, "AGIA can help deliver a successful gas pipeline if...", and I'll describe modifications we recommend to AGIA on each slide.

Use Objectives Instead of Prescriptive Requirements

- First, AGIA can help deliver a successful gas pipeline if we use objectives, instead of prescriptive requirements
- We fully support the State clearly providing its objectives for a successful gas pipeline project
- The concern we have is that AGIA as drafted presupposes solutions to those objectives, such as those contained in Section .130 starting on page 3 of the bill.

- We think that prescribing solutions up front will not result in the best project. We've heard the administration state their intent that "we need to let industry do what they do best". We fully agree with that intent, and think it only gets met if industry is allowed to offer its own unique, creative solutions.
- One specific example of prescribing a solution we find particularly troubling is the issue of toll subsidization.
- AGIA as drafted can result in one party subsidizing another. Now I'm referring to the language in Section .130(7) of the bill on page 6-7. AGIA specifically requires initial shippers - who financially underpin the project and who already bear most of the risk associated with the project - to bear yet another risk and additional cost: the risk of tariff increases of 15% or more **by subsidizing expansion shippers**
 - First I want to make clear that the issue is not just the potential for a 15% rise in the tariff. And by the way, the "15% cap" as I've heard this language characterized is not 15%, and it's not a cap. In reality it could result in a significantly higher increase than 15%.
 - But the more fundamental issue is that we believe the issue of subsidization is contrary to FERC policy.
 - We understand and we fully share the State's desire for a pipeline to be expandable - it's absolutely good business.
 - However, we believe that the **State should carefully consider** the potential adverse consequences of requiring pipeline owners to increase rates on their initial customers to subsidize expansion shippers.
 - A policy of subsidization places additional risk on the initial shippers, making the project less attractive, and therefore puts the project at risk.

- Now if the **State wants to subsidize others**, it can certainly do so itself, directly, as a policy choice. But we don't believe it's good policy to do so with other peoples' money.
- Congress made clear in the Alaska Natural Gas Pipeline Act of 2004 that rates for initial shippers should NOT increase if a mandatory expansion was ordered. In fact, the language of the Federal Law states that

"the [FERC] shall...ensure that the rates do not require existing shippers on the Alaska natural gas transportation project to subsidize expansion shippers." - ANGPA, Sect. 105(b)

- Also, in Order 2005, FERC put in place a rebuttable presumption of rolled in rates for expansions provided it did not require subsidization by initial shippers [and I'd like to read paragraph 125 of the Preamble]:

"In conclusion, to provide guidance to potential shippers in advance of the initial open season that is the subject of this rule, the Commission intends to harmonize both objectives (rate predictability for initial shippers and reduction of barriers to future exploration and production) in designing rates for future expansions of any Alaska natural gas transportation project. It is consistent with our guiding principle that competition favors all of the Commission's customers, as well as with the objectives of the Act, to adopt rolled-in rate treatment up to the point that would cause there to be a subsidy of expansion shippers by initial shippers, if any subsidy were to be found." [Order 2005, paragraph 125]

- These two excerpts from Federal law and regulation, suggest that .130(7) of AGIA and Federal law could be in conflict. This conflict

issue actually becomes quite complicated, and we are continuing to study it. If indeed there is a conflict, resolving it would add delay and uncertainty. We do not see how that is in any of our interests.

- So we remain concerned about this conflict.

- In any case, we believe that this type of provision, requiring a subsidy for not-yet-ready shippers at the expense of initial shippers, would be a disincentive for potential shippers participating in an open season. That's not in any of our interest.

Avoid Exclusivity to Ensure a Pipeline Gets Built

- The second modification that would enable AGIA to help deliver a successful gas pipeline relates to the issue of exclusivity.

- Under Sections .260 and .440 of the bill on pages 18 and 23, AGIA would result in an **exclusive winner** before any real work is done and awards State funds based on promises, not results

- We are concerned that this feature may actually **PRECLUDE** a successful project from moving forward. That's clearly not anyone's intent, but could be an unfortunate unintended consequence.
 - Our understanding of AGIA is that expedited regulatory handling is offered only to the licensed project, and that the State can be penalized for assisting another competing project
 - We're concerned that this approach may actually conflict with Federal law and regulation, which favor competition among various project proposals and market involvement in the choice.
 - We think it wise that the State consider **avoiding any notion of exclusivity** or the government 'picking a winner'; I'm not aware of any example where that has worked successfully.

