

ALASKA LEGISLATURE COMMITTEE FILES 2007-2008 HRLS 12319

Maximizing Benefits to Alaskans



- Get a Pipeline
- Jobs and long-term careers
- Opportunity of affordable energy for Alaskans
- Maximize state revenue and create opportunity for future growth of state economy
 - Lowest Reasonable Transportation Rates (tariff)
 - Expansion Provisions

TC Alaska Project Evaluation



- Economic Evaluation
 - Net Present Value (NPV) to the State
 - NPV to the Producers
- Likelihood of Success

TC Alaska Project Evaluation



- As allowed in AGIA, TC Alaska's application had alternative project designs based on how much gas was committed at the initial open season
- Analysis considered many different possible designs

NPV Analysis



- Two “Base Cases” Reported for TC Alaska’s Project
 - “Proposal Base Case”
 - 4.5 Bcf/d (including 0.9 Bcf/d from Pt. Thomson)
 - 75/25 debt to equity
 - 14% return on equity
 - 25 year shipping contracts
 - “Conservative Base Case”
 - 4.0 Bcf/d (No gas from Pt. Thomson)
 - 75/25 debt to equity
 - 14% return on equity
 - 20 year shipping contracts

NPV Analysis



- Factors in NPV Analysis
 - Gas Prices
 - Transportation Costs
 - Pipeline Project Capital Costs
 - Cost Escalation Rates
 - Initial Pipeline Throughput
 - Tariff Terms (e.g. debt to equity ratio)
 - Pipeline Construction Schedule
 - Gas Production Costs

Project Economic Analysis



- Gas Price Models
 - Separate price forecasts were obtained from
 - US DOE's Energy Information Administration (EIA)
 - Wood Mackenzie
 - Gas Strategies Consulting
 - Black and Veatch

Project Economic Analysis



- Project Cost and Schedule
 - “Technical Team”, included
 - Westney Consulting
 - Energy Project Consultants
 - Pingo International
 - AMEC Paragon
 - Colt Engineering
 - Mustang Management
 - Energy Operations Consulting
 - Black and Veatch
 - Merlin Associates

Project Economic Analysis



- Project Cost Estimates – Mid-Range
 - Proposal Base Case
 - \$31 Billion in today's dollars
 - \$3.19 tariff
 - \$45 Billion in dollars spent
 - \$4.73 tariff
 - Conservative Base Case
 - \$29 Billion in today's dollars
 - \$3.59 tariff
 - \$42 Billion in dollars spent
 - \$5.33 tariff

Project Economic Analysis



Project Cost Estimates – Why Higher than TC Alaska’s?

- Different Purposes – Project Planning vs. Risk Assessment
- TC Alaska’s Cost Estimates are “realistically aggressive” and appropriate for project planning
 - Analytical team tested sensitivity of estimates to changed circumstances
- Difference Between Assumptions Mandated in the RFA and the final analysis assumptions
 - Exchange rate, cost escalation rate
- Assumed “Neutral Competence” of Operator
- Cost of the GTP
 - One vs. Two seasons of sea-lift

Project Economic Analysis



- Project Schedule
 - Mid-range probability put first gas in 2020
 - State's Canadian Counsel advised on expected regulatory timeline in Canada, including First Nation issues

Project Economic Analysis



Reporting NPV Results – Proposal Base Case

- Gas Prices (WoodMac)
- Transportation Costs
 - Pipeline Project Capital Costs (\$31.5 billion)
 - Cost Escalation Rates (4%)
 - Initial Pipeline Throughput (4.5 Bcf/u)
 - Tariff Terms (e.g. debt to equity ratio[75/25])
- Pipeline Construction Schedule (2020)
- Gas Production Costs

Project Economic Analysis



Proposal Base Case Results

- The State of Alaska would realize an estimated cash flow of \$261.5 billion, and an estimated NPV of approximately \$66.1 billion at a discount rate of 5%.
- The Major North Slope Producers would realize an estimated cash flow of \$147.4 billion, and an estimated NPV of approximately \$13.5 billion at a discount rate of 10%.

Project Economic Analysis



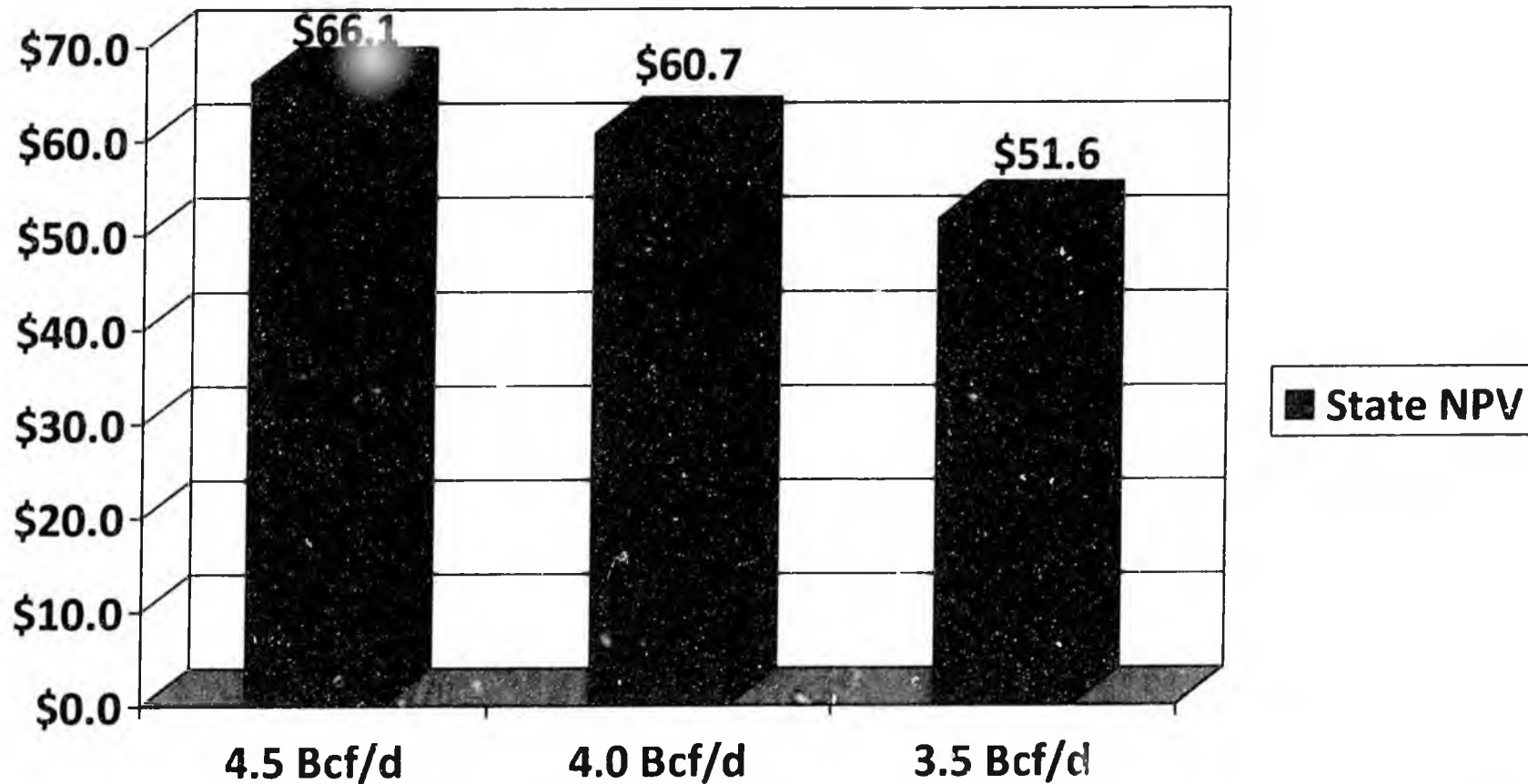
Conservative Base Case Results

- The State's NPV decreases by 8% from the Proposal Base Case to \$60.7 billion.
- The Major North Slope Producers NPV decreases by 9% to \$12.3 billion.

Project Economic Analysis



State NPV at Various Initial Throughput



Project Economic Analysis



- The Project Economics are Extremely Robust
 - It would take a “perfect storm” of worst case scenarios of multiple factors for the Project to be uneconomic to the Producers.
 - Indeed, a “perfect storm” of low gas prices and high construction costs, together, are not enough to generate a negative NPV for the State.

\$500 Million Matching Contribution



Effect of State's \$500 Million Matching Contribution to TC Alaska's Project

- Tariff is reduced by 6 cents
- State's NPV increases by \$200 Million

TC Alaska Project Is Likely to Succeed



- TC Alaska has submitted a plan for its project that is technically feasible, reasonable, and specific.
- TC Alaska has demonstrated the technical and financial ability to construct the project.
- TC Alaska has submitted a reasonable commercial plan which, coupled with economic and political factors, should help to encourage firm shipping commitments

Attracting Gas Commitments to TC Alaska's Project



- Robust economics and reasonable commercial terms.
- Extremely capable pipeline company.
- State's Upstream Inducements
 - 10-year tax certainty
 - Royalty valuation certainty
- Avoid Problems of Not Committing Gas
 - Duty to develop
 - Anti-trust
 - Congressional Attention
 - Shareholder Questions

TC Alaska Project Is Likely to Succeed



Contingent Liability Issue

- Risk of litigation is significantly overstated.
- Potential legal claims by withdrawn partners are, at best, weak and unlikely to succeed.
- Not a reasonable basis for the Major North Slope Producers to refrain from partnering with TC Alaska or contracting with the Project.

