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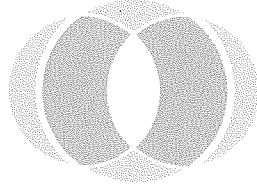
June 19, 2008

TO: The Honorable Sarah Palin, Governor, State of Alaska  
The Honorable Lyda Green, Senate President, State of Alaska  
The Honorable John Harris, Speaker of the House, State of Alaska

The attached Commonwealth North report is being presented today to the House Special Subcommittee on AGIA, joint with the Senate Special Committee on Energy. This short report summarizes issues that Commonwealth North has determined are germane to the current discussion relating to legislative approval of an AGIA license. Rather than expand the document to include narrative portions of the vast amount of material already written about this subject, Commonwealth North has compiled a short list of questions that could help focus the legislative and public discussion about this critical State policy.

Commonwealth North regularly studies policy issues affecting the State of Alaska and its future. Our members comprise the study groups, and with input from speakers knowledgeable about a topic, prepare the study group reports. In the case of the gasline, the study group has had the benefit of presentations and discussions with all parties involved, including representatives of the State, TransCanada, ANGDA, Denali Project, explorers, and others. We offer this report as a tool for Legislature and public to analyze the options available to the State in getting Alaska's gas to market.

David Wight, President



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## REPORT OF GASLINE STUDY GROUP: GETTING ALASKA'S GAS TO MARKET

June 19, 2008

In May, 2006, the Board of Directors of Commonwealth North chartered a study group to review and comment on proposals for a gasline for marketing ANS natural gas. The initial study topic centered on the proposed contract under the Stranded Gas Inducement Act. After this contract failed to be completed, the Board requested that the study group continue to meet to evaluate future alternative gasline proposals. This short paper is in response to the proposed State license to TransCanada under the Alaska Gas Inducement Act (AGIA) and the proposal by the Denali project (BP and ConocoPhillips). This report has been accepted by the CWN Board.

### AGIA PURPOSE: AS 43.90.010

The purpose of this chapter is to encourage expedited construction of a natural gas pipeline that

1. facilitates commercialization of North Slope gas resources in the state;
2. promotes exploration and development of oil and gas resources on the North Slope in the state;
3. maximizes benefits to the people of the state from the development of oil and gas resources in the state; and
4. encourages oil and gas lessees and other persons to commit to ship natural gas from the North Slope to a gas pipeline system for transportation to markets in this state or elsewhere.

### ASSUMPTIONS:

1. It is in Alaska's best interest to get its natural gas to market as soon as possible.
2. It is in Alaska's best interest to have competitive (oil and) gas exploration throughout the state.

3. It is in Alaska's best interest to have energy sources available at the lowest possible price to as many Alaskans as economically feasible.
4. It is in Alaska's best interest to know the possible/probable range of direct monetary contribution or infrastructure requirements associated with a gasline development proposal.
5. It is in Alaska's best interest to develop value-added processes in-state for commercialization of its petroleum products.

Based upon those assumptions, the legislature needs to understand the implication of answers to the following questions.

#### State Policy

1. Why does the State's \$500 million contribution not entitle the State to equity participation and return on investment for this project? Should the State have an equity position?
2. How can the Shippers or TransCanada produce an informed estimate of project profitability without knowing the tax regime that might be in place during much of the useful life?
3. What are the impacts on the project and the State if Point Thomson gas is not available for the gas pipeline, including the impact on oil losses at Prudhoe Bay?
4. Will granting an AGIA license result in a barrier to putting together the entities required to make a successful project, which might include the Producers, TransCanada, Enbridge, ANGDA, and/or others? Why would the State not lead an effort to bring these parties together, possibly resulting in a more efficient project and therefore lower tariffs? If the State determines it should assist Denali in moving that project forward, how can the State avoid treble damages?

#### TransCanada

5. TransCanada will receive \$500 million from the State of Alaska. Why is this necessary when BP and ConocoPhillips will proceed without direct financial support from the State?
6. Why does TransCanada propose to spend one fifth the amount that Denali will spend to reach open season and to gain FERC certification?
7. If TransCanada has an unsuccessful open season for any reason, why would the State pay over \$400 million to proceed from open season to FERC certification?
8. Will any new equity participants joining TransCanada be bound by the same "must haves" that TransCanada has agreed to? Can the "must haves" agreed to by TransCanada be modified or amended subsequent to award of a license?
9. Can the State compel lease holders to make firm shipping commitments on a TransCanada pipeline?

10. If the Alaska Natural Gas Development Authority, Enstar Natural Gas Co, Port Authority, or another entity is able to secure commitments during an open season for a pipeline delivering in excess of 500 mmcf/day, will this trigger AGIA's treble damages clause relating to competing pipelines?

Denali

11. What assurance do the Alaska people have that Denali will proceed in a timely fashion if the Legislature rejects the TransCanada proposal?
12. AGIA limits equity financing. How is the tariff structure impacted by a differential in the cost of borrowing between TransCanada and Denali?

Both

13. How will the State of Alaska be better off if the oil companies, rather than TransCanada, own the gas pipeline? Or how will it be better off if the oil companies do not have an ownership interest in the pipeline?
14. Given that the AGIA contract and FERC regulations both address access and tariffs, how does the TransCanada proposal and the Denali project each assure:
- open access to new gas developers?
  - expansion of shipping capacity?
  - fair and reasonable tariffs to new gas developers?
15. How do the TransCanada proposal and Denali project assure that the State has choices to pursue:
- using Alaska natural gas to meet in-state energy needs?
  - opportunities to use Alaska's natural gas and gas liquids to develop a petrochemical industry in Alaska?
16. How will future possibilities for LNG be accommodated under either the Denali project or TransCanada proposal?