ALASKA STATE LEGISLATURE

JOINT COMMITTEE ON NATURAL GAS PIPELINES

Official Business

Senator John Torgerson, Chair
Senator Rick Halford
Senator Pete Kelly
Senator Johnny Ellis

Representative Joe Green, Vice-Chair
Representative Brian Porter
Representative Scott Ogan
Representative John Davies

MEMORANDUM

TO: All Senators and Representatives

FROM: Senator John Torgerson
Chair, Senate Resources Committee
Chair, Joint Committee on Natural Gas Pipelines

SUBJECT: Report on the Alaska Natural Gas Pipeline

DATE: May 16, 2002

I am enclosing some information on the Alaska Natural Gas Pipeline that I hope you will find useful. First, there is a report on the natural gas pipeline modeling work done by the legislature's economic experts, Northern Economic Research Associates. In addition, we are enclosing a CD containing the economic models of the different gas line projects built by our experts.

Second, there is a report by our expert on oil and gas matters, Patrick Coughlin. The report provides background information and a status of the provisions in the United States comprehensive energy bill that pertain to an Alaska natural gas pipeline. That bill is currently set to go to a conference committee with U.S. Senate and House members.

Finally, I am enclosing a report on the matters that Mr. Coughlin has been working on for me. He has discussed oil and gas issues with many of you and you should feel free to contact him during the interim if you have technical questions relating to oil and gas.

Session: January – May
State Capitol, #427
Juneau, AK 99801
Phone: 907-465-2828
Fax: 907-465-4779

Interim: May – December
35477 Kenai Spur Hwy., Suite 101A
Soldotna, AK 99669
Phone: 907-260-3041
Fax: 907-260-3044

REPORT ON THE ALASKA NATURAL GAS PIPELINE

Compiled by Senator John Torgerson
Chair, Joint Committee on Natural Gas Pipelines

Contents

MODEL REPORT

Report for
The Joint Committee on Natural Gas Pipelines
For the Alaska State Legislature

Natural Gas Pipeline Modeling

Submitted by
NORTHERN ECONOMIC RESEARCH ASSOCIATES

Dr. Douglas B. Reynolds
Dr. Robert R. Logan
Dr. H. Charlie Sparks
Mr. Michael Backus

The Joint Committee on Natural Gas Pipelines for the Alaska State Legislature contracted with Northern Economic Research Associates (NERA) to build economic models to determine the feasibility of various Alaska gas projects and to analyze legislative policy surrounding natural gas issues. NERA is an economic research firm made up of experts with experience in oil and energy economics, the Alaska state economy, finance and accounting.

Dr. Reynolds is a professor of oil and energy economics at the University of Alaska Fairbanks (UAF) and has researched oil and energy issues for over fifteen years. He has spent time in Kazakstan, Russia, Norway and Mexico studying their oil and gas industries. Dr. Logan is an economics professor at UAF and has looked at a number of Alaska State economic issues over the last fifteen years including oil and gas lease sale efficiency, mining and military impacts on the local economy, and fishery industry problems. Dr. Sparks is an accounting professor at UAF with finance experience. He was the senior accountant at the Alaska Permanent Fund Corporation where he was responsible for performance evaluations including internal rate of return (IRR) and net present value (NPV) calculations for a diverse portfolio of investments. He has also worked on litigation claims involving lost benefits and on Alaska Housing Finance Corporation studies to determine energy efficiency benefits. Mr. Backus is an Alaskan scholar at UAF and is helping put together the economic models.

NERA has worked with the Joint Committee since January 7th, 2002 and has researched gas pipeline costs, price forecasts and potential gas supplies for an Alaskan gas project. Based on all the data gathered, economic models were developed to show how feasible various natural gas projects were. The following report explains the results of the ALCAN pipeline project.

Introduction

- Part I – Description of An Economic Model (This is the hard part)
- Part II – Alcan Project Model and Key Assumptions (What you need to know about the project)
- Part III – Model Results (How do the results change if the assumptions change)
- Part IV – Conclusion (What you really want to know: the project is economic based on our assumptions)
- Part V – Appendix (CD containing models for LNG 1.5 BCF, Y-Line 6BCF, Alcan Expandable 4.5 BCF, and Alcan Non-Expandable 4.5 BCF for you to play with)

What is an economic model? How is it built?