TC Alaska Project Comparisons



- Producer Project (Denali)
- LNG Options

Denali Project Is More Risky For the State



- Lack of commitments create risks for state
- No certainty on project schedule
 - Likely Anti-trust Challenges
- Undefined tariff terms
 - Example, 50/50 debt to equity increases the tariff by \$1 compared to 75/25, costing the state over \$8 billion in NPV
- Undefined state fiscal concessions needed for Denali
 - SGDA concessions worth over \$10 billion
- No Certainty on Expansion Provisions
 - Producer Incentives to exercise basin control
 - Stifles North Slope basin development
 - Loss of long-term jobs and careers
 - Loss of Potential LNG development

Producer Pipeline Considerations



- Even if TC Alaska License is issued, Producers can proceed with Denali, commit gas to it, and build it without any additional state concessions
- State has significant interest in attracting Producers to commit gas to TC Alaska's project
 - Expansion Provisions
 - Lowest reasonable tariff - Highest Netback
- State Needs to Use Power of Competition to Protect Alaskans Interests

LNG Analysis



- Extensive Analysis of LNG economics and likelihood of success
 - Asian market price
 - LNG project costs and schedule
 - How LNG projects are developed
 - Potential hurdles for LNG projects

LNG Economic Analysis



- Ran economics on both a 2.7 bcf/d and 4.5 Bcf/d projects
- Alaskan LNG is economical and viable
- Confirmed Asian market premium price
- Liquefaction plant costs create an economic drag
- LNG does not provide time or cost savings over TC Alaska project
- State and Producer NPV lower under all stand-alone LNG options than under TC Alaska project

LNG Likelihood of Success



- LNG is viable, but less likely to succeed without TC Alaska Project
 - Entire project stream, from gas supply, to pipeline, to liquefaction, to tankers, to re-gasification, to gas sales must be negotiated and executed nearly simultaneously
 - Expansions are more difficult because of size
 - Export authorization is a challenge

Opportunity for “Y line” LNG



- If gas is committed, TC Alaska will transport gas from Delta Junction to Prince William Sound
- LNG project will benefit from TC Alaska’s financial and technical capabilities
- State will benefit from supplying gas to both LNG and North American markets
- “Y line” is the best LNG option for the state

Additional Considerations



- Treble Damages Exposure
- Competition

Treble Damages Exposure



\$Millions

Year	Annual Spend	State Expenditure	TC Alaska Expenditure	3x TC Alaska Expenditure	Cumulative State Exposure
2008	\$41	\$21	\$21	\$62	\$82
2009*	\$42	\$21	\$21	\$63	\$166
2009	\$34	\$31	\$3	\$10	\$207
2010	\$141	\$127	\$14	\$42	\$376
2011	\$144	\$130	\$14	\$43	\$549
2012	\$147	\$132	\$15	\$44	\$726
2013	\$75	\$39	\$36	\$109	\$874
Total	\$625	\$500	\$125	\$374	\$874

