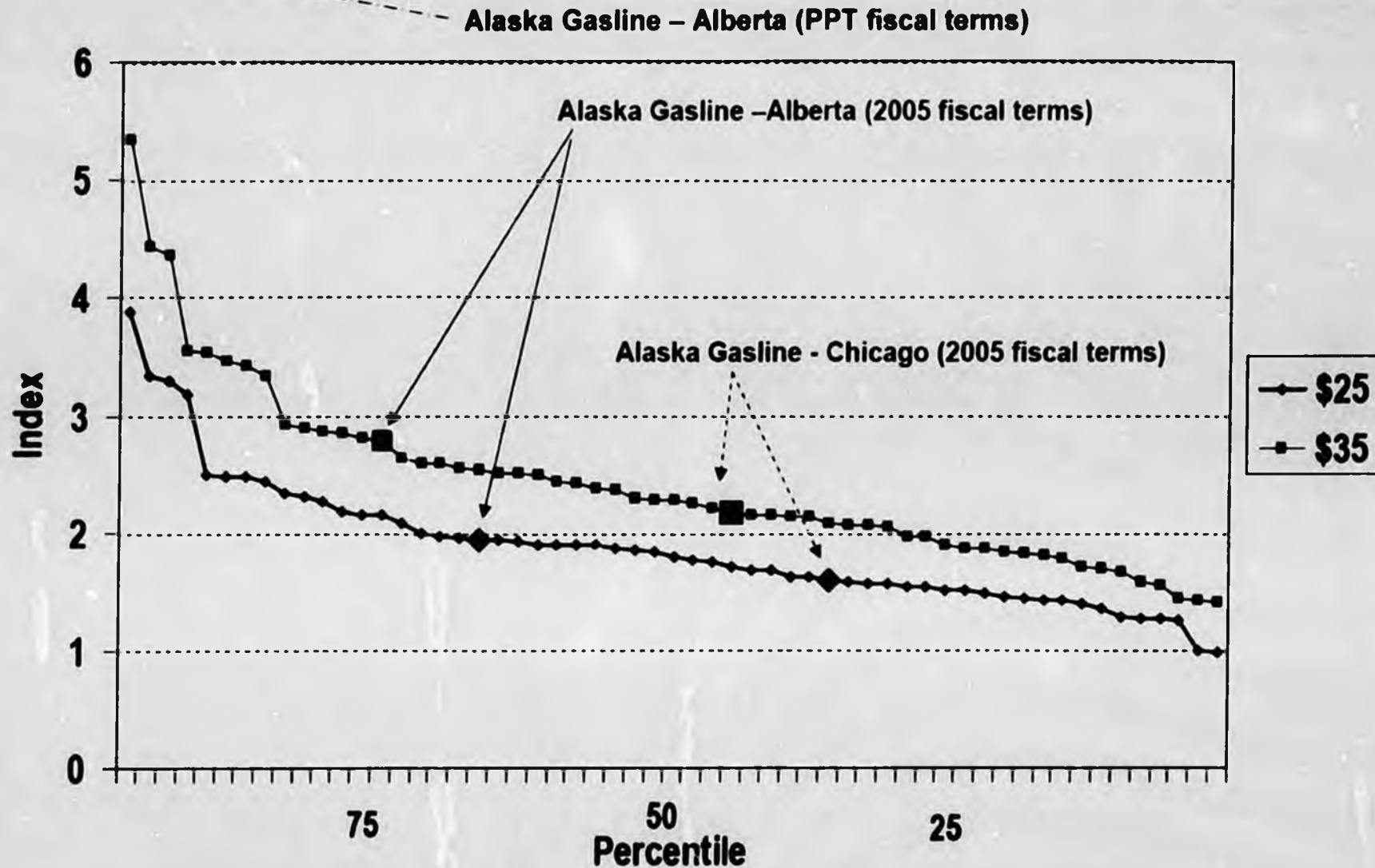


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Profitability Index Ratio (PIR10) (\$35 and \$25 oil and 6/1 oil/gas ratio)