- An economic model is a simplified representation of a proposed business, project or transaction built on the basis of input assumptions which are combined by a series of mathematical formulas to determine project results and outcome values.

- For an oil and gas company, these input assumptions or estimates would include the production volume, oil or gas price, capital costs, operating costs, taxes, and royalties.

- The input assumptions are based on the best available information from the oil and gas company's geologists, reservoir engineers, economists, facility and pipeline engineers, accountants, and other experts .

- Project cash expenditures and revenues are estimated based on these assumptions.

- Cash flows are put into a spreadsheet or other calculation tool and then a net cash flow is calculated on a yearly basis starting with the initial investment .

- The amount of detail in the model depends upon the complexity and value of the decision facing the company.

What does a model look like?

- Simplified oil and gas cash flow model example

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues						
Volume	0	75	75	50	50	25
Price	0	20	20	20	20	20
T. Revenues	0	1500	1500	1000	1000	500
Costs						
Capital	1000	0	0	0	0	0
Operating	0	550	650	400	500	250
Royalty	0	150	150	100	100	50
Taxes	0	300	300	200	200	100
T. Cost	(1000)	(1000)	(1100)	(700)	(800)	(400)
Net Cash Flow	(1000)	500	400	300	200	100

- Model assumes an initial investment of $1 billion dollars, initial production is large and then decreases with time, the oil price stays constant at $20/bbl, operating expenses vary, royalty is 10% of total revenues, and taxes are 20% of total revenues.
- Model automatically
    - calculates the total revenues by formula that multiplies the volume each year by the price
    - calculates the royalty and taxes by formula that multiplies the total revenues by the assumed royalty and tax rate
    - sums the costs each year to get a yearly total
    - subtracts the total cost each year from total revenues each year to get a yearly net cash flow

- Simplified model has about 50 cells with very simple equations; actual model has about 200,000 cells with many complex, conditional equations

What economic jargon do we need to understand to use an economic model?

- **Time Value of Money Concept** – a $1 today is worth more than a $1 tomorrow

- **Inflation** – The notion that the price of goods and services increases over time
  - Subset of the time value of money concept
  - If we have three percent inflation, a candy bar that cost $1 in 2000, cost about 75 cents in 1990, and about $1.35 in 2010

- **Nominal vs. Real Dollars**
  - **Nominal Dollars** are dollars at the time of the transaction – in our candy bar example, price actually paid was: 75 cents in 1990, $1 in 2000, and $1.35 in 2010
  - **Real Dollars** adjusted, using an inflation index, to a particular point in time – in our candy example, the price paid, adjusted for inflation to a base year of 2000, was: $1 in 1990, $1 in 2000, and $1 in 2010

- **Present Value** – a time value of money concept that brings all investment and return cash flows back to a common date based on a **Discount Rate** or **Hurdle Rate**

- **Discount Rate** or **Hurdle Rate**
  - A rate applied to a series of future cash flows to adjust for risk and the uncertainty of time factor
  - The rate reflects general inflation in the economy
  - The rate reflects that you'd want a higher rate of return on your money if you had to leave it in the bank for five months vs. five years
  - The rate reflects that you'd want a higher rate of return on your money if you invested it in a safe government bond vs. if you invested it in a new company promoting a new product
  - **The Discount Rate** or **Hurdle Rate is so important we will talk some more about it and how it is calculated.**

How do we calculate the present value of our simplified oil and gas project?

- In our simple oil and gas cash flow example, the yearly undiscounted cash flows were: (1000), 500, 400, 300, 200, and 100. (Refer to earlier slide titled "What does a model look like)
- But, we now know that the early cash flows are worth more to us than the later cash flows because of inflation and our risk tolerance
- Let's discount those cash flows by a discount rate of 0%, 10% and 20% back to the common Year O and see what we get.

Year	NCF@0%	NCF@10%	NCF@20%
0	(1000)	(1000)	(1000)
1	500	455	416
2	400	391	276
3	300	225	172
4	200	137	95
5	100	62	59
Total	500	209	0

- What's our conclusion?
  - If there was no such thing as inflation and the project had absolutely no risk, we'd use 0% discount rate and the project would have a present value of $500 million
  - If the project was very risky, we might use a 20% discount factor and the project wouldn't have any present value to us
  - If the project wasn't very risky, we might use a 10% discount factor and the project would have a present value $209 million

Why is the hurdle rate so important and how is it calculated?