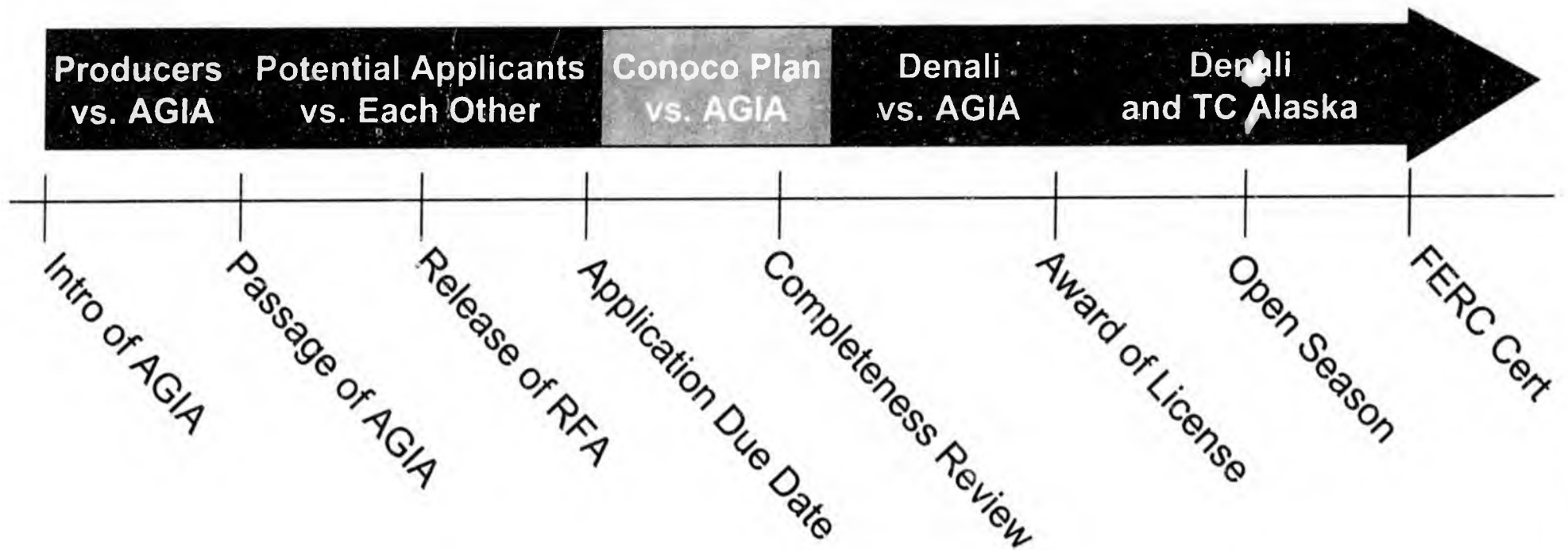
*Scheduled Open Season

Expenditure Schedule Based on TC Alaska Application

Competition

AGIA

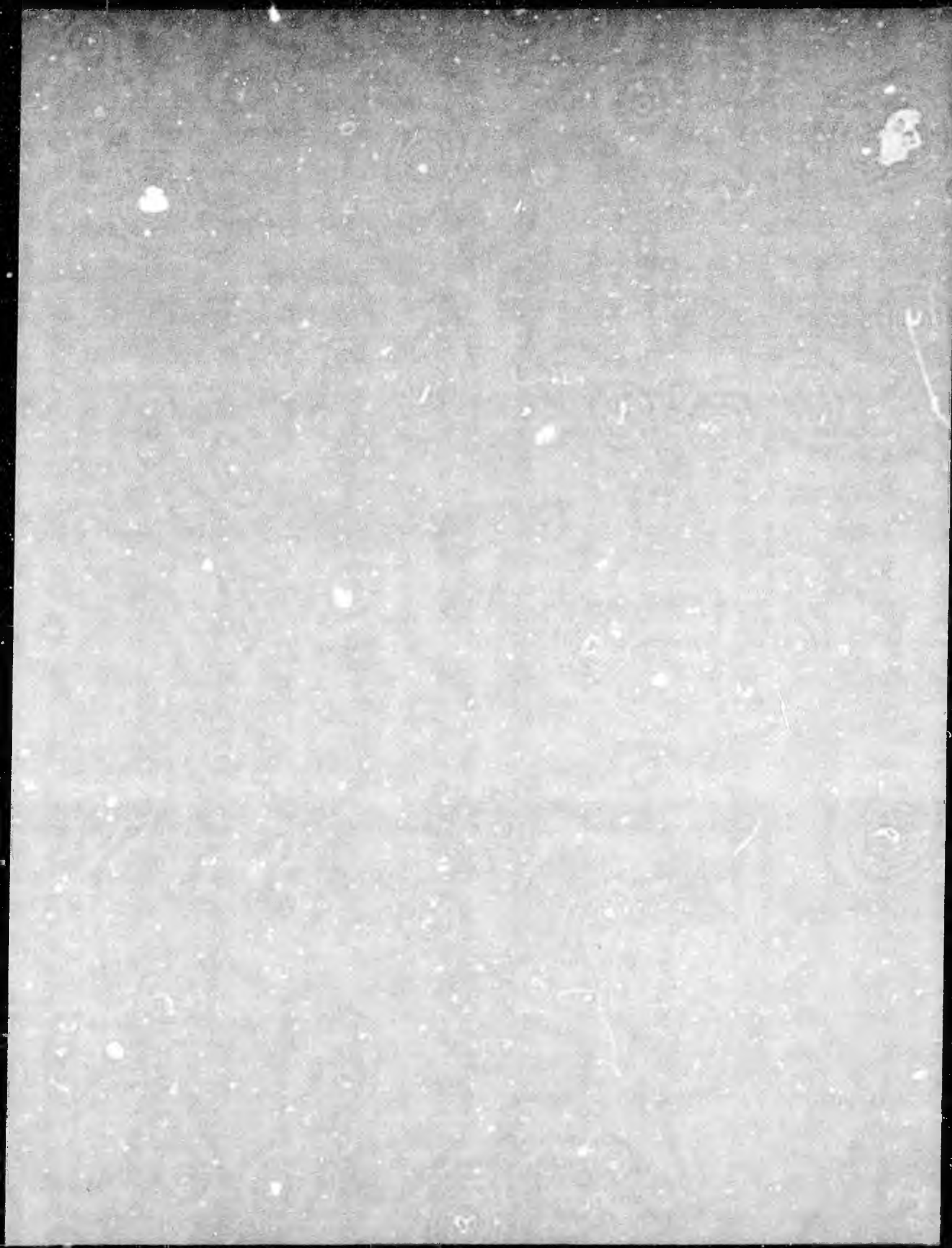
The Alaska Gasline Inducement Act

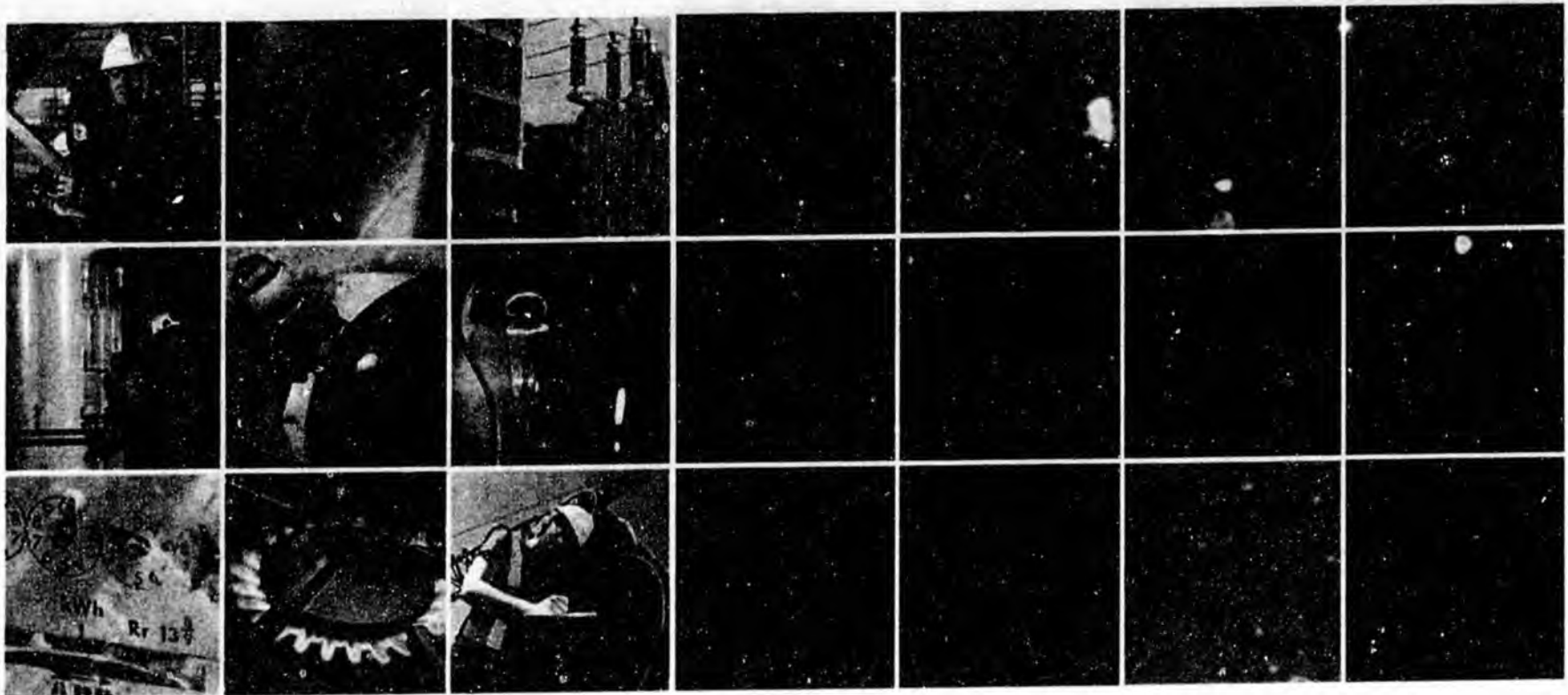


Summary



- TC Alaska's Project Maximizes Benefits to Alaskans
 - Best Chance to Get a Pipeline
 - Expansion Provisions Provide Best Chance for Jobs and Long-Term Careers for Alaskans
 - Increases Alaskans Opportunity of Affordable Energy
 - Maximizes State Revenue
- TC Alaska's Project is Better for the State than LNG Options and the Producer Project (Denali)





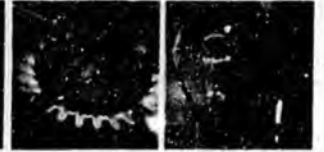
TransCanada's AGIA Application Statewide Legislative Hearings

June / July 2008



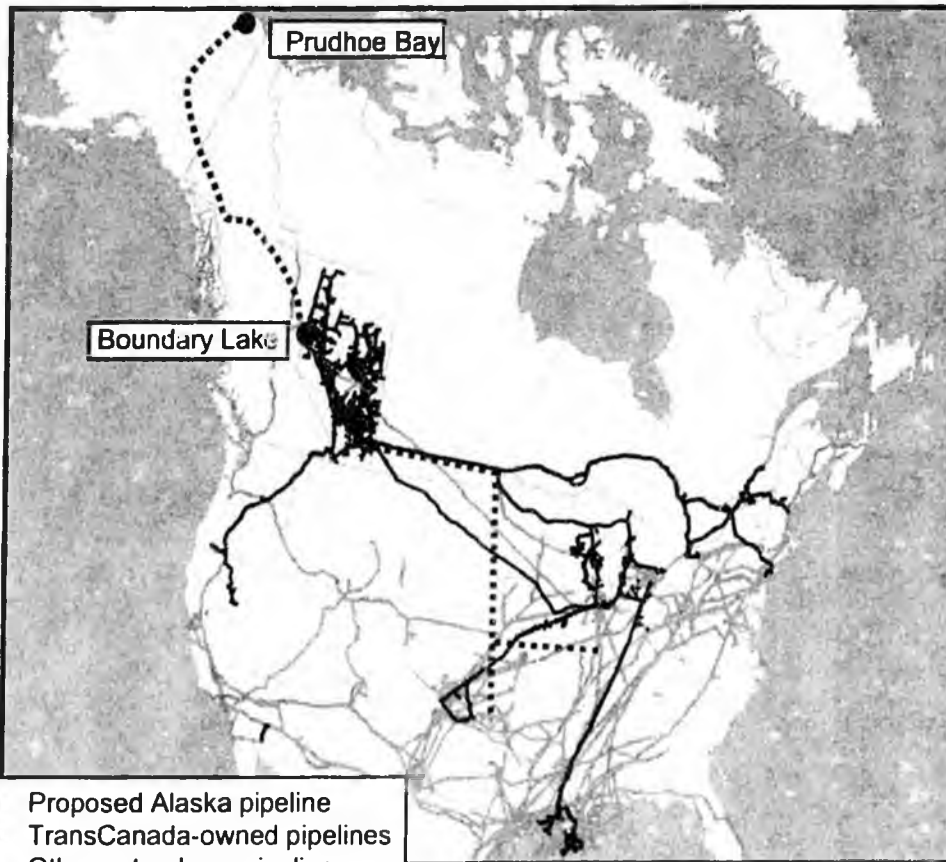
TransCanada
In business to deliver

TransCanada's Objectives – Alaska Project



- Early in-service
 - Largest investment opportunity in core business line and geographic footprint
 - Utilize spare capacity on existing North American pipelines
 - LNG market as alternative investment opportunity
- Encourage long-run basin development
 - Serve In-State and other markets
 - Increase market and supply diversity
 - Growth investment opportunities
 - Pipeline expansions can create "virtuous circle"
 - Pipeline expansions promote more exploration and drilling which, if successful, leads to more pipeline expansions
- Equitable treatment for all customers
 - 50-year successful track record of balancing interests
 - Initial and future
 - Large and small

TransCanada's Credentials



- Proposed Alaska pipeline
- TransCanada-owned pipelines
- Other natural gas pipelines
- Keystone pipeline

	TransCanada Total	Alaska Pipeline Project
Miles of Pipe • in U.S.	36,500 • 12,000	1,715 • 750 in Alaska
Compression Horsepower	5,370,000	750,000 • 265,000 in Alaska
Throughput Volumes	15 bcf/d	4.5 bcf/d

<u>1957/58</u> TransCanada's Mainline	Original build across Canada 2,300 miles
<u>1990s</u> Expansion	7,000 miles Completed within 0.6% of budget and on schedule
<u>2008 - 2009</u> Keystone Pipe	2,150 miles New build in U.S. - 1,380 miles

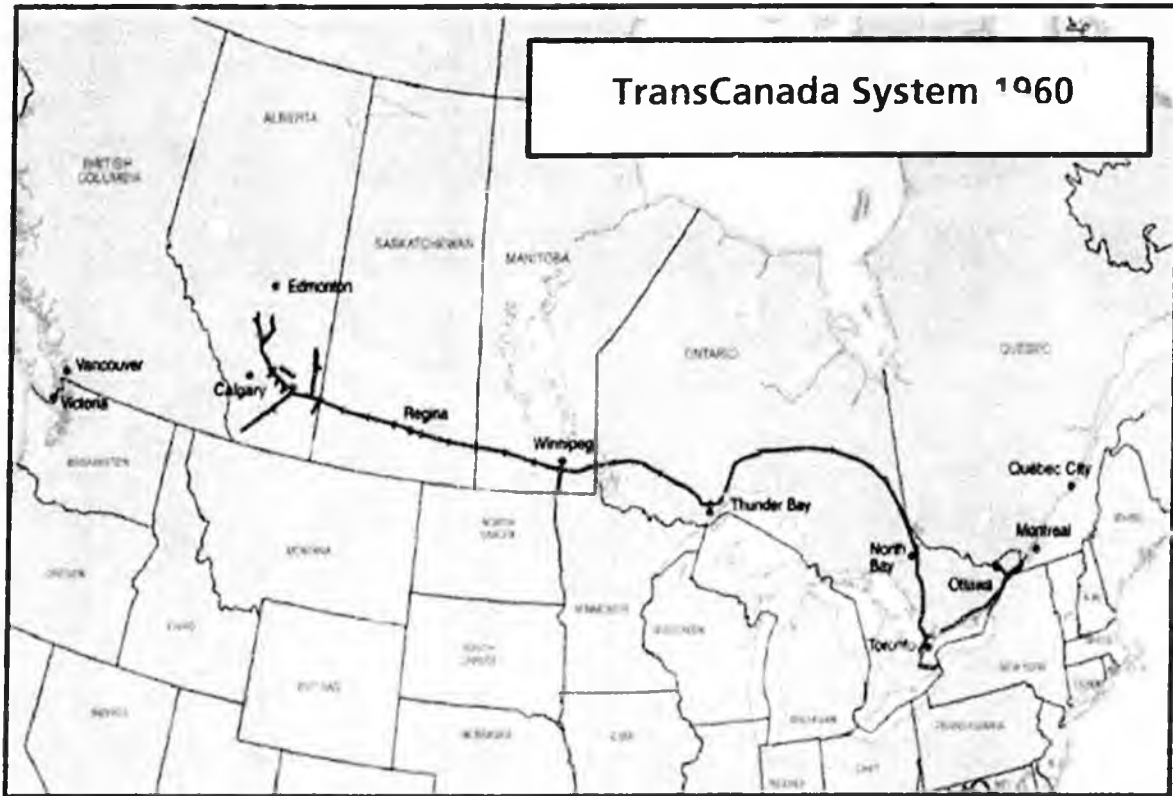
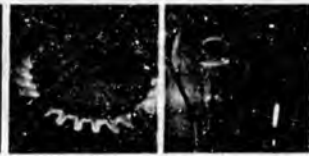
Proven Basin Developer – Alberta Example



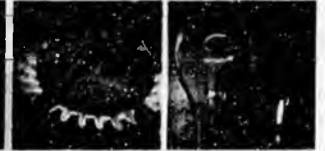
Regulatory Structure

- Independent pipeline model
- Rolled-in tolls
- 3 customers in 1958, 300+ today

Proven Basin Developer – Mainline Example 1960

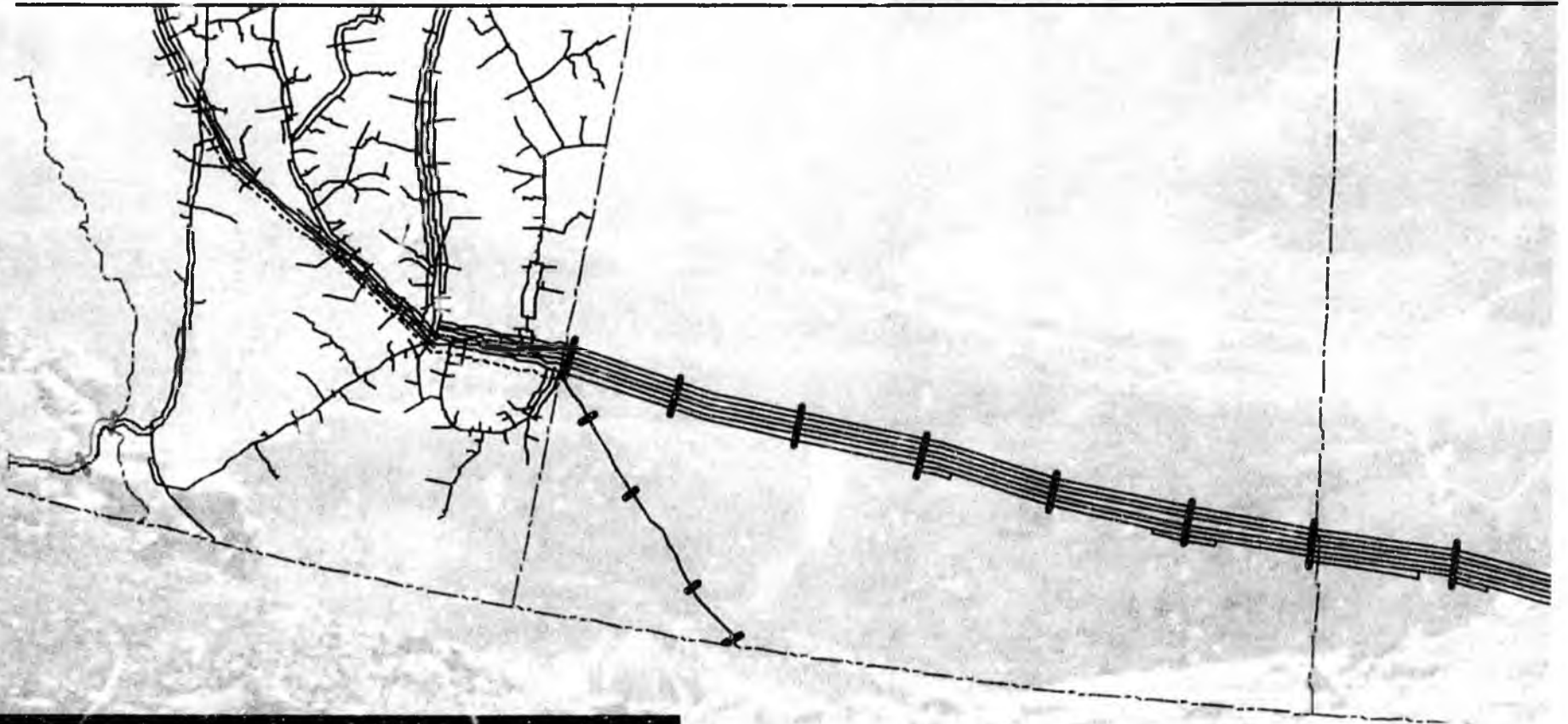


Proven Basin Developer – Mainline Example 2008



Alberta

Saskatchewan



Regulatory Structure

- Independent pipeline model
- Rolled-in tolls
- 3 customers in 1958, 300+ today

AGIA "Must Haves"

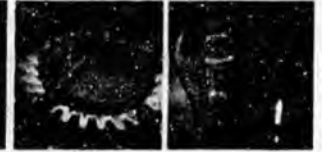
AGIA "Must Haves"	TransCanada's Application	Completeness
1. Filed by deadline	Filed on November 30, 2007	✓
2. Project details & schedule	Alaska Highway route 5 bcf/d GTP and 48" 2500/2600 psi pipe 2017 November in-service*	✓
3. Open season date certain Apply for FERC pre-filing Apply for FERC CPCN	Completed by Sept. 2009* June 2010* - not contingent on Open Season December 2011* - as above	✓
4. RCA filing	N/A	N/A
5. Open season frequency	Once every 2 years	✓
6. Expansions - Commitment to expand in engineering increments	Yes, 4.5 bcf/d initial design capacity Expandable to 5.9 bcf/d with compression only	✓
7. Rolled-in tolls	Up to 115% of initial rates in Alaska Full rolled-in rates in Canada	✓
8. Gas treatment plant	TransCanada will build if 3 rd parties do not	✓
9. State reimbursement	Up to \$500 million	✓

* Subject to ACIA license by April 2008

AGIA "Must Haves"

AGIA "Must Haves"	TransCanada's Application	Completeness
10. Project debt ratio minimum	Construction - 70% Operation - 75% (to reduce tolls)	✓
11. Capital cost overrun measures	TransCanada's return reduction (penalty) Potential \$18 B loan guarantee (stable tolls)	✓
12. In-state deliveries	Min. 5 delivery points	✓
13. In-state delivery rates	Distance sensitive rates	✓
14. Local headquarters in Alaska	Yes	✓
15. Local hire, local businesses, etc.	Opportunities for local hire and businesses	✓
16. Waive right to appeal	Waived	✓
17. Project labor agreement	Commit to negotiate PLA	✓
18. Treatment of State reimbursement	Excluded from rate base	✓
19. Details of Applicant	Provided	✓
20. Readiness, financial resources and technical ability of Applicant	Proven record and demonstrated capability	✓

TransCanada's Competitive Response to AGIA



- TransCanada bid to win – competitive enhancements
 - Initial system design with inexpensive expandability
 - Gas treatment plant ownership, if no 3rd party willing to build
 - Equity opportunity for shippers committing gas in initial open season
 - 75% debt vs. 70% minimum limit in AGIA
 - Toll reduction of \$0.09/mmbtu
 - TransCanada's return reduction in event of capital cost overruns
 - Fort Nelson Option upside
 - Toll reduction of \$0.13 - \$0.18/mmbtu
 - LNG alternative if insufficient gas commitments through Canada , or via Y-line

Alaska Pipeline Project



- **Alberta Hub is the most liquid market in North America**
- **TransCanada's Alberta System is the Alberta Hub**
- **Access to all North American markets coast-to-coast on TransCanada's existing pipelines**
 - **By 2018, spare takeaway capacity sufficient for full Alaska volumes**
- **One-third of Alaska pipeline in-service as Prebuild moving 3 BCFD**
- **LNG alternative if insufficient gas commitments through Canada or via Y-line**

Project Description

- Gas treatment plant at Prudhoe Bay
 - 5 Bcf/d initial capacity
 - TransCanada will develop/own only if necessary
- Natural gas pipeline from Prudhoe Bay to Alberta Hub
 - 4.5 Bcf/d initial capacity
 - Expansion to 5.9 Bcf/d with compression only
 - More than 1700 miles
 - 48-inch diameter; 2500/2600 psig
- Alberta Hub to Lower 48
 - TransCanada's existing pipeline system in Alberta is the "Alberta Hub"
 - TransCanada's Alberta pipeline is both a physical and commercial system
 - Largest natural gas trading hub in North America
 - By 2018, downstream pipelines projected to have spare capacity for full Alaska volumes

Project Economics ¹

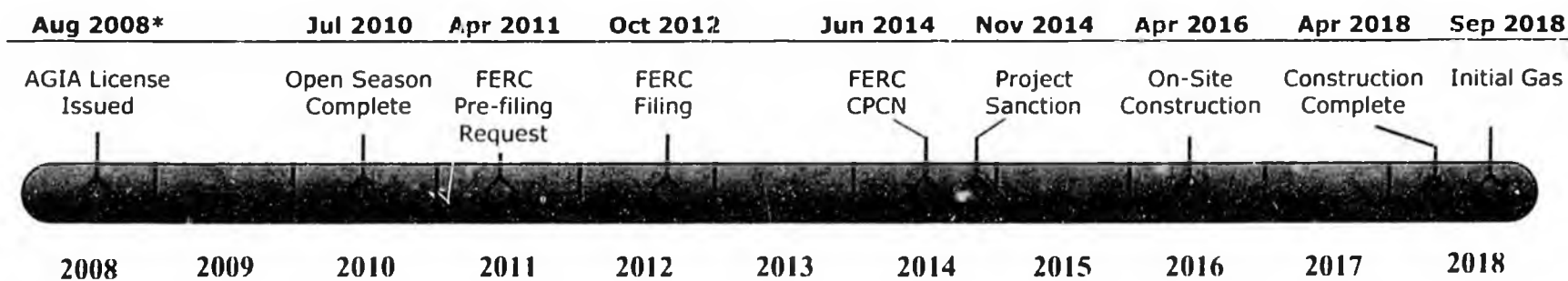
- Capital costs
 - \$26 billion (2007 \$US excluding AFUDC)
 - Approximately \$0.6 billion for Open Season and regulatory certification
- Tolls
 - \$US 2.76/MMbtu in 2018 to the Alberta Hub
 - Levelized negotiated toll for 4.5 Bcf/d in nominal dollars, including fuel
 - Expansion Tolls
 - Rolled-in tolls in Canada
 - Rolled-in tolls in Alaska up to 115% of initial tolls, including fuel

¹ Based on information provided by the State and current TransCanada estimates

Financial Parameters

- Debt/Equity Ratio
 - 70/30 during construction
 - 75/25 upon completion of initial project
 - 60/40 for all expansions
- Return on Equity
 - U.S. 10-year Treasury Note plus 965 basis points
 - TransCanada's ROE will be adjusted downward in first 5 years by up to 200 basis points in the event of CAPEX overruns
- Fuel
 - 7.9% including GTP from Prudhoe Bay to Alberta Hub
 - \$US 0.35/MMbtu in 2018 @ 4.5 Bcf/d

Project Schedule



* AGIA license assumed to be issued in August 2008

Partnership Opportunity



- TransCanada will offer equity opportunity to Shippers in the initial Open Season that subscribe for a threshold volume
 - Should improve likelihood of success and alignment of interests between project sponsors and Shippers

Upstream Fiscal Terms



- TransCanada's AGIA obligations are not conditional on a review of Alaska's upstream fiscal terms.
- TransCanada acknowledges that this issue is between the State and natural gas producers.
 - TransCanada requests that the State review upstream fiscal terms for natural gas prior to the initial open season.

Other Project Components



- Natural Gas Liquids (NGLs) Extraction
 - TransCanada can accommodate NGL extraction in Alaska or downstream
 - TransCanada's Alberta system is straddled by three NGL complexes owned by third parties
 - Excess capacity expected at those plants sufficient to process Alaskan gas if Shippers so choose
- LNG Alternative
 - TransCanada is willing to offer gas treatment and transportation services from Prudhoe Bay to an LNG terminal should insufficient gas be committed through Canada or via a Y-line

Regulatory Structure

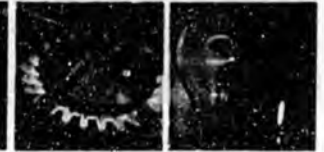
- Alaska
 - TransCanada Alaska Company, LLC will proceed under Alaska Natural Gas Pipeline Act of 2004
- Canada
 - Foothills Pipe Lines Ltd. will proceed under the Northern Pipeline Act (NPA)
- Canada/U.S. Treaty
 - The pipeline will follow the route set out in the Treaty and the NPA

AGIA "Must-haves" Promote Basin Development



- Rolled-in tolls up to 115% of initial rates in Alaska
- Open Season every 2 years
- In-State deliveries
 - Distance-sensitive tolls
 - Minimum 5 delivery points
- Low equity ratio requirement for pipeline sponsors
- State fiscal incentives (if any) targeted to AGIA pipeline shippers

Long-run Basin Development – Pipeline Expansions



- Value to Producers / Governments?
- Does Alaska have enough gas?
- Drilling impacts?
- Impact of rolled-in tolls?

Value of Potential Expansions (\$Billions)¹

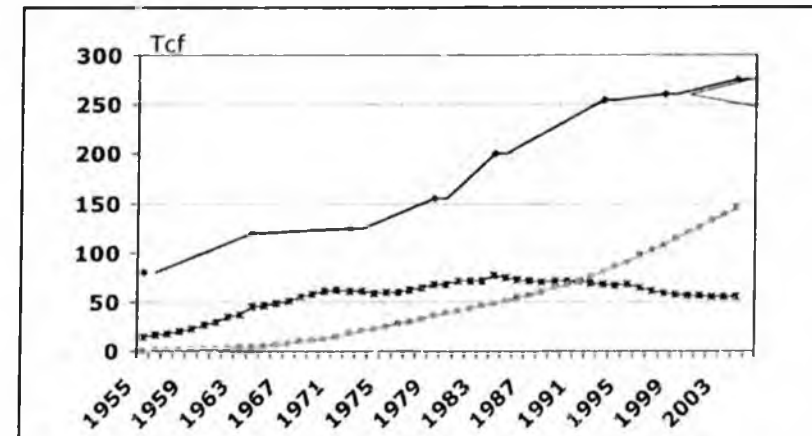
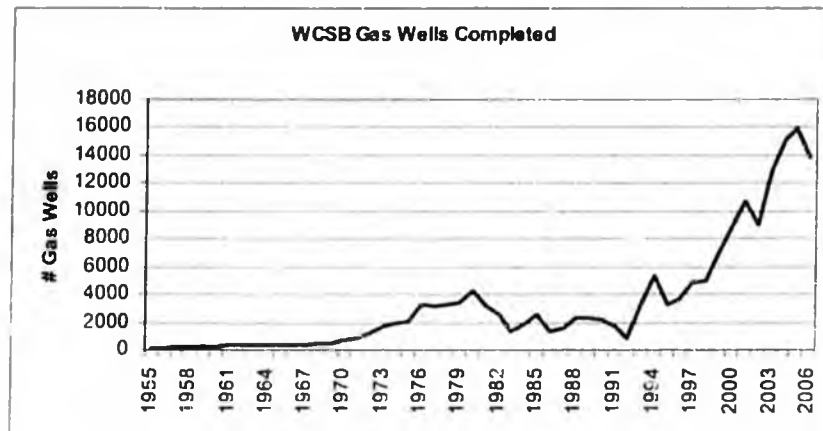


	<u>Producer/Govts. Total Revenue *</u>	<u>Expansion Value</u>
Base Project		
- 25 years @ 4.5 Bcfd	\$350 Billion	
Expansions		
Case I		
- Base volumes for 10 years (4.5 Bcf/d)		
- 30% expansion for 25 years (5.9 Bcf/d)	\$600 Billion	\$250 Billion
Case II		
- Base volumes for 10 years (4.5 Bcf/d)		
- 60% expansion for 25 years (7.2 Bcf/d)	\$700 Billion	\$350 Billion

¹ Assumes annual average netback of \$6.89/MMbtu

* Direct revenue only
- no indirect impacts from additional E&P activity and spin-offs

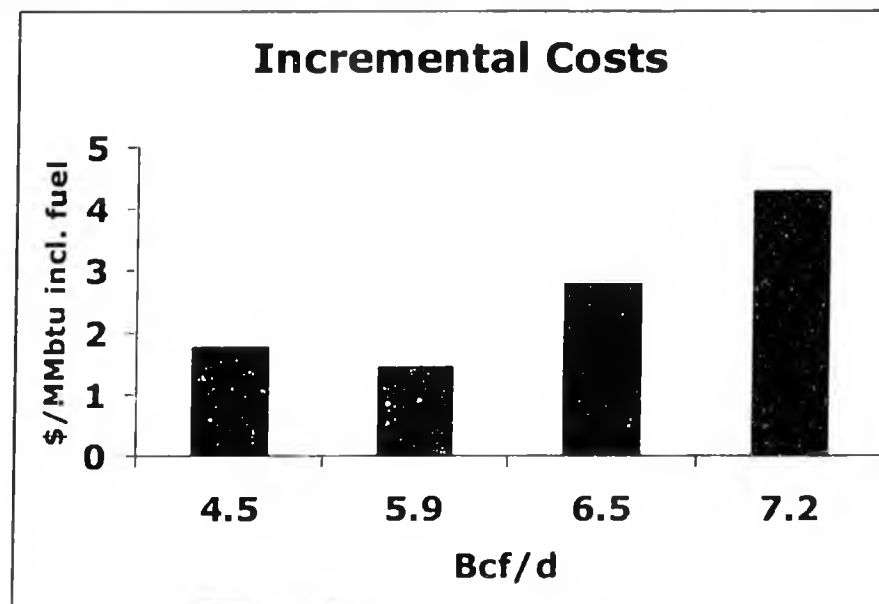
Basin Development – Western Canada Example



— Ultimate Resource Potential Estimate
- - - Proven Reserves
... Cumulative Production

- Pipeline expansion can create “virtuous circle”
 - More exploration and drilling
 - If successful, leads to more pipeline expansion
- Exploration and drilling drives service industry and employment over long term

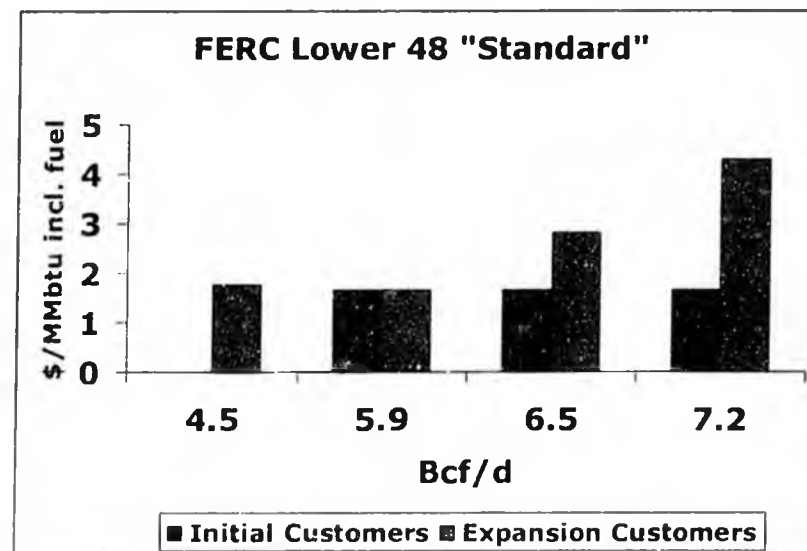
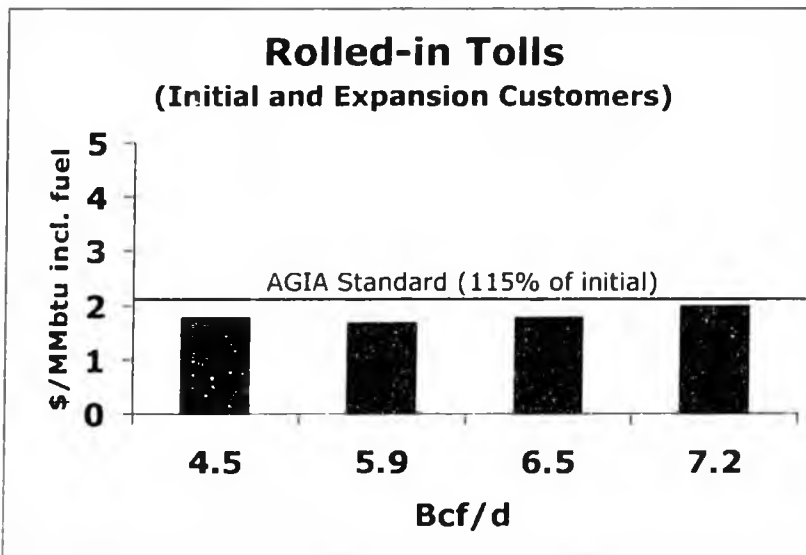
Impact of Rolled-in Tolls?



Alaska & Yukon-B.C. sections only

Assumed Volumes: 4.5 Bcf/d years 1 & 2
5.9 Bcf/d years 3 & 4,
6.5 Bcf/d years 5 & 6,
7.2 Bcf/d years 7 & beyond

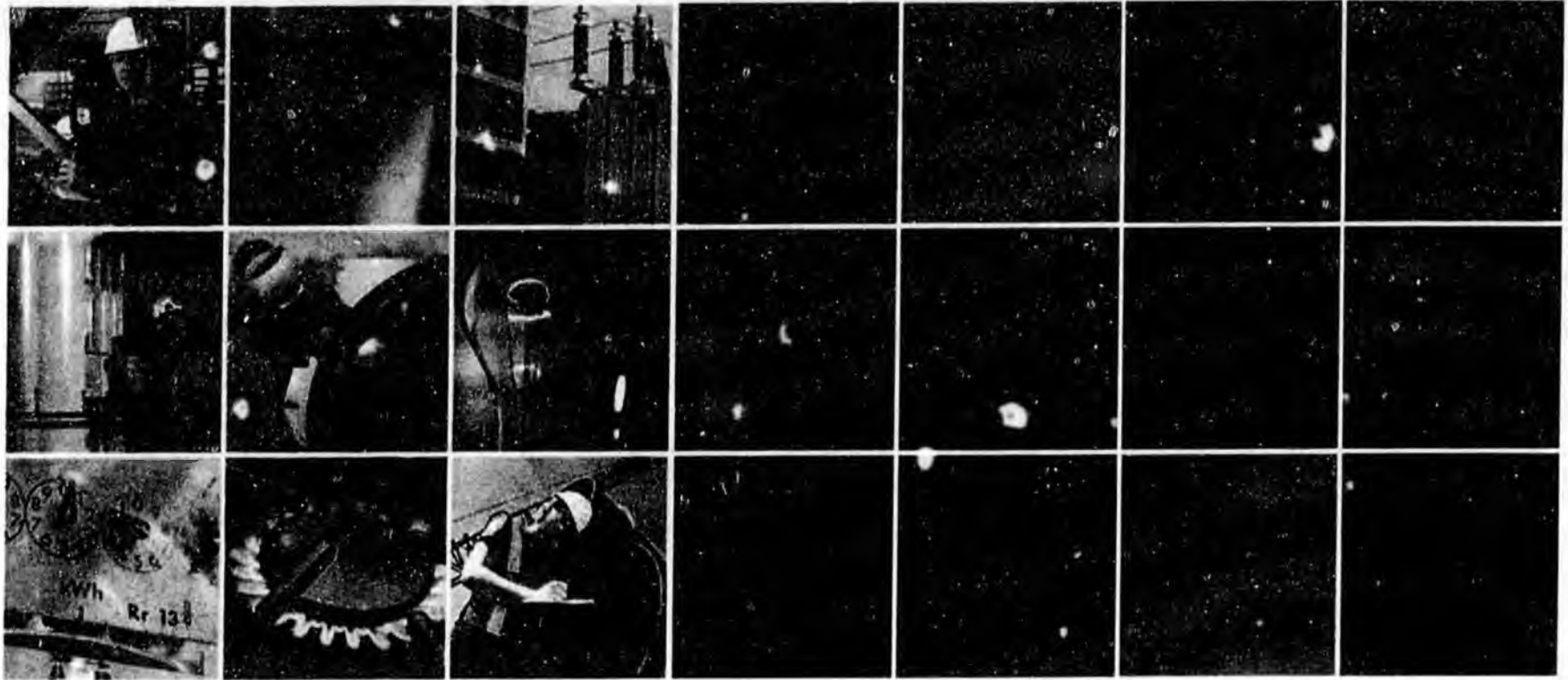
Impact of Rolled-in Tolls?



- Rolled-in tolls increase chance of expansions above 5.9 Bcf/d
 - 35% lower tolls for expansion customers to 6.5 Bcf/d
 - 50% lower to 7.2 Bcf/d

Summary

- Last year, the Administration and Legislature established AGIA as Alaska's transparent and competitive process to advance a gas pipeline project
 - AGIA was structured to encourage:
 - Construction of base project
 - Long-run basin development
 - Open access terms for:
 - Initial and future shippers
 - In-State, Lower 48, and LNG markets
- TransCanada has the credentials and capacity to build, own, operate and expand the project
- TransCanada's objectives are aligned with AGIA
 - Early in-service
 - Long-run basin development
 - Open access – equitable treatment for all customers



Thank You



TransCanada
In business to deliver

HB 3001

SB 3001

6/20/08

SPECIAL

SESSION

DOCUMENTS

WORK DRAFT

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY -FIFTH LEGISLATURE -FIRST SESSION

BY

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

"An Act relating to oversight of North Slope natural gas pipelines by the Regulatory Commission of Alaska under the Alaska Pipeline Act; repealing statutory limitations on the conduct of open seasons for the transport of North Slope natural gas for in-state use; and repealing a requirement that the Regulatory Commission of Alaska treat the regulation of intrastate rates for a North Slope natural gas pipeline as if the pipeline were a public utility."

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

*** Section 1. AS 42.06.240(f) is repealed.**

*** Section 2. AS 42.06.230(b) is amended to read:**

(b) The commission's jurisdiction and authority extend to

(1) an oil or gas pipeline facility operating in a municipality, whether home rule or otherwise; if a conflict between a certificate, order, decision, or regulation of the commission and a charter, permit, franchise, ordinance, rule, or regulation of the [SUCH A] local governmental entity occurs, the certificate, order, decision, or regulation of the commission prevails; and

(2) the intrastate transportation of [NORTH SLOPE] natural gas

through a [NORTH SLOPE] natural gas pipeline to the extent not preempted by federal law, rule, or regulation.

* Section 3. AS 42.06.370(c) is repealed.

Purpose

The purpose of this legislation is to remove potential impediments to timely state regulatory approval of a natural gas pipeline delivering North Slope natural gas to in-state users. Currently, AS 42.06.240(f) provides specific directives regarding how the Regulatory Commission of Alaska is to allow access to a pipeline for the transport of North Slope natural gas for in-state use. This provision has never been implemented by the RCA. Both the Alaska Natural Gas Development Authority and the RCA support removal of this provision from Alaska statutes to allow maximum flexibility in designing a regulatory structure for access to the pipeline by shippers that meet market requirements.

Similarly, AS 42.06.370(c) directs that a pipeline transporting North Slope natural gas shall establish rates as if it were a public utility regulated under AS 42.05. The purpose for repeal is to allow maximum discretion in establishing just and reasonable rates to meet public interest requirements.

Regulatory Commission of Alaska
701 West Eighth Avenue, Suite 300
Anchorage, Alaska 99501
(907) 276-6222; TTY (907) 276-4533

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STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Kate Giard, Chairman
Dave Harbour
Mark K. Johnson
Anthony A. Price
James S. Strandberg

In the Matter of the Proposal from the Alaska
Natural Gas Development Authority to Repeal
AS 42.06.240(f) and AS 42.06.370(c) }

P-05-10

ORDER NO. 2

ORDER CLOSING DOCKET

BY THE COMMISSION:

Summary

We support the Alaska Natural Gas Development Authority's (ANGDA's) proposal to repeal AS 42.06.240(f) and AS 42.06.370(c). We close this docket.

Background

At ANGDA's request, we decided to open this docket to receive comments from interested parties on the impact of ANGDA's proposal to repeal AS 42.06.240(f) and AS 42.06.370(c).¹ We held a public hearing on ANGDA's proposed statutory revisions on September 8, 2005.

¹Order P-05-10(1), *Order Scheduling Public Hearing and Requesting Comments*, dated August 29, 2005.

Regulatory Commission of Alaska
701 West Eighth Avenue, Suite 300
Anchorage, Alaska 99501
(907) 276-6222; TTY (907) 276-4533

1 Discussion

2 We received comments from Steve Pratt, Consultant, on behalf of
3 ANGDA, Flint Hills Resources Alaska, LLC; Anadarko Petroleum Corporation; and
4 ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc.

5 We sent a letter to Governor Murkowski stating, in part, that: Based on
6 our review of the record in Docket P-05-10, we support ANGDA's proposal.
7 AS 42.06.240(f) contains very specific requirements for the timing and substance of
8 intrastate capacity commitments made in connection with a North Slope natural gas
9 pipeline. We believe that detailed requirements of that kind are more appropriately
10 made by regulation, not in a statute. AS 42.06.370(c) is problematic because under it
11 we are required to set rates of an entity which by statute must be certificated under
12 AS 42.06 as though it were an entity certificated under AS 42.05. We believe that
13 requirement raises uncertainties that should not be interjected into the rate setting
14 process.

15 We support ANGDA's proposal to repeal AS 42.06.240(f) and
16 AS 42.06.370(c). We attach the February 28, 2006 Commission letter to Governor
17 Murkowski to this order as an Appendix. We close this docket.

STATE OF ALASKA

DEPARTMENT OF COMMERCE
COMMUNITY AND ECONOMIC DEVELOPMENT
REGULATORY COMMISSION OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

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February 28, 2006

The Honorable Frank H. Murkowski
Office of the Governor
Alaska State Capitol, Room 430
Juneau, Alaska 99801-1182

Dear Governor Murkowski:

At the request of Harold Heinze, Chief Executive Officer of the Alaska Natural Gas Development Authority (ANGDA), we internally reviewed, publicly noticed, and received public comment orally and in writing on the revisions to AS 42.06 (Pipeline Act) proposed by ANGDA. ANGDA proposed to repeal AS 42.06.240(f) and AS 42.06.370(c). See attachment.

Based on the record, the RCA supports the proposed revisions by ANDGA to AS 42.06. Both AS 42.06.240(f) and AS 42.06.370(c) were part of changes made to AS 42.06 in 2000 that defined and added special provisions relating to a "North Slope natural gas pipeline." A North Slope natural gas pipeline includes all the facilities of a total system of pipe, including gas processing plants, used to transport "gas that is produced from the area of Alaska lying north of 68 degrees North latitude and that, but for a pipeline subject to regulation under this chapter, had not been committed for sale and delivery in a commercial market due to the prevailing costs or price conditions." (AS 42.06.630(12)).

In addition to defining a North Slope natural gas pipeline and adding the provisions ANGDA seeks to repeal, the 2000 enactment added provisions that deal with the extension or expansion of a North Slope natural gas pipeline (AS 42.06.310(d)) and that permit a North Slope natural gas pipeline to have two classes of service, firm and interruptible (AS 42.06.350(c)). See attachment.

In 2003, AS 42.06.350(c) was amended to make it applicable to all natural gas pipelines rather than only to a North Slope natural gas pipeline. Thus, any natural gas pipeline may now offer firm and interruptible service. If AS 42.06.240(f) and AS 42.06.370(c) are repealed, as proposed by ANGDA, AS 42.06.350(c) (extension and expansion) will be the only portion of statute requiring special treatment for a North Slope natural gas pipeline and the only portion making it necessary to retain the North Slope natural gas pipeline definition and jurisdictional subsections (AS 42.06.630(12), (13), and (14) and AS 42.06.230(b)(2)).

We held a public hearing on ANGDA's proposed statutory revisions on September 8, 2005. We enclose a copy of the transcript from that hearing. At the public hearing,



Steve Pratt, Consultant, spoke on behalf of ANGDA. Mr. Pratt testified that the statutory provisions ANGDA sought to repeal contained ambiguities, which might lead to uncertainty, which translates to risk, and that increased risk translates into increased costs. He stated the provisions unnecessarily limited the discretion of the RCA to act in the public interest. No other person spoke at the public hearing.

We received written comments on the proposed statutory revisions from three entities: Flint Hills Resources Alaska, LLC; Anadarko Petroleum Corporation; and ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc. We enclose a copy of each of those comments.

Flint Hills agreed with ANGDA that the statutes proposed for repeal might create an impediment to the expansion of the intrastate North Slope natural gas market and might also limit the authority of the RCA to protect the public interest. Flint Hills stated that the requirement of AS 42.06.240(f) that shippers provide three-year take-or-pay contracts as proof of intrastate firm transportation commitments is a very heavy burden on the customer. Flint Hills stated that AS 42.06.370(c) would limit the discretion of the RCA and limit the capacity of carriers, shippers, and customers to propose, debate, and develop creative rate models.

Anadarko stated that its understanding was that the proposed revisions would serve to clarify the Pipeline Act and give the RCA greater discretion to resolve intrastate transportation issues on a North Slope natural gas pipeline. Based on that understanding, Anadarko supported ANGDA's proposed revisions.

ENSTAR stated in its filing that it was not ready to comment on the specific proposal. It observed that the interrelationships between the statutory and regulatory provisions that will govern development of North Slope natural gas were not simple. ENSTAR wanted a better explanation from ANGDA of the need for repeal and the consequences for the RCA's regulatory oversight of future gas pipelines.

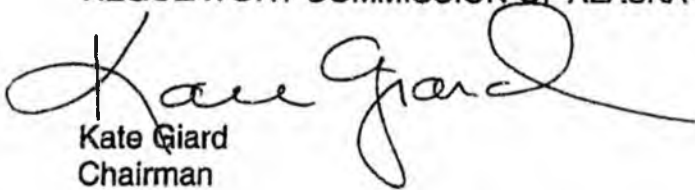
ANGDA submitted a filing documenting the legislative history of the provisions it seeks to repeal. ANGDA also submitted the remarks of former Alaska Attorney General Charlie Cole on this subject at a July 28, 2004 Legislative Budget and Audit Committee hearing on stranded gas. In those remarks General Cole explained why he believes AS 42.06.240(f) was problematic as applied to possible providers of natural gas to Fairbanks. However, he recommended revision of the subsection rather than repeal.

Based on our review of the record in our Docket P-05-10, we support ANGDA's proposal. AS 42.06.240(f) contains very specific requirements for the timing and substance of intrastate capacity commitments made in connection with a North Slope natural gas pipeline. We believe that detailed requirements of that kind are more appropriately made by regulation, not in a statute. AS 42.06.370(c) is problematic

because under it we are required to set rates of an entity which by statute must be certificated under AS 42.06 as though it were an entity certificated under AS 42.05. We believe that requirement raises uncertainties that should not be interjected into the ratesetting process.

Sincerely,

REGULATORY COMMISSION OF ALASKA



Kate Giard
Chairman

Enclosures: Applicable Statutes
Transcript of Public Hearing
Public Comments

cc: Harold Heinze, Chief Executive Officer
Alaska Natural Gas Development Authority

AS 42.06.240(f)

(f) In addition to other requirements of (a) - (e) of this section, the provisions of this subsection apply to a certificate of public convenience and necessity for a North Slope natural gas pipeline carrier or person that will be a North Slope natural gas pipeline carrier under this chapter:

(1) the person making application shall dedicate a portion of the pipeline's initial capacity sufficient to transport the total volume of North Slope natural gas that has been committed by producers and shippers of North Slope natural gas to tendering for intrastate firm transportation service at the time that the operation of the North Slope natural gas pipeline commences;

(2) upon receipt of the certificate application under this subsection, the commission shall issue a public notice inviting prospective intrastate shippers of North Slope natural gas to file requests for service; a request for service submitted by a shipper in response to a notice issued under this paragraph must include a proof of the shipper's commitment to use the North Slope natural gas pipeline for intrastate firm transportation service, specifying the volume of North Slope natural gas that the shipper will tender for initial intrastate firm transportation service;

(3) in its review of an application submitted under this subsection,

(A) for purposes of evaluating the total volume of intrastate transportation of North Slope natural gas to be accepted for initial intrastate transportation, the commission shall determine total volume based upon written commitments to tender North Slope natural gas for intrastate firm transportation service continuously for a period of not less than three years after the operation of the North Slope natural gas pipeline commences as follows:

(i) each request for service by an intrastate shipper that is a public utility, as that term is defined in AS 42.05.990, for the purpose of furnishing natural gas for ultimate consumption within the state by its customers that individually consume an average annual volume of less than 20,000,000 standard cubic feet of gas per day shall be supported by a written commitment by the public utility that sets out the utility's best current estimate of the average annual volume that the utility will require during the three-year period;

(ii) each request for service by an intrastate shipper that is not a public utility, as that term is defined in AS 42.05.990 and each request for service by a public utility for the purpose of furnishing natural gas for

ultimate consumption within the state by a customer that individually consumes an average annual volume of 20,000,000 or more standard cubic feet of gas per day, that purchases North Slope natural gas from a North Slope natural gas producer, must be supported by one or more contracts for the purchase of the North Slope natural gas on a take-or-pay basis that extends for a period of not less than three years after the operation of the North Slope natural gas pipeline commences;

(iii) the commission may consider peak volumes specified in the written commitments of North Slope natural gas producers and purchase contracts; and

(B) the commission shall set out in its order granting a certificate of public convenience and necessity the total volume of intrastate North Slope natural gas that the North Slope natural gas pipeline carrier shall accept for intrastate transportation; the total volume may not exceed the volume substantiated by written commitments and contracts that comply with the requirements of this chapter;

(4) if the North Slope natural gas pipeline carrier wants to transport North Slope natural gas within the state in excess of the amount set out in the statement of total volume in the pipeline carrier's certificate of public convenience and necessity, the pipeline carrier may apply for authority to transport a greater volume of North Slope natural gas within the state than the carrier is required by the commission to transport in its order entered under (3)(B) of this subsection; the commission shall grant the authority requested by the pipeline carrier if the commission determines that the pipeline carrier's transportation of a greater volume is consistent with public convenience and necessity.

AS 42.06.370(c)

(c) Rates demanded, observed, charged, or collected by a North Slope natural gas pipeline carrier for intrastate service shall be designed as if that portion of the North Slope natural gas pipeline were a public utility regulated under the provisions of AS 42.05.

AS 42.06.310(d)

(d) The requirement of (c) of this section does not apply to a North Slope natural gas pipeline carrier to the extent that the capacity of the carrier's North Slope natural gas pipeline does not allow for expanded capacity, and does not apply to require a North Slope natural gas pipeline carrier to enlarge or extend its North Slope natural gas pipeline system. However, the commission may require a North Slope natural gas pipeline carrier to

expand, enlarge, or extend its North Slope natural gas pipeline system if, after notice and opportunity for hearing, the commission determines that

(1) a person making a request for expanded, enlarged, or extended service by a North Slope natural gas pipeline carrier has made a firm contractual commitment to the North Slope natural gas pipeline carrier to transport North Slope natural gas; and

(2) the expansion, enlargement, or extension will not result in

(A) substantial injury, including economic injury, to the North Slope natural gas pipeline facility or its customers;

(B) substantial detriment to the services furnished by the North Slope natural gas pipeline facility; or

(C) the creation of safety hazards.

AS 42.06.350(c) [as it read when enacted]

(c) In its tariff filed with the commission under (a) of this section, a North Slope natural gas pipeline carrier may charge separate rates for firm transportation service and for interruptible transportation service. A North Slope natural gas pipeline carrier

(1) may, in addition, impose a reservation fee or similar charge for reservation of capacity in a North Slope natural gas pipeline as a condition of providing firm transportation service; the reservation fee or charge imposed by the carrier may not include any variable costs or fixed costs that are not attributable to the provision of firm transportation service;

(2) may not impose a reservation fee or similar charge for reservation of capacity in a North Slope natural gas pipeline for interruptible transportation service.

STATE OF ALASKA

DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL

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October 19, 2005

Hand Delivered To:

Regulatory Commission of Alaska
701 West 8th Avenue, Suite 300
Anchorage, Alaska 99501

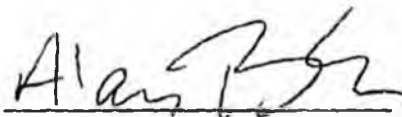
Re: Docket No. P-05-10 – In the Matter of the Proposal from the Alaska Natural Gas
Development Authority to Repeal AS 42.06.240(f) and AS 42.06.370(c)

Dear Regulatory Commission of Alaska:

Per the Commission's request, enclosed you will find an original and 10 copies of
the legislative history of AS 42.06.240(f) and AS 42.06.370(c), prepared on behalf of
ANGDA, for filing in Docket No. P-05-10. Thank you.

DAVID W. MARQUEZ
ATTORNEY GENERAL

By:



Alan Birnbaum
Assistant Attorney General

AB/dmj

Enclosure

cc: Harold Heinze
Steve Pratt

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	Legislative History of AS42.06.240(f) & AS42.06.370(c) (HB 290 - 56 SLA 2000)
	Chapter 58 SLA 2000
	Bill History/Action
	Bill Versions
	A. House Bill No. 290
	B. House Bill No. 290 (O&G)
	C. House Bill No. 290 (RES)
	D. House Bill No. 290 (FIN)
	Committee Minutes
	House Oil & Gas Committee
	1. 1/27/00 Minutes
	2. 2/1/00 Minutes
	3. 2/10/00 Minutes
	4. 2/17/00 Minutes
	House Resources Committee
	5. 2/21/00 Minutes
	6. 3/1/00 Minutes
	House Finance Committee
	7. 3/23/00 Minutes
	8. 3/24/00 Minutes
	9. 3/28/00 Minutes
	Senate Finance Committee
	10. 4/15/00 Minutes
	Committee Bill Files (Printed from Microfiche)
	Recorded Cassette Tapes - Committee Hearings (Total 12 Tapes - not included in binder located in DOL Oil, Gas & Mining Section)
	House Oil & Gas Committee
	1/27/00 Tape 1 of 2; Tape 2 of 2
	2/1/00 Tape 1 of 1
	2/10/00 Tape 1 of 1
	2/17/00 Tape 1 of 2; Tape 2 of 2
	House Resources Committee
	2/21/00 Tape 1 of 1
	3/1/00 Tape 1 of 1
	House Finance Committee
	3/23/00 Tape 1 of 2; Tape 2 of 2
	3/28/00 Tape 1 of 1
	Senate Finance Committee
	4/15/00 Tape 1 of 1

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STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Kate Giard, Chairman
Dave Harbour
Mark K. Johnson
Anthony A. Price
James S. Strandberg

In the Matter of the Consideration of)
Regulations Classifying Pipelines Based)
upon Differences in Annual Revenue,)
Assets, Nature of Ownership, and Other)
Appropriate Distinctions)

R-05-11

ORDER NO. 1

ORDER OPENING DOCKET AND SEEKING COMMENTS

BY THE COMMISSION:

Summary

We open this docket to seek comments on whether we should establish two or more classes of pipelines under AS 42.06, and the reporting, accounting, and other regulatory requirements that we should prescribe for each class.¹

Discussion

We recognize that the cost of regulation can be prohibitive for small, producer-owned pipelines and that full regulation of small pipelines could discourage exploration and development of Alaska's resources. We should consider simplified

¹ See AS 42.06.620 which states: The commission may by regulation provide for the classification of oil or gas pipeline facilities based upon differences in annual revenue, assets, nature of ownership, and other appropriate distinctions and as between these classifications, by regulation, provide for different reporting, accounting, and other regulatory requirements.