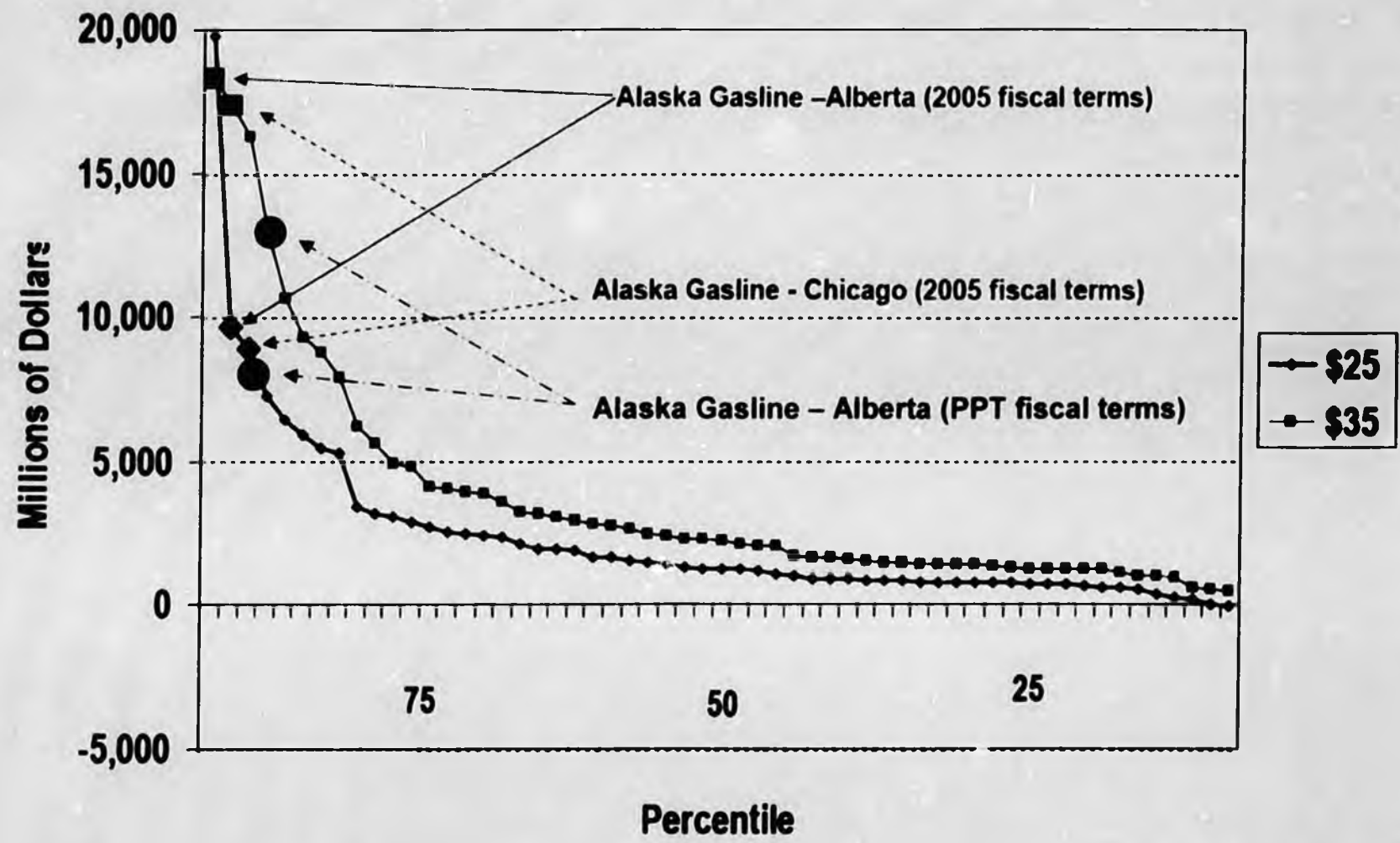
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The Alaska Gasline Inducement Act



Project comparison data from EconOne presentation to LB&A Committee, 6/14/06. EconOne data assumes 100% Producer pipeline ownership; upstream return data assumes 0% pipeline ownership.

Project Comparison
Producer Net Cash Flow (NPV10)
(\$35 and \$25 oil and 6/1 oil/gas ratio)

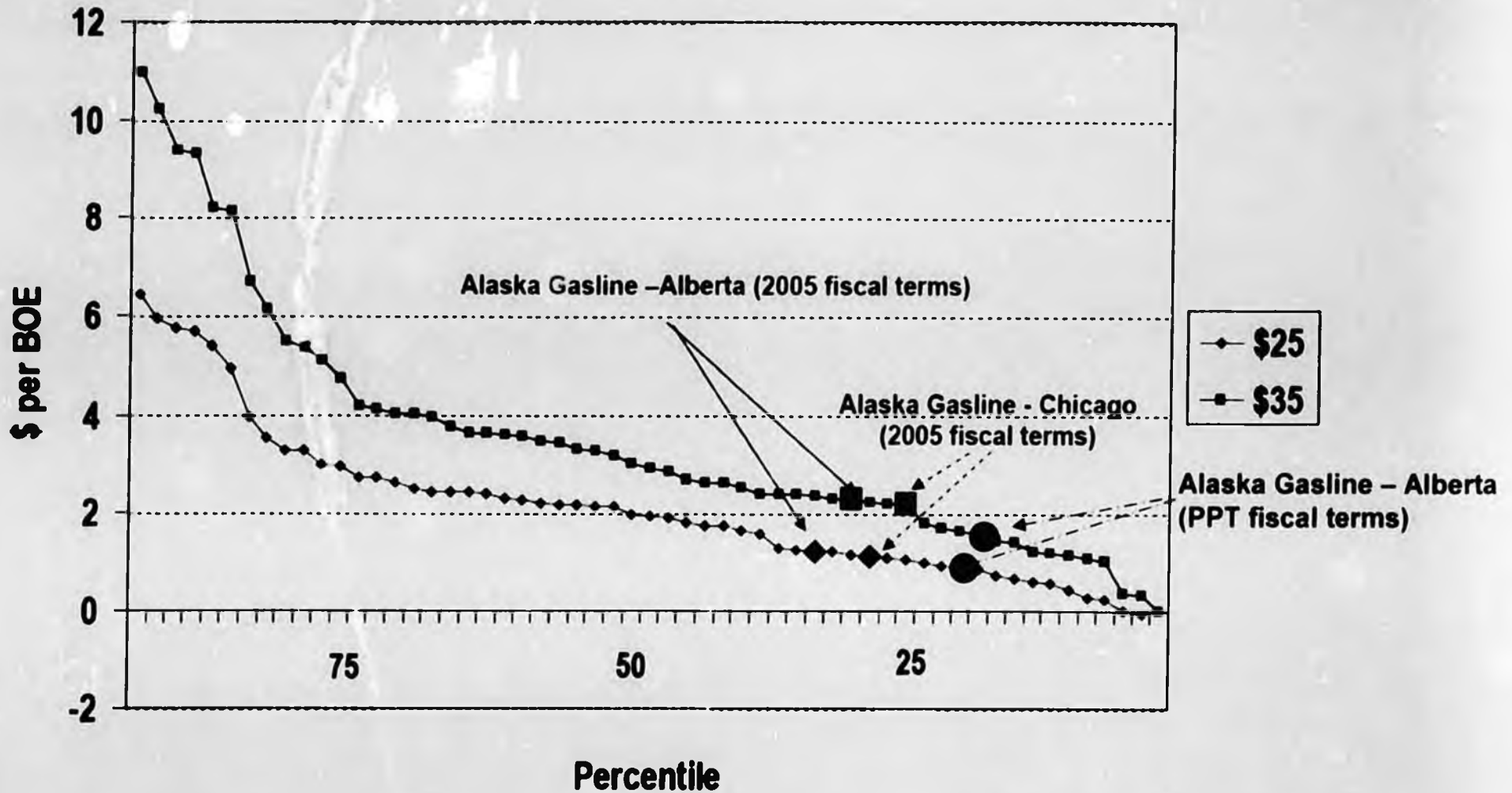


Project comparison data from EconOne presentation to LB&A Committee, 6/14/06. EconOne data assumes 100% Producer pipeline ownership; upstream return data assumes 0% pipeline ownership. 15