- Why is the hurdle rate so important?
  - The hurdle rate or discount rate (aka cost of capital) reflects the minimum rate of return a firm must make on its investments
  - If the hurdle rate is too high, the firm will reject projects that it should have done
  - If the hurdle rate is too low, the firm could lose money
  - On the same project, different companies can have different hurdle rates depending upon their particular situation

- How is the hurdle rate calculated?
  - It is based on the firm's capital structure, that is the proportion of debt and equity
  - It is also based on its cost of the debt and cost of the equity
  - Example – Say a firm has 40% debt which it borrow at 8% and 60% equity which must be paid at the rate of 15% to attract investors. The cost of debt, however, is after tax so we need to know the company's tax rate, 40%

    Hurdle Rate = debt proportion x [debt rate x (1- tax rate)] + equity proportion x equity rate
    = .4 x [.08 x (1-.04)] + .6 x .15
    = .4 x .048 + .6 x.15
    = 1.92 + 9
    = 10.92% = 11%

- Should the hurdle rate be adjusted to reflect the risk of a particular project?
  - This is a subject of much debate
  - Generally it should not be adjusted unless the risk of the particular project is completely different from the ordinary risks assumed by the company in its business
  - Risk factors can include: project size, country or political risk, or price risk
  - Senate Energy Bill's price risk mechanism greatly reduces any price risk

- What are hurdle rates for oil and gas companies and pipeline companies?
  - For large oil and gas companies over last 20 years, about 10 to 12%
  - For pipeline companies (which usually assume less risk than oil and gas companies) over the last 20 years, about 8 to10%

- What is NERA's opinion about the appropriate hurdle rate?
  - If the federal legislation passes with the price floor, 10 to 12%
  - If it does not pass, 13 to 15%

How do firms and governments use economic models?

- The model calculates various measures of profitability and based on the results company executives decide whether to proceed with the project or not and compare the project to other alternative investment

- The three most common measures are a project's net present value, rate of return, and profitability index
  - Example – Assume our simple oil and gas model and the company's hurdle rate is 10%
  - The net present value (NPV) of the project discounted at 10% is $209 million
  - The rate of the return (ROR) of a project is the discount rate that yields a NPV of zero and in this example is 20%
  - Profitability Index (PI) is the NPV divided by the initial investment. It is considered a measure of the "bang" for the buck and in our example is .21

- In theory, if our hypothetical company's hurdle rate were 10%, it would do this project or any project with a NPV greater than zero using a 10% hurdle rate
  - If it could only do one project and it had another project with a NPV discounted at 10% of $400 million, it would do that project
  - If it could only do one project and it had another project with the same NPV of $209 million, it would do the one with the lowest investment cost employing the PI index criteria

- Firm's also use the model to do "sensitivity analysis"
  - Sensitivity analysis answers what if questions like: How much would our rate of return increase if the price of oil were $25 instead of $20? How much would the rate of return change if our construction costs were 25% higher than expected?
  - It helps the firm determine which input assumption variables are most important and warrant the most attention
  - Our model looks at how different assumptions affect the ROI

- Governments use economic models in much the same way as companies
  - Determine the appropriateness of a fiscal system and its effect on investment in the country
  - Determine the effect of various incentives on private investment and government revenues

How did we build our model?

- Looked at a large number of models
- Reviewed a number of reports and analysis regarding gas markets and pipelines
- Consulted and exchanged data with economists and oil & gas experts from the Department of Revenue and Department of Natural Resources, other governmental experts, and industry and private experts to work out key issues
- Had updates every morning with Senator John Torgerson, Mr. Patrick Coughlin and other experts
- Built several models to examine various route options
- Looked at a number of input assumptions for ALCAN route

Part II
The ALCAN Project Model

- Models project producing gas from the Prudhoe Bay and Point Thomson Units for sale in Alberta
- Includes a conditioning plan on the North Slope, a 2100 mile pipeline to Alberta, and a NGLs extraction plant
- Based on a 4.5 billion cubic feet per day project
- Assumes both gas and NGLs sales
- Uses conservative, reasonable assumptions based on best industry practice
- Terminates in Alberta and assumes other existing lines and smaller new line will transport the gas to the U.S.

What are the key input assumption variables?

- The price of gas and NGLs
- The type of gas, ethane or natural gas liquids (NGLs), available for sale
- The volume of gas that is currently available for sale (gas reserves)
- The volume of gas that may be available for sale (future discoveries)
- Upstream costs
    - Production costs
    - Oil losses
- Project capital costs
    - Conditioning Costs
    - Extraction plant costs
    - Pipeline costs
        - Non-expandable
        - Expandable
        - Terminus
- Operating costs and fuel use
- Pipeline tariff
- Government Revenues (State, Federal, Canada)
    - Property
    - Severance
    - Income
    - Royalties
    - Depreciation
- Incentives
- Project route
    - Alcan, Valdez-LNG, and Y-line
    - Focus on Alcan route

Key Assumptions - Prices and Price Floor

- Forecasts for natural gas prices
  - Natural gas prices are volatile
  - Changes in prices dramatically affect the project's ROI
  - Price forecast is key to project's economic feasibility
- NGLs prices
- Effect of federal legislation
- National security

Key Assumptions
Price Forecast 2010
(Chicago Price 2002$ per MCF)

- Natural gas prices are volatile and future prices are difficult to predict
- Futures say $3.50
- EIA says $2.94 to $3.61
- Producers say $3.12 (EIA mid-price)
- CERA says $2.50 to $3.50
- Federal Legislation uses $3.15 (estimated based on inflation and tariffs)
- Base Model uses $3.15
- Actual May 2002 is $3.70

Key Assumptions – Price
Natural Gas Liquids (NGLs)

- Assume no pentane or higher NGLs sales (already taken by TAPS)
- Assume low use of ethane and propane to extend life of producing oil fields
- Use historic NGLs prices

Key Assumptions - Federal Price Floor

- Federal Legislation contains a price guarantee of $3.25 in Alberta ($2010), about $3.75 in the lower 48
- The $3.25 price is not a subsidy because lower than expected price
- The guarantee reduces price risk by taking away price volatility
- The Legislation includes a tax repayment when prices are greater than $4.88 in Alberta ($2010) or $5.40 in the lower 48
- The federal government calculates a revenue neutral price
- This provision is probably the most important fiscal term affecting the project's economics

Key Assumptions – Price
National Security

- Federal legislation secures national energy security
- The world has become a dangerous place
- Energy is the life blood of the US's and Canada's economy
- Alaska is a safe, secure, and steady source of reasonably priced energy
- Federal legislation is not a subsidy, since revenue neutral, but it does add to US and Canadian national security

Key Assumptions - Proven Reserves

- Prudhoe Bay proven reserves are around 26 trillion cubic feet
- Pt. Thompson proven reserves are 8 trillion cubic feet
- If the pipeline is expandable, expectations are that these estimates are low or that there will be additional discoveries

Key Assumptions - Upstream Costs

- **Gas Production Costs**
  - The Alaska gas pipeline is an incremental project added on to existing oil infrastructure
  - Oil wells already produce gas
  - No upstream costs are included at the Prudhoe Bay Unit because there will be little or no costs to add on this project
  - No upstream costs are included at Point Thompson because a gas project will improve overall field development feasibility

- **Oil Losses**
  - If gas is produced within the next few years, some oil production may be lost
  - Oil losses are expected to be between 0 - 600 mmbo
  - The model assumes an oil loss of 480 mmbo
  - Losses occur late in the life of the project
  - No oil losses could occur because of technology and mitigation methods

Key Assumptions – Downstream Costs: Conditioning Plant, Pipeline & Extraction Plant

- **Conditioning plant** costs about $2.6 billion
- **Pipeline**
  - Typical pipeline Costs
    - Alaska $140,000 per inch mile
    - Lower 48 $60,000/inch mile
    - International $60,000 ± 25,000 (± 25,000 is one standard deviation)
  - Alaska costs are high due to permafrost, high BTU pipelines, large diameter
  - Model assumes that the pipeline terminates around Edmonton, Alberta
    - Edmonton is a natural gas hub and near many NGLs extraction plants
    - Pipeline could terminate in Gordondale about 400 miles short of Edmonton and have a $1.5 billion difference in cost
    - Ending the pipeline in Gordondale implies an extra tariff to get to Edmonton
    - Ending the pipeline in either Gordondale or Edmonton implies an extra tariff to get to Chicago
    - Many experts believe that by 2010 there will be spare capacity in the Canadian pipeline system to transport gas to the lower 48
  - Most projects are built to be expandable depending on existing reserves
    - A low cost Alcan project can be built without expandability and this option is modeled with lower capital costs
    - Expandability is only added if there is an expectation that it will be used
    - The expected project return for the expandable case is shown because the model is run assuming no expansion occurs
    - Total cost given by producers for an expandable pipeline: $14.8 billion ± 20% to Alberta
  - **Extraction plant** costs about $0.6 billion

Key Assumptions - Fuel Use and Operating Expenses

- Best practice operating expenses (yearly operating expenses are based on percent of total capital expenditure)
  - 2.2% of pipeline capital
  - 5.4% of conditioning capital
  - 4% of NGLs capital
- Natural gas used to run pumps creates fuel loss
  - Industry best practice has 2% loss of gas per 1,000 miles
  - Conditioning plants loss 4%
  - NGL separation loss 3%

Key Assumptions – Tariff & Depreciation

- A high tariff reduces wellhead value and wellhead revenues
- A low tariff increases royalties and severance taxes
- If the producers own the pipeline, they will prefer a high tariff because it increases their ROI by reducing state revenues
- Model assumes that Producer revenue is generated from wellhead and pipeline
- Tariff setting and taxing is variable due to the depreciation method used and it affects the ROI
  - Base case uses current depreciation schedules without accelerated depreciation
  - Base case uses current taxes in United States and Canada without assuming any changes to those laws

Incentives

- Incentives can increase ROI to make a project more attractive
- Incentives cost government revenues
- Incentives in the form of government subsidies can reduce a company's use of innovation to make the project economic
- Incentives in the form of government subsidies may only accelerate a project that would otherwise be done later
- Assuming state decisionmakers believe that incentives are appropriate, they should be structured to provide the greatest increase to ROI at the least cost to state revenues
- Incentives can be negotiated to benefit both the project sponsors and the state
- "Fiscal terms should not be more attractive [to the project sponsors] than what is necessary to achieve the desired economic activity." Dr. Pedro Van Meurs, Fiscal Systems expert
- The model can show the effect on gas objectives of using different incentives

Part III
Model Results

- Base Case Model – Expandable Pipeline
- With Alaska Property Tax Holiday
- With Capital Cost Changes
- With Price Changes
- With Accelerated Depreciation
- With Tax-Exempt Financing
- Alternative Model – Non-Expandable Pipeline

MODEL RESULTS

Best Guess Model based on Available Information
Project from Alaska North Slope to AECO Hub

Assuming 30 Years of Production	Return on Investment	Wellhead ($/mmBTU)	State Revenue (millions) (2002$)	Federal Revenue (millions) (2002$)	Canadian Revenue (millions) (2002$)	Producer Net Rev. (millions) (2002$)
Expandable Reference Scenario[1]	**15.05%**	**$1.33**	**$23,565**	**$22,662**	**$7,388**	**$48,325**
w/ 4 yr AK tax break[2]	15.22%	$1.35	$23,331	$22,744	$7,388	$48,477
w/ addition 3 yr break	15.36%	$1.36	$23,059	$22,839	$7,388	$48,654
w/ 20% cost overrun	13.03%	$1.12	$20,831	$20,604	$8,863	$45,745
w/ 20% cost reduction	17.80%	$1.54	$26,299	$24,723	$5,910	$50,905
w/ accelerated depreciation	15.32%	$1.35	$23,765	$22,433	$7,386	$48,357
w/ 20% increase in Chicago Price[8]	17.40%	$1.82	$31,949	$30,384	$7,386	$62,662
w/ 20% decrease in Chicago Price[8]	12.40%	$0.84	$15,184	$14,943	$7,386	$33,987
Debt Reference Scenario[3]	14.70% [7]	$1.32	$22,128	$18,471	$4,968	$41,204
w/ Railroad Bonds[3]	15.00% [7]	$1.41	$23,734	$20,038	$4,957	$43,787
Non-Expandable Scenario[4]	16.45%	$1.45	$25,063	$23,795	$6,432	$49,595

Cost:		Price:		Sold:	
Conditioning Plant	$2.6 bn	Albt. Price[5]	$2.60/mmBTUs	In Alberta[6]	4.21 BCF
Non-Expandable Pipeline to Alberta	$10 bn				
Expandable Pipeline to Alberta	$11.6 bn				
NGL Stripper Plant	$0.6 bn				
Non-Expandable Total	$13.2 bn				
Expandable Total	$14.8 bn				

1 *Expandable Reference Scenario* assumes federal tax credit/price floor & non-expansion of pipeline (4.5 bcf/day throughput--a worst case scenario).
2 Property tax break during assumed 4 year construction period.
3 Calculated assuming 70% debt. Used only to evaluate value of Railroad Bonds. Not comparable to other scenarios.
4 Assumes 4.5 bcf/day pipeline is non-expandable, is fully utilized, and costs 6% less on a $/inch-mile basis. A ball park figure for actual profitability as the producers must believe the actual return is above this amount, otherwise they would not opt for expandability.
5 Federal price floor based on EIA forecast in 2002 dollars.
6 Includes small quantities of ethane and propane.
7 Simple weighted average of the return on equity and the taxable bond rate.
8 Represents 63¢ change in the Alberta Price.

Part IV
Conclusion

- Expandable Scenario has 15% return
- If the project is expanded, the return will be higher
- With cost overrun, ROI drops to 13%
- With cost underrun, ROI jumps to 17.8%
- Return includes a price floor
- Therefore there is almost no risk on the venture
- All cases, including cost overrun, exceed the hurdle rate
- This project is economic and should be a go

Conclusion - The Project is Economic

- The Joint Pipeline Committee's model shows that the project is economic at a discount rate of 15%
- A model prepared by Informetrica Limited, a Canadian consulting company, shows that the project is economic at a discount rate of 15% and "[i] n fact, the after-tax internal rate oi return for the producers is 31 per cent." Informetrica, Cost-Benefit Analysis of the Alaska Natural Gas Transmission System (January 2002)
- If the federal price floor in the current Senate Energy Bill becomes law, the price floor for gas shipped on the line will be $3.25 Alberta or $3.75 US and others, including the producers have said that the pipeline would be economic at that price:
    - "A commercial project exists today. One with a rate of return of over 12 percent." Ken Thompson, former Arco president and oil and gas consultant. (PNA 3.17.02)
    - Exxon "would have to see a natural gas price of US$3 to US$3.50 per thousand cubic feet on a long-term basis for the pipeline to move ahead." Bob Davis, Exxon spokesman, National Post (May 9, 2002)
    - "On average, the price in [Alberta] would need to be maintained at prices above $3 ... (or $3.50 ...in the United States) for construction [of the Alaska gas pipeline] to commence." Energy Information Administration (EIA), Annual Energy Outlook 2002 (December 20010
    - "Based on the estimated cost of gas at the well, capital costs, operating costs required rates of return, Alaska gas delivered by the proposed pipeline is estimated to competitive when lower 48 wellhead prices are sustained at $3.15 per thousand cubic feet [and] the trigger price with the [Producer's enabling legislation without the price floor provisions] is assumed to be $3.05." EIA, The Effects of the Alaska Oil and Natural Gas Provisions of H.R. 4 and S.1766 on U.S. Energy Markets (February 2002)
- Since the federal price floor has surfaced, the producers have refused to release their project economics and more importantly the have refused to release any information supporting the assumptions in their model.

MODEL REPORT

CD

BACKGROUND AND STATUS OF FEDERAL LEGISLATION

MEMORANDUM

TO: Senator John Torgerson
Chairman, Joint Committee on Natural Gas Pipelines
Members of the Joint Committee on Natural Gas Pipelines
FROM: Patrick Coughlin PJC
SUBJECT: Background and Status of Federal Legislation
DATE: May 14, 2002

BRIEF HISTORY
1977 to Summer of 2001

In 1976, the United States Congress passed the Alaska Natural Gas Transportation Act of 1976 (ANGTA). That act authorized the President of the United States to select from competing proposals, a route to transport Alaska North Slope (ANS) gas to lower 48 gas markets and enter into agreement with Canada with respect to the selected route. The President selected a route basically following the Alaska Highway through Yukon through Alberta to the Midwest (Alcan route). The President also selected a consortium of pipelines to build the route. Today that consortium is composed of several companies that are referred to as "Foothills" or the "Pipelines." The president's decision was approved by Congress and became part of an agreement and treaty with Canada.

For purposes of understanding the new proposed so-called "enabling legislation," ANGTA granted the State of Alaska "special rights to serve in-state needs with its royalty gas." (Letter from the law firm of Morrison & Foerster to Senator Torgerson dated August 14, 2001.) The president's decision repeatedly recognized the importance of the state's ability to use its royalty gas for in-state energy and to develop the state's economy. The decision said that an Alcan pipeline could "supply the energy base required for long-term economic development" within Alaska and it could supply natural gas to communities within Alaska along the route as well as other Alaska communities through local distribution lines. Furthermore, to preserve competition and avoid antitrust concerns, the owners of the vast majority of gas reserves on the ANS, Exxon, BP, and Phillips, formerly Arco (Producers), were prohibited from owning an interest in the Alaska pipeline.[1]

Foothills did a lot of work in the late 1970s and early 1980s to complete the project. However, gas market conditions in the lower 48 dramatically changed and the Alaska pipeline was never built. Throughout the years, Foothills maintained its various authorizations although more are necessary before it could actually begin construction.

In the winter of 2000-01, gas prices in the lower 48 increased dramatically from a historical average of $2.00 to $2.50 per mcf to more than $10.00 per mcf. Many economists and gas industry experts predicted a fundamental shift in supply/demand

---

[1] Ultimately, President Reagan issued a "waiver of law" that allowed the Producers to own a minority interest in the pipeline. However, in issuing that waiver, the president specified that there would have to be a thorough antitrust investigation before this ownership could be approved.

market for natural gas. Demand was soaring, primarily driven by new gas fired power generation plants. Supply was in question with many experts wondering whether traditional sources of natural gas like the U.S. Heartland, the Gulf of Mexico Basin, and the Western Canadian Sedimentary Basin, could keep up with the skyrocketing demand.

The Energy Information Agency (EIA), the federal agency charged with studying energy markets, predicted that gas demand in the United States would rise from 23 tcf per year in 2000 to 35 tcf in 2020 and Canadian demand would also grow. Other experts agreed and some predicted greater demand growth. Because of questions concerning the ability of supply sources to meet this demand, the EIA predicted that gas prices would grow at the rate of 2% per year over the next 20 years. The EIA said: "[T]he price is expected to be higher due to less optimistic assessment of natural gas reserves discovered by exploratory drill[ing]." EIA, Annual Energy Outlook 2002 (December 2001) Based on this type of information, oil and gas companies again became interested in gas resources located in so-called "frontier areas" like Alaska.

In May of 2001, President Bush's National Energy Policy Development Group submitted its report on a National Energy Policy. The report recognized that as a result of the rise in gas prices, interest in building an Alaska gas line had been renewed. The report stated:

> America needs the energy that Alaska's North Slope natural gas can provide. The Administration seeks to expedite the construction of a pipeline to deliver this natural gas to the lower 48 states.

The report recommended that the applicable federal agencies and interested parties work closely "to expedite construction of a pipeline to deliver natural gas to the lower 48 states." The report also stated that this "should include proposing to Congress any changes or waivers of law pursuant to the Alaska Natural Gas Transportation Act of 1976 that may be required." An Alaska natural gas pipeline was just one part of the national energy policy.

PRODUCERS' ENABLING LEGISLATION
Summer of 2001 to December 2001

Because of the changes in the North America gas market, the Producers interest in developing their ANS gas reserves was renewed. However, the Producers wanted to pursue their own project independent of the Pipelines and did not want to be constrained to the Alcan route. In summer of 2001, the Producers began circulating their enabling legislation. They asserted that passage of this legislation would mitigate regulatory uncertainty and risk and that an Alaska project could not go forward without this legislation. They viewed the legislation as providing a new market driven, expedited regulatory process alternative to the process laid out in the Alaska Natural Gas Transportation Act of 1976 ("ANGTA"). In many respects, their proposed legislation mirrored ANGTA provisions regarding expedited agency review, creation of a federal inspector and limited judicial review.

The enabling legislation would allow the Producers to build their own Alaska pipeline and to build the "Over-the-Top" route, which would be a pipeline north from Prudhoe Bay, crossing the Beaufort Sea, through the Northwest Territory and Canada, to the lower 48. The Producers want to have the option to build the Over-the Top route despite the fact that the Alaska Legislature passed SB 164 banning that route in early 2001. The Enabling Legislation did not provide the state with any rights to access gas for in-state use, much less special rights.

Needless to say, the Pipelines were not pleased. The Pipelines, which had rights under ANGTA to construct an Alaska pipeline, asserted that the Enabling Legislation created conflicts with ANGTA. They opposed that legislation. Furthermore, it worried several oil and gas companies like Anadarko and Alberta Energy (Explorers) who had recently come to Alaska with hopes of exploring and producing natural gas. In recent state leases, the Explorers have acquired the rights to a large amount of state acreage with gas potential. The Explorers and the Pipelines expressed concern about placing so much market power in the hands of the Producers. thus, allowing them to control when and how a pipeline is built.

The Alaska Legislature created the Joint Committee on Natural Gas Pipelines (Joint Committee) to deal with issues surrounding ANS gas development. Because a hearing was scheduled to occur in the U.S. Senate in October to deal with the Enabling Legislation, the Joint Committee held a hearing to determine what proposals the Alaska Legislature should make to the U.S. Senate. At its meeting on September 19, the Joint Committee approved a number of proposals that included:

- Prohibit an Over-the-Top route
- Assure that Alaska has fair and reasonable access to gas produced within the state and that the Regulatory Commission of Alaska be involved determining whether that access should be granted and what the appropriate tariff should be
- Assure that Explorers who do not have an ownership interest in the pipeline have fair and reasonable access to space on the pipeline and the ability to obtain expansion capacity of the pipeline
- Create a mechanism for fair and transparent tariffs
- Approve a project labor agreement
- Create provisions for Alaska hire and the use of Alaska businesses
- Prohibit tax incentives for foreign LNG delivered to U.S. markets
- Provide an accelerated depreciation schedule for gas pipelines

Attachment "A." In an October 2nd hearing before the Senate Energy and Natural Resource Committee, Senator Torgerson, chairman of the Joint Committee, presented the committee's proposals. The Senate committee also heard from the governor, representatives of affected federal agencies, representatives of the Producers, representatives of the Pipelines, representatives of the Explorers, environmental groups, and other interested companies and citizens. Following the hearing, the Senate committee continued working on the comprehensive energy bill.

In the meantime, H.R. 4, the U.S. House of Representatives version of an Energy bill, passed that body. It contained a provision banning the Over-the-Top route. This provision was vigorously opposed by the Producers. The Producers also opposed provisions relating to in-state use of gas, access for Explorers and expansion of the pipeline.

In December of 2001, Senator Daschle, the majority leader, pulled the comprehensive energy bill from the Senate Energy and Natural Resources Committee and introduced the Senate version of the Energy bill. It contained a subtitle cited as the "Alaska Natural Gas Pipeline Act of 2002." Although it stated that one of its purposes was "to ensure access to [the Alaska pipeline] on an equal and nondiscriminatory basis and to promote competition in the exploration, development and production of Alaska Natural Gas," it contained little of substance on the subject. Moreover, it did not contain any provisions relating to in-state use of gas or Alaska hire. It did contain a provision stating that it was the "sense of the Senate" that it "urges the sponsors ... to make every effort to use steel that is manufacture or produced in North America and to negotiate a project labor agreement to expedite construction of the pipeline.

SENATE ENERGY DEBATE
January to April 2002

In January of 2002, Senator Murkowski invited Senator Torgerson and other interested parties to meet in D.C. to discuss Alaska gas line issues. The meeting occurred in February and at the meeting the pipeline companies announced that they were no longer opposing the producers' enabling legislation.

In light of the pipeline companies non-opposition to the producers' enabling legislation, Senator Torgerson discussed how to best advocate the Joint Committee's position before the U.S. Senate during this Committee's meeting on February 15. At that meeting this Committee voted to request that the House Special Committee on