- We recognize that the Administration has, in good faith, laid out selection criteria under Section .170 to enable the selection of the exclusive winner in as transparent a way as possible.
 - So that leaves a fundamental question: Should the State pick an exclusive “winner” based only on a proposal?
 - That approach gives us concern.
 - We believe that the **State can help to advance the project by setting out a clear framework for investors** - from there the market will work to identify the most effective project
 - And we support open competition in the **marketplace**, rather than in advance of actual performance or before the competition actually starts
 - In fact, the FERC requires that the **market demonstrate that it wants that application** before awarding a certificate to an applicant. That’s what happens in a successful open season.
 - We believe the Federal law under ANGPA offers a good model, in which expedited regulatory handling is provided to ANY project.
 - We certainly understand that from the State's perspective, there are a number of **specific things desired from ANY project** (jobs and training for Alaskans, gas access for Alaskans, pipeline expansions).
 - We support all of these objectives.
 - Those objectives can and will be addressed by a successful project through open competition in the marketplace.
- A third area we suggest be considered carefully is that, although AGIA seeks to get a project moving, and we fully support that objective, **it does not sufficiently address the resource framework, which is the key enabler for a financeable project**
 - That said, **we are encouraged that AGIA recognizes at least in part**, the importance of some of these key resource issues.
 - In Section .310 on page 19, AGIA seeks to address the issue of **royalty valuation**, which has been an historic source of conflict

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services
Department of Education & Early Development
State of Alaska

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 - That said, **we are encouraged that AGIA recognizes at least in part**, the importance of some of these key resource issues.
 - In Section .310 on page 19, AGIA seeks to address the issue of **royalty valuation**, which has been an historic source of conflict

between industry and the State. But we are concerned that these terms **do not provide sufficient clarity** to justify making the firm transportation commitments required to underpin the project.

- The royalty valuation provisions depend on future regulations; neither the shippers nor the legislature know what those regulations might say.
 - The valuation regulations would allow for retroactive adjustments, and the regulations associated with RIV/RIK switching imply that “reasonable” disproportionate costs and “reasonable” interference with marketing is okay. I don’t know what that means or how to evaluate that.
 - Also, these regulations may change every two years.
- In Section .310(b)(3) on page 19 of the bill, AGIA seeks to address royalty issues associated with **RIV/RIK switching** which is incompatible with the long-term arrangements required to make a gas pipeline project happen (RIV = “royalty in value”; RIK = “royalty in kind”). RIV/RIK switching is problematic for at least two reasons:
 - 1) One is that if the State chooses to switch let’s say from in-value to in-kind, the **shipper would have to come up with additional gas to satisfy its customers** in the marketplace.
 - 2) The second problem is associated with obtaining the capacity on the pipeline if the State switches. For instance, if the State had originally elected to take gas in value, the shipper would have obtained the associated capacity to ship the State’s associated share of gas. If the State then switched from in-value to in-kind, this could result in **stranding downstream capacity**, raising the question of who would pay for that cost of unused capacity.
 - Under AGIA, the specific solution to RIV/RIK switching is **left to future regulation** that, as I mentioned earlier, would allow for the lessee to bear disproportionate costs, and potentially interfere with long-term marketing.

- AGIA includes a provision related to gas production tax in Section .320 on page 21. However, the gas production tax rate is not established, and **only becomes known after the conclusion of the open season**. A shipper would not know what the production tax is before having to make the FT commitment, which would be an incredible risk.
- The gas production tax rate is then only established for a period of 10 years, which for reference is a **fraction of the period that shippers will likely be required to make their firm transportation commitments**.
- **AGIA is silent as to the many other payments** made to the State, which constitute the majority of industry payments.

- It is widely understood that the resource owners will pay the cost and bear the risk in building a pipeline **whether they own it or not**

- Resource owners will pay all the costs of the pipeline, either directly or indirectly by reimbursing the pipeline owner through the tariff for the costs they incur

- It's the RESOURCE that drives the construction of a basin-opening pipeline like this project, NOT the PIPELINE that drives the resource!

- Therefore, solving the resource issues with clarity is key to allowing a project to move forward.
 - Multi-billion dollar commitments spanning decades are needed to financially underpin this project;
 - Just like Wall Street needs to know the rules before lending money, resource owners need to know the fiscal rules that will govern the project before making commitments that will enable the pipeline to be financed.

- Although this is widely known, the details of an upstream framework are complex and will take time and effort by both the State and the producers to agree - but unless they are addressed, a project won't secure financing; it won't advance
 - The provisions of Sections .310 and .320 do not adequately address these upstream issues. To do so requires robust interaction.
- Thus far, there have been some high level discussions between our senior management and the Governor.
- But we've been disappointed in the level of interaction with the Commissioners and their staff. That's where the problem will ultimately be solved.
- Over the last three weeks we've had three constructive discussions with one deputy Commissioner. That's a start.
- We would welcome the opportunity to increase the frequency and depth of dialogue with the Administration.
 - BP remains ready to engage at any time

What Is So Important About FT?

- We've heard a fair amount, in this committee and others, about this term called "FT" which is short for firm transportation commitments
 - In listening to many of these hearings it seems to me that the nature of these commitments is not fully understood
 - However, these commitments are absolutely critical for a gas pipeline to be successful
 - Therefore, I thought I'd spend a moment hopefully adding a bit of clarity to the understanding of FT

- These commitments, typically obligations to “ship or pay” made by the resource owners or “shippers”, are needed by the pipeline company to get financing
 - validating just how important they are, we've heard some very simple and straightforward comments from pipeline companies who have testified in the past couple of weeks
 - TransCanada has said “No customers, no credit, no pipeline” (and in this context customers means shippers)
 - Enbridge put it even more simply by saying “No producers, no pipeline”

- Those aren't “political” statements. They are statements about the simple financial truths of gas pipeline projects

- FT is a binding FINANCIAL obligation. I've sometimes heard FT described as “committing gas to a pipeline”. I've heard that quote from industry as well as others, so I'm not pointing any fingers here. But I just wanted to make it clear that FT is an actual financial obligation
 - Typically, FT is known as a “ship or pay” obligation
 - That means that a shipper commits to pay the pipeline company for use of its service whether or not the shipper actually delivers gas to the line
 - And it's also important to note that a company does not need to have ANY gas resources to enter into a firm transportation commitment. Any company who meets the creditworthiness standards set by the pipeline company is free to bid for capacity. Gas pipelines are “open access”. Anyone is free to obtain capacity if they make the requisite commitments.
 - These FT commitments are real financial obligations. We are required to disclose these commitments as additional information with our filing with the SEC.

- Clearly, an FT of this magnitude will be taken into consideration by financial entities like banks when evaluating our company. That's because it's a real obligation.
 - Once these commitments are made to the pipeline, they are used by the pipeline to obtain financing from the financial markets, provide coverage for that financing, and a return for the pipeline.
 - Maybe an example to explain the nature of these commitments would help. Let's say we've had a successful open season, the pipeline gets project financed, is built and it's in operation. Then, heaven forbid, for some reason the pipeline company goes bankrupt. Not what we're hoping for, for sure. But what would the lenders do? So they would turn to the FT commitments made by the shippers to get their repayment. And these FT commitments would indeed be paid to the lenders. That's because they are a REAL FINANCIAL COMMITMENT. They have to be properly taken into consideration when evaluating project economics.
- The scale of these commitments is often oversimplified. It's not "just" the capital cost of the project, if that weren't in itself a large enough commitment.
 - the commitment is for what is known as the "demand charge" which is the cost of service the pipeline will charge through time
 - Capital is one major component
 - But for illustration, I've provided some broad assumptions to put the scale of these commitments in perspective.
 - assuming a 4.5 bcfd project, at a unit cost of \$3.50/mcf for 25 years results in a total FT commitment of \$144 billion
 - That's a huge sum, even for a company the size of BP
- These long term commitments are just that – commitments. Therefore, they represent real risk. And the size of these commitments magnifies the risk. And that risk is borne by those making the commitments,

Risk Diagram

- This next slide attempts to show how **risk is ultimately allocated** in a major resource development project like the Alaska Gas Pipeline Project

- I'm going to **step through it one bit at a time.**

- First, we start with the **Resource Owners** – that's of course the State of Alaska, and it includes the lessees, like BP, CP, EM, Chevron and others.

- There are certain risks that are inherent to the resource itself.
 - There is always price risk associated with selling a commodity like gas
 - that's the risk that the price of gas will fall in the future, possibly below the tariff
 - There's also production risk
 - Keeping the pipeline full for project life
 - Being able to deliver the full volume every day
 - These risks are important considerations when a resource owner has to make the firm transportation commitments necessary to underpin the project

- Next, there's fiscal risk for a lessee; that's the risk that the fiscal terms on the upstream business might change. On major infrastructure projects like this around the world, it's not uncommon for host governments to address fiscal risk with a mutually agreed framework.

- There are also a whole host of risks associated with constructing the pipeline itself
 - Regulatory process could change → schedule risk
 - Material, labor and equipment costs → cost risk, which includes project management and execution
 - Need for finances from the capital markets → finance risk

- **What is critical to appreciate** is that all these project-related risks that are taken by the pipeline company are ultimately passed through to the resource owners through the toll
 - The Pipeline company receives a regulated rate of return
 - Gets a reasonable return on investment commensurate with the risks
 - That's the pipeline's reward
 - In exchange for this regulated rate of return, the regulators ensure that the pipeline does not take on certain risks
 - These instead are passed through to the resource owners, provided that the pipeline owner delivers the project on time and operated efficiently
 - That's how the risk / reward balance is struck by the pipeline regulators

- So ultimately, **ALL RISKS** are either borne directly by the resource owners, or are passed through to the resource owners through the toll

- To ensure a low cost project, it's important that those that are bearing a risk are able to manage that risk
 - They are commercially motivated to manage that risk downwards

- To reiterate, it's critical that the fiscal system is established in such a way that the risks associated with the resource or "upstream" are adequately addressed to ensure the risk / reward balance is right.
 - That will maximize the likelihood of having a successful open season and a successful project.
 - The State is uniquely positioned to address this risk

Summary

- So in summary, I'd like to leave you with four messages.
- First, BP wants and needs a gas pipeline. It's critical to our vision of the 50-year future in Alaska.
- Second, BP fully supports an **open process** that leads to a mutually agreed fiscal framework with the State that **allows a project to advance and attract financing**
- We think there should be an **open and transparent public review** of the resulting framework
 - The Governor has already committed to keep the legislature and the public apprised - we fully support her in that.
 - It is critical that the legislature supports and endorses that framework
 - The judicial branch should review that framework to ensure constitutionality
 - The people of Alaska and all 3 branches of government should and will be consulted.
- We think that the resulting framework should be **available to all investors** to ensure competition
- Third, we believe that a number of midstream details in AGIA should be fixed.
 - We think the best project will come about if the State allows industry to offer solutions, rather than prescribing them up front.
 - The provisions which result in rate subsidies of one party to another should be eliminated
 - **any notion of exclusivity** or the government 'picking a winner' like those contained in Sections .260 and .440 should be avoided
 - Any process should allow competition in the marketplace to work

- It is easy to make hopeful promises but it is harder, and vitally important, to deliver performance
 - That is what we believe the State should require. **Delivery, not promises.**

 - And finally, a **mutually agreeing an upstream framework is critical.**

 - The resource issues must be resolved for the project to proceed and to ensure the resource owners have sufficient confidence to make the necessary long term financial commitments in an open season required to advance the project. Section .310 and .320 of AGIA do not accomplish this objective.

 - We are ready to engage on developing that upstream framework.

 - Thank you for the opportunity to testify today. I'd be happy to answer any questions you might have.
-

Alaska Natural Gas Pipeline Project

Testimony on AGIA

House Resources Committee

April 13, 2007





BP's Vision for Alaska

- BP has a long history in Alaska....
-and we look forward to a 50-year future
- That future is only possible with a gas pipeline