NPV per BOE
(\$35 and \$25 oil and 6/1 oil/gas ratio)



The Alaska Gasline Inducement Act



Project comparison data from EconOne presentation to LB&A Committee, 6/14/06. EconOne data 16
 assumes 100% Producer pipeline ownership; upstream return data assumes 0% pipeline ownership.

Tax increases effects on NPV

→ No fiscal certainty

AGIA

The Alaska Gasline Inducement Act

Producer NPV₁₀ in billions of dollars with increase in production tax rate at start of project

	NPV ₁₀				% change		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	3.8	3.6	3.3	3.0	-6.4%	-12.8%	-21.3%
\$4.00	5.7	5.4	5.0	4.6	-5.8%	-11.6%	-19.3%
\$4.50	7.6	7.2	6.7	6.2	-5.5%	-11.0%	-18.4%
\$5.00	9.4	8.9	8.4	7.8	-5.4%	-10.7%	-17.8%
\$5.50	11.3	10.7	10.1	9.3	-5.2%	-10.5%	-17.5%
\$6.00	13.1	12.5	11.8	10.9	-5.2%	-10.3%	-17.2%
\$6.50	14.9	14.2	13.4	12.4	-5.1%	-10.2%	-17.1%
\$7.00	16.7	15.8	15.0	13.8	-5.1%	-10.2%	-17.0%
\$7.50	18.3	17.4	16.5	15.2	-5.1%	-10.2%	-17.1%
\$8.00	19.9	18.9	17.8	16.5	-5.1%	-10.3%	-17.2%
\$8.50	21.4	20.3	19.2	17.7	-5.2%	-10.4%	-17.3%

Tax increases effects on NPV

→ Fiscal certainty 10 years

AGIA

The Alaska Gasline Inducement Act

Producer NPV₁₀ in billions of dollars with increase in production tax rate at 11th year of project

	NPV ₁₀				% charge		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	3.8	3.7	3.6	3.5	-2.9%	-5.8%	-9.7%
\$4.00	5.7	5.6	5.4	5.2	-2.5%	-5.0%	-8.4%
\$4.50	7.6	7.4	7.2	7.0	-2.3%	-4.7%	-7.8%
\$5.00	9.4	9.2	9.0	8.7	-2.2%	-4.4%	-7.4%
\$5.50	11.3	11.1	10.8	10.5	-2.1%	-4.3%	-7.1%
\$6.00	13.1	12.9	12.6	12.2	-2.1%	-4.2%	-6.9%
\$6.50	14.9	14.6	14.3	13.9	-2.0%	-4.1%	-6.8%
\$7.00	16.7	16.3	16.0	15.5	-2.0%	-4.1%	-6.8%
\$7.50	18.3	18.0	17.6	17.1	-2.0%	-4.0%	-6.7%
\$8.00	19.9	19.5	19.1	18.6	-2.0%	-4.0%	-6.7%
\$8.50	21.4	21.0	20.5	19.9	-2.0%	-4.1%	-6.8%

Tax increases effects on NPV

→ Fiscal certainty 5 years

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The Alaska Gasline Inducement Act

Producer NPV₁₀ in billions of dollars with increase in production tax rate at 6th year of project

	NPV ₁₀				% charge		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	3.8	3.7	3.5	3.2	-4.7%	-9.3%	-15.4%
\$4.00	5.7	5.5	5.2	4.9	-4.1%	-8.2%	-13.6%
\$4.50	7.6	7.3	7.0	6.6	-3.8%	-7.6%	-12.7%
\$5.00	9.4	9.1	8.7	8.3	-3.7%	-7.3%	-12.2%
\$5.50	11.3	10.9	10.5	10.0	-3.5%	-7.1%	-11.8%
\$6.00	13.1	12.7	12.2	11.6	-3.5%	-6.9%	-11.6%
\$6.50	14.9	14.4	13.9	13.2	-3.4%	-6.8%	-11.4%
\$7.00	16.7	16.1	15.5	14.8	-3.4%	-6.8%	-11.3%
\$7.50	18.3	17.7	17.1	16.3	-3.4%	-6.8%	-11.3%
\$8.00	19.9	19.2	18.5	17.6	-3.4%	-6.8%	-11.4%
\$8.50	21.4	20.7	19.9	18.9	-3.4%	-6.9%	-11.4%

Tax increases effects on NPV
→ Fiscal certainty 15 years

AGIA

The Alaska Gasline Inducement Act

**Producer NPV₁₀ in billions of dollars with increase in production tax rate at
 16th year of project**

	NPV ₁₀				% charge		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	3.8	3.8	3.7	3.7	-1.4%	-2.8%	-4.6%
\$4.00	5.7	5.6	5.6	5.5	-1.2%	-2.4%	-4.1%
\$4.50	7.6	7.5	7.4	7.3	-1.1%	-2.3%	-3.8%
\$5.00	9.4	9.3	9.2	9.1	-1.1%	-2.2%	-3.7%
\$5.50	11.3	11.2	11.1	10.9	-1.1%	-2.1%	-3.5%
\$6.00	13.1	13.0	12.9	12.7	-1.0%	-2.1%	-3.5%
\$6.50	14.9	14.8	14.6	14.4	-1.0%	-2.0%	-3.4%
\$7.00	16.7	16.5	16.3	16.1	-1.0%	-2.0%	-3.4%
\$7.50	18.3	18.1	18.0	17.7	-1.0%	-2.0%	-3.4%
\$8.00	19.9	19.7	19.5	19.2	-1.0%	-2.0%	-3.4%
\$8.50	21.4	21.2	21.0	20.7	-1.0%	-2.0%	-3.4%

Tax increases effects on IRR

→ No fiscal certainty

AGIA

The Alaska Gasline Inducement Act

Producer IRR with increase in production tax rate at start of project

	IRR				difference		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	29.1%	28.1%	26.9%	25.4%	-1.1%	-2.2%	-3.7%
\$4.00	37.6%	36.3%	34.9%	33.0%	-1.3%	-2.7%	-4.6%
\$4.50	45.2%	43.6%	42.1%	39.8%	-1.5%	-3.1%	-5.3%
\$5.00	51.9%	50.2%	48.5%	46.1%	-1.7%	-3.4%	-5.8%
\$5.50	57.9%	56.1%	54.3%	51.7%	-1.8%	-3.7%	-6.3%
\$6.00	63.4%	61.5%	59.5%	56.8%	-1.9%	-3.9%	-6.6%
\$6.50	68.4%	66.4%	64.4%	61.5%	-2.0%	-4.0%	-6.9%
\$7.00	73.0%	70.9%	68.8%	65.8%	-2.1%	-4.2%	-7.1%
\$7.50	77.3%	75.2%	73.0%	69.9%	-2.1%	-4.3%	-7.4%
\$8.00	81.1%	79.0%	76.7%	73.6%	-2.2%	-4.4%	-7.6%
\$8.50	84.5%	82.3%	80.0%	76.7%	-2.2%	-4.5%	-7.8%

Tax increases effects on IRR

→ Fiscal certainty 10 years

AGIA

The Alaska Gasline Inducement Act

Producer IRR with increase in production tax rate at 11th year of project

	IRR				difference		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	29.1%	29.0%	28.8%	28.6%	-0.2%	-0.3%	-0.5%
\$4.00	37.6%	37.5%	37.4%	37.3%	-0.1%	-0.2%	-0.3%
\$4.50	45.2%	45.1%	45.0%	45.0%	-0.1%	-0.1%	-0.2%
\$5.00	51.9%	51.9%	51.8%	51.7%	0.0%	-0.1%	-0.2%
\$5.50	57.9%	57.9%	57.9%	57.8%	0.0%	-0.1%	-0.1%
\$6.00	63.4%	63.4%	63.3%	63.3%	0.0%	0.0%	-0.1%
\$6.50	68.4%	68.4%	68.3%	68.3%	0.0%	0.0%	-0.1%
\$7.00	73.0%	72.9%	72.9%	72.9%	0.0%	0.0%	0.0%
\$7.50	77.3%	77.3%	77.2%	77.2%	0.0%	0.0%	0.0%
\$8.00	81.1%	81.1%	81.1%	81.1%	0.0%	0.0%	0.0%
\$8.50	84.5%	84.5%	84.5%	84.5%	0.0%	0.0%	0.0%

Tax increases effects on IRR

→ Fiscal certainty 5 years



The Alaska Gasline Inducement Act

Producer IRR with increase in production tax rate at 6th year of project

	IRR				difference		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	29.1%	28.7%	28.2%	27.5%	-0.5%	-0.9%	-1.6%
\$4.00	37.6%	37.2%	36.8%	36.2%	-0.4%	-0.8%	-1.4%
\$4.50	45.2%	44.8%	44.5%	44.0%	-0.4%	-0.7%	-1.2%
\$5.00	51.9%	51.6%	51.3%	50.9%	-0.3%	-0.6%	-1.0%
\$5.50	57.9%	57.7%	57.4%	57.0%	-0.3%	-0.5%	-0.9%
\$6.00	63.4%	63.2%	62.9%	62.6%	-0.2%	-0.5%	-0.8%
\$6.50	68.4%	68.2%	68.0%	67.7%	-0.2%	-0.4%	-0.7%
\$7.00	73.0%	72.8%	72.6%	72.3%	-0.2%	-0.4%	-0.6%
\$7.50	77.3%	77.1%	76.9%	76.7%	-0.2%	-0.3%	-0.6%
\$8.00	81.1%	81.0%	80.8%	80.6%	-0.2%	-0.3%	-0.5%
\$8.50	84.5%	84.4%	84.2%	84.0%	-0.1%	-0.3%	-0.5%

Tax increases effects on IRR
→ Fiscal certainty 15 years

AGIA

The Alaska Gasline Inducement Act

Producer IRR with increase in production tax rate at 16th year of project

	IRR						
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	29.1%	29.1%	29.1%	29.0%	0.0%	-0.1%	-0.1%
\$4.00	37.6%	37.6%	37.6%	37.6%	0.0%	0.0%	-0.1%
\$4.50	45.2%	45.2%	45.2%	45.1%	0.0%	0.0%	0.0%
\$5.00	51.9%	51.9%	51.9%	51.9%	0.0%	0.0%	0.0%
\$5.50	57.9%	57.9%	57.9%	57.9%	0.0%	0.0%	0.0%
\$6.00	63.4%	63.4%	63.4%	63.4%	0.0%	0.0%	0.0%
\$6.50	68.4%	68.4%	68.4%	68.4%	0.0%	0.0%	0.0%
\$7.00	73.0%	73.0%	73.0%	73.0%	0.0%	0.0%	0.0%
\$7.50	77.3%	77.3%	77.3%	77.3%	0.0%	0.0%	0.0%
\$8.00	81.1%	81.1%	81.1%	81.1%	0.0%	0.0%	0.0%
\$8.50	84.5%	84.5%	84.5%	84.5%	0.0%	0.0%	0.0%

Tax increases effects on PI
→ No fiscal certainty

AGIA

The Alaska Gasline Inducement Act

Producer PI with increase in production tax rate at start of project

	PI				difference		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	3.7	3.6	3.4	3.2	-0.2	-0.4	-0.6
\$4.00	5.1	4.8	4.6	4.3	-0.2	-0.5	-0.8
\$4.50	6.4	6.1	5.8	5.4	-0.3	-0.6	-1.0
\$5.00	7.7	7.4	7.0	6.5	-0.4	-0.7	-1.2
\$5.50	9.1	8.6	8.2	7.7	-0.4	-0.8	-1.4
\$6.00	10.4	9.9	9.4	8.8	-0.5	-1.0	-1.6
\$6.50	11.7	11.1	10.6	9.8	-0.5	-1.1	-1.8
\$7.00	12.9	12.3	11.7	10.9	-0.6	-1.2	-2.0
\$7.50	14.1	13.4	12.7	11.8	-0.7	-1.3	-2.2
\$8.00	15.2	14.5	13.7	12.8	-0.7	-1.5	-2.4
\$8.50	16.3	15.5	14.7	13.6	-0.8	-1.6	-2.6

Tax increases effects on PI
→ Fiscal certainty 10 years

AGIA

The Alaska Gasline Inducement Act

Producer PI with increase in production tax rate at 11th year of project

	PI				difference		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	3.7	3.7	3.6	3.5	-0.1	-0.2	-0.3
\$4.00	5.1	5.0	4.9	4.7	-0.1	-0.2	-0.3
\$4.50	6.4	6.3	6.1	6.0	-0.1	-0.3	-0.4
\$5.00	7.7	7.6	7.4	7.2	-0.1	-0.3	-0.5
\$5.50	9.1	8.9	8.7	8.5	-0.2	-0.3	-0.6
\$6.00	10.4	10.2	10.0	9.7	-0.2	-0.4	-0.7
\$6.50	11.7	11.4	11.2	10.9	-0.2	-0.4	-0.7
\$7.00	12.9	12.6	12.4	12.1	-0.2	-0.5	-0.8
\$7.50	14.1	13.8	13.6	13.2	-0.3	-0.5	-0.9
\$8.00	15.2	14.9	14.6	14.2	-0.3	-0.6	-1.0
\$8.50	16.3	15.9	15.6	15.2	-0.3	-0.6	-1.0

Tax increases effects on PI
→ Fiscal certainty 5 years

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The Alaska Gasline Inducement Act

Producer PI with increase in production tax rate at 6th year of project

	PI				difference		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	3.7	3.6	3.5	3.3	-0.1	-0.3	-0.4
\$4.00	5.1	4.9	4.7	4.5	-0.2	-0.3	-0.6
\$4.50	6.4	6.2	6.0	5.7	-0.2	-0.4	-0.7
\$5.00	7.7	7.5	7.2	6.9	-0.2	-0.5	-0.8
\$5.50	9.1	8.8	8.5	8.1	-0.3	-0.6	-1.0
\$6.00	10.4	10.0	9.7	9.3	-0.3	-0.7	-1.1
\$6.50	11.7	11.3	10.9	10.4	-0.4	-0.7	-1.2
\$7.00	12.9	12.5	12.1	11.5	-0.4	-0.8	-1.3
\$7.50	14.1	13.6	13.2	12.6	-0.4	-0.9	-1.5
\$8.00	15.2	14.7	14.2	13.6	-0.5	-1.0	-1.6
\$8.50	16.3	15.7	15.2	14.5	-0.5	-1.0	-1.7

Tax increases effects on PI
→ Fiscal certainty 15 years

AGIA

The Alaska Gasline Inducement Act

Producer PI with increase in production tax rate at 16th year of project

	PI				difference		
	<u>0%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>	<u>15%</u>	<u>30%</u>	<u>50%</u>
\$3.50	3.7	3.7	3.7	0.3	0.0	-0.1	-3.4
\$4.00	5.1	5.0	5.0	0.4	0.0	-0.1	-4.7
\$4.50	6.4	6.3	6.3	0.5	-0.1	-0.1	-6.0
\$5.00	7.7	7.7	7.6	0.5	-0.1	-0.1	-7.2
\$5.50	9.1	9.0	8.9	0.6	-0.1	-0.2	-8.5
\$6.00	10.4	10.3	10.2	0.6	-0.1	-0.2	-9.7
\$6.50	11.7	11.5	11.4	0.7	-0.1	-0.2	-11.0
\$7.00	12.9	12.8	12.6	0.7	-0.1	-0.2	-12.2
\$7.50	14.1	13.9	13.8	0.8	-0.1	-0.3	-13.3
\$8.00	15.2	15.1	14.9	0.8	-0.1	-0.3	-14.4
\$8.50	16.3	16.1	15.9	0.8	-0.2	-0.3	-15.4

Cost of delay to state
Discounted at 5% per year

AGIA

The Alaska Gasline Inducement Act



AGIA designed to ensure that litigation over fiscal certainty does not delay project. Chart assumes 38 years of gas flow.

Q13. TAPS tariffs recovered all costs in first 13 years

AGIA

The Alaska Gasline Inducement Act

- The answer depends on determinations of appropriate rates of return, capital structure, etc.
- The Regulatory Commission of Alaska in its investigation of TAPS rates determined that TAPS was fully paid for by 1989. (See Order 151, Docket P-97-4, Exhibit 6 Schedule 1).

- Here we assume:
 - 4.3 Bcf/day to Alberta
 - \$20.5 billion base case cost (\$2007)
 - 70/30 debt to equity, 14% ROE
 - Current PPT tax structure (no GTP credit)
 - Oil impacts of gas production included
 - 30 year project life
 - 25 year FT commitments
 - Gas flow 2016-2046
 - Oil price of \$36.50 fixed real for project life
 - \$ values increase at 2%/yr



**ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT**

Alaska Gasline Inducement Act Project Labor Agreement

Presented to the Senate Judiciary
Committee by

Click Bishop, Commissioner

April 13, 2007

Jobs are Alaska's Future



**ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT**



What is a PLA?

A comprehensive collective bargaining agreement that sets the terms and conditions of employment on a project, for that project only.

Jobs are Alaska's Future



**ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT**

Project Labor Agreement

Licensee/General Contractor Negotiates Directly with an Appropriate Entity

The PLA is a collective bargaining agreement between the licensee, or its agent, and an appropriate entity setting out the terms and conditions of employment on the project, typically including wages and benefits, and setting out other work conditions including no-strike, no lockout provisions, dispute resolution procedures, and use of hiring facilities in Alaska.

Contractors

All contractors, union or nonunion, interested in bidding on project work, must follow the terms and conditions set out in the PLA.

Jobs are Alaska's Future



**ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT**



PLA History

- First used in the 1930's
- Currently used widely in the private and public sectors.

Jobs are Alaska's Future



**ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT**



PLA Precedents

- **Legal**
 - U.S. Supreme Court (Boston Harbor) 1993
 - AK Supreme Court (Laborers Local 942 v. Lampkin) 1998
- **PLA-based Public and Private Projects**
 - Grand Coulee and Hoover Dams
 - TAPS
 - San Francisco BART
 - Puget Sound Transit
 - Sutter and Sunrise Power Plants in California
 - Seattle Airport

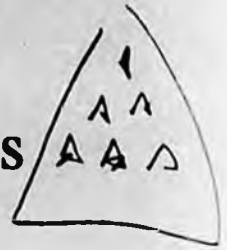
Jobs are Alaska's Future



**ALASKA DEPARTMENT OF LABOR
& WORKFORCE DEVELOPMENT**



Why Have a PLA?



- Stable workforce—no strikes or lockouts
- Meets project scheduling challenges.
- Eliminates need to negotiate numerous separate contracts.
- Assures consistent terms and conditions for all contractors
- Vehicle for:
 - Alaska hire.
 - Apprenticeship Opportunities.
 - Preference for underutilized groups.

Jobs are Alaska's Future

The Palin-Parnell Administration presents

AGIA

The Alaska Gasline Inducement Act

**Government contract to 1500
presentation to Senate Judiciary Committee
4/16/2007**

Effects of Government Subsidies on Rates

AGIA

The Alaska Gasline Inducement Act

Base rate: All subsidies included

- For a pipeline into Alberta, tariff = **\$2.00**

Federal loan guarantee: reduces cost of debt

- Without loan guarantee, tariff rises to **\$2.10**
- This is a 5% subsidy to rates

Accelerated depreciation: 7-year vs. 15-year

- Without accelerated depreciation, rises to **\$2.19**
- This is an additional 4.3% subsidy to rates

AGIA contribution: \$500 million reduces rate base

- Without AGIA contribution, tariff rises to **\$2.25**
- This is an additional 3% subsidy to rates

Summary of Government Subsidies on Rates

AGIA

The Alaska Gasline Inducement Act

- Government subsidies total about 25¢, reducing rates from \$2.25 to \$2.00
- Initial rates are therefore subsidized by government by about 12.5%
- Further, owners of Gas Treatment Plant get *additional* 15% Investment Tax Credit, worth \$600 million if GTP costs \$4 billion
- If this subsidy is included then total government subsidies exceed 15%

Base Case Assumptions for Rates to Alberta

AGIA

The Alaska Gasline Inducement Act

- Base rate assumes the following government subsidies:
 - Federal loan guarantee (assumed here to reduce debt costs by 0.75%)
 - Accelerated 7-year tax depreciation (part of Federal enabling legislation)
 - AGIA contribution of \$500 million (50% until open season, 80% after)
- And assumes further:
 - 70/30 debt/equity ratio
 - 14% ROE
 - 6.5% cost of debt
 - 30 year depreciation schedule
 - 25-year FT contracts
 - Cost input price escalation at 2%/year
 - Pipeline cost to Alberta of \$20.5 billion (\$2007)
 - Rates calculated on a levelized cost of service basis

**Federal Loan Guarantee.
Value is Scenario-dependent**

AGIA

The Alaska Gasline Inducement Act

Alaska Natural Gas Pipeline

- Value of [federal] loan guarantee offers significant benefits
- 150-200 bp savings

Presentation from Goldman Sachs to State of Alaska on June 3, 2004
"Partnering and Risk Allocation Strategies for the Alaska Natural Gas Pipeline"
Assumes creative use of loan guarantees to achieve maximum benefits

- Federal Loan Guarantee could reduce taxable yields by approximately 50 basis points.

Presentation from JP Morgan to Legislative Budget and Analysis Committee, June 16, 2004
"Interim Hearings: Alaska Natural Gas Pipeline Issues"
Assumes underlying credit rating of A, at most 60% debt

"...application of the DOE Guarantees to Alaska LLC's debt will probably lower the cost of borrowing with respect to such debt by approximately 50 to 100 basis points, depending on market conditions."

Dept. of Revenue, SGDA Contract FIF

The Palin-Parnell Administration presents

AGIA

The Alaska Gasline Inducement Act

Senate Judiciary

4/16/07

FERC Policy- Rolled in Rates- In Alaska

AGIA

The Alaska Gasline Inducement Act

- **2004 ANGPA mandate to FERC:**
 - “promote competition in the exploration, development and production of Alaska natural gas.” (§103(e)(2)(b)).
 - “provide the opportunity for the transportation of natural gas other than from the Prudhoe Bay and Point Thomson units” for any open season for capacity exceeding the initial capacity of the line. (§103(e)(2)(c)).

FERC Policy- Rolled in Rates- In Alaska



- **FERC Concluded:**

“incremental pricing of expansion could put expansion shippers at a significant rate disadvantage compared with initial shippers, and accordingly could discourage exploration, development and production of Alaska natural gas.” (Order 2005 at ¶ 123)

FERC Policy- Rolled in Rates- Lower 48

AGIA

The Alaska Gasline Inducement Act

- From 1960's until 1999 FERC preferred rolled-in pricing. (Statement of Policy, 71 FERC ¶ 61,231 (1995)).
- Changed in 1999 because, "it no longer fits well with an industry that is increasingly characterized by competition between pipelines." (Statement of Policy, 88 FERC ¶ 61,227 (1999)).

**FERC Policy -
Rolled in Rates -
Lower 48/Alaska**



- “Our existing lower-48 states policy favoring incremental rates for expansions does not apply in the case of an Alaska natural gas project. There is likely to be only one Alaska pipeline so there will be little or no opportunity for competition between pipelines.” (Order 2005 at ¶ 123).

**FERC Policy-
Rolled in Rates-
Lower 48/Alaska**

AGIA

The Alaska Gasline Inducement Act

A rate increase is not necessarily a subsidy. (see, order 2005-A at ¶ 50).

“An alternative ...definition of subsidization could be whether the expansion rate is no higher than the actual initial rate or of an initial rate without built in subsidies.” (Order 2005-A at ¶ 49)

FERC Policy- Rolled in Rates- Alaska



“Whether a rolled-in expansion rate that is higher than original rates is a ‘subsidy’ is a question that necessarily would have to be reviewed in the context of a future NGA section 7 filing. At that time, Pacific Star’s argument relating to whether the federal government’s loan guarantees and accelerated depreciation amount to a ‘subsidy’ of initial shippers’ rate may be raised.” (Order 2005 at ¶ 124, emphasis in original).

Governmental Contribution to Rates

AGIA

The Alaska Gasline Inducement Act

Government Contributions reduce rates by more than 15%:

- **Loan Guarantee up to \$18 billion**
- **7-year accelerated depreciation**
- **Federal income tax credit for GTP**
- **AGIA \$500 million**

AGIA Policy- Rolled in Rates

AGIA

The Alaska Gasline Inducement Act

- **AGIA caps roll-in filing commitment roughly at level of governmental contributions to the project.**
- **Permits 2d or 3d generation of expansion shippers also to enjoy the benefit of governmental contributions made available to initial shippers.**

FERC Process

AGIA

The Alaska Gasline Inducement Act

“A pipeline company

PROPOSES

But the FERC

DISPOSES.”

(an old industry adage)

- AGIA does not intrude on FERC's authority.
- AGIA requires that the licensee **PROPOSE** rolled-in rates
- FERC will **DISPOSE.**

SB 104

(FILE 3)

**“DUTY TO
PRODUCE”**

GASOLINE

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Attorney Profiles

Spencer Hosie is a nationally recognized top-ranked trial lawyer for complex commercial cases. In his 20+ year career, he has won or settled cases worth almost \$2 billion for his clients. In June 2005, the National Law Journal profiled Mr. Hosie as one of the 10 most successful trial lawyers in the country.

Mr. Hosie's practice covers the spectrum of complex commercial cases, with particular focus on antitrust, energy, and intellectual property litigation. He currently is an advisor to the Alaska, Louisiana, and Hawaii state governments.

Mr. Hosie began his legal career with the San Francisco law firm of Heller, Ehrman, White & McAuliffe, with an antitrust and securities defense practice. He started his own firm in 1985, ultimately named Hosie, Wes, Sacks & Brelsford, which specialized in intellectual property, energy, and complex litigation. In 1993, he was named one of the "Top 25 Attorneys in the State of California Under 45 Years of Age" by California Lawyer. Following a merger with the Perkins, Coie law firm, in 1999 Mr. Hosie founded what is now Hosie McArthur LLP.

In addition to his active trial practice, Mr. Hosie serves as advisor to the American Law Institute, Restatement of Torts: Liability for Economic Loss.

Mr. Hosie's successful trial record includes these significant cases:

State of Alaska v. ExxonMobil

Lead trial counsel for the State of Alaska in breach of contract case;
Trial victory established value of North Slope oil. June 2005

Burst.com v. Microsoft Corp.

Lead counsel for Burst.com, an independent software vendor, in antitrust, patent, and trade secret case
MDL 1332 US District Court, District of Maryland
\$60 million settlement March 2005

[See case materials](#)

State of Louisiana v. Chevron U.S.A.

Lead trial counsel for State of Louisiana fraud litigation, jury trial
17th Judicial District Court, Parish of Lafourche, La., No. 93658
Top 15 Verdicts of 2004
\$111 million verdict 2004

Earl Anzal, Attorney General for the State of Hawaii v. Chevron Corp., et al.

Lead counsel for State of Hawaii in statewide retail gasoline price-fixing antitrust case
Civ. No. 98-00792-SPK US District Court, District of Hawaii
\$35 million in settlements 1999-2003

In re Lease Oil Antitrust Litigation

Co-lead counsel for nationwide subclass of oil royalty owners in antitrust case
MDL 1206 US District Court, Southern District of Texas
\$200 million settlement 1999

In re Exxon Corp.

Lead trial counsel for the State of Alaska in six-month trial involving taxes due the State of Alaska
No. 94925 (Consolidated)
State of Alaska
\$259 million verdict 1997

In re ANS Royalty Litigation

Lead trial counsel for the State of Alaska in action against multiple major oil companies, seeking recovery
of North Slope oil royalties
No. 1JU-77-847
Alaska Superior Court (Juneau, Anchorage)
\$1.2 billion in recoveries 1988-1995

- University of California, Berkeley, B.A., *summa cum laude* 1978
- University of California at Davis, J.D., 1981
Order of the Coif
Editor, Law Review
- Law Clerk to Hon. Edmond W. Burke, Chief Justice, Alaska Supreme Court, 1981-82

Next Attorney->

**Kenneth M. Minesinger**

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Kenneth M. Minesinger represents natural gas pipelines, electric power generators, energy marketers, and other participants in the energy industry, focusing his practice on energy regulatory proceedings before the Federal Energy Regulatory Commission and on related antitrust, litigation and transactional matters. Ken's experience reflects the sweeping changes that have occurred in the energy industry in recent years, as the level of competition and consolidation in the industry has steadily increased while at the same time regulation continues to play a central role. Ken has represented energy companies in a wide range of regulatory matters, including complex ratemaking, restructuring, and licensing proceedings, and complaints and investigations into allegations of market manipulation and the exercise of market power. As the competitive issues in energy regulatory proceedings often intersect with the application of the antitrust laws, Ken has also represented energy and non-energy clients on numerous antitrust matters, including mergers and acquisitions, counseling, and litigation.

CONCENTRATION

- Energy regulation
- Antitrust
- Energy litigation

SIGNIFICANT REPRESENTATIONS

- Counsel for major energy companies and other industry participants on numerous FERC regulatory and antitrust matters, including:
 - Rate case preparation and litigation
 - Antitrust compliance and M&A matters
 - Settlement compliance
 - Affiliate code of conduct issues
 - Negotiated rate agreements
 - Market-based rate authorizations
 - FERC certification proceedings
 - Compliance with anti-market manipulation rules
 - Liquefied natural gas ("LNG") safety/sitting issues
- Representing State of Alaska regarding efforts to induce commercialization of North Slope gas.
- Outside counsel in recent rate cases and other significant FERC matters for various companies, including El Paso Natural Gas Company, Mojave Pipeline Company, Colorado Interstate Gas Company, Wyoming Interstate Company, and Cheyenne Plains Gas Pipeline.
- Represented major energy companies defending antitrust lawsuits alleging exercise of monopoly power, market division, and market manipulation. Significant experience litigating filed rate doctrine and preemption related

federal jurisdiction issues in these and other energy-related antitrust lawsuits.

- Successfully defended, at the D.C. Circuit Court of Appeals, FERC orders requiring the conversion of full requirements contracts to fixed quantity contracts and rejecting allegations that pipeline withheld capacity.
- Represented major "clean coal" project in efforts to obtain federal tax credits provided by the Energy Policy Act of 2005.
- Represented a major energy company in negotiating a consent judgment with the Federal Trade Commission regarding the sale of the company's natural gas pipeline and processing assets to another major energy company.
- Represented an oil refining company in responding to and substantially limiting the scope of a civil Investigative demand in FTC Investigation of increased Midwest refined products prices.
- Successfully represented pipeline, at FERC and the D.C. Circuit, in defending against allegations that its transportation contracts with a shipper were anticompetitive and unduly discriminatory.
- Has successfully obtained FERC approval of transactions under Section 203 of the Federal Power Act, which requires FERC authorization of wholesale electric power mergers and acquisitions.
- Responsible for preparation and filing of electric power marketer's triennial market power update filings for purposes of retaining market-based rate authorization.
- Prior to negotiating settlement of pipeline rate case, obtained an administrative law judge ruling that rejected prudence challenge to pipeline's capital costs and approved an allowed rate of return significantly above the average level usually permitted by FERC.
- Successfully represented an interstate natural gas pipeline in its first general rate case at the FERC, obtaining FERC ruling that rejected prudence challenge and other charges that the pipeline's rates were unjust and unreasonable.
- Has conducted antitrust and FERC compliance seminars for major energy companies.
- Has represented clients on numerous antitrust M&A matters, including transactions involving:
 - Electric generation assets
 - Oil field services companies, including offshore drilling companies, manufacturers of offshore drilling rigs, and oil and gas exploration technology firms
 - Natural gas pipelines
 - Natural gas processing and liquids companies
 - Oil pipelines

PROFESSIONAL & COMMUNITY INVOLVEMENT

- Chairman, Antitrust Committee, Energy Bar Association, 2001
- Vice-Chairman, Antitrust Committee, Energy Bar Association, 2000
- Member, Energy Bar Association, and Antitrust Committee
- Member, American Bar Association, Antitrust Section, Fuel and Energy Committee

ARTICLES, PUBLICATIONS & LECTURES

Articles

- Co-Author, "Energy Law and Transactions," chapter addressing settlements of FERC proceedings
- Co-Author, "A New Broad Brush: Trying to Clean Up Market Behavior, New FERC Rules Raise More Confusion," *Legal Times*, August 16, 2004
- Contributing Editor, as member of Energy Bar Association Antitrust Committee, to several summaries of energy-related antitrust cases published in the *Energy Law Journal*, 1999-2001

CLERKSHIP

- Law Clerk, U.S. District Judge John H. Moore II, Middle District of Florida, 1990-1992






EDUCATION

- J.D., with honors, The George Washington University Law School, 1990
- B.A., with honors, University of Maryland, 1987
 - Phi Beta Kappa

ADMITTED TO PRACTICE

- District of Columbia
- Maryland
- U.S. Court of Appeals for the District of Columbia Circuit
- U.S. Court of Appeals, Fifth Circuit
- U.S. Court of Appeals, Ninth Circuit

RELATED LINKS

- Private Funds Weekly Roundup, v.3, No. 9 
 - GT Alert, March 05, 2007
- Private Funds Weekly Roundup, v.2, No. 43 
 - GT Alert, November 20, 2006
- Private Funds Weekly Roundup, v.2, No. 35 
 - GT Alert, September 25, 2006
- Summary of Key FERC-Related Provisions of the Energy Policy Act of 2005 
 - GT Alert, August 2005
- Greenberg Traurig Adds Energy Attorney from Morrison & Foerster
 - Press Release, February 28, 2005
- Arizona Corporation Commission, Et Al., Petitioners v. Federal Energy Regulatory Commission, Respondent Arizona Public Service Company, Et Al., Intervenors 
 - Article, February 11, 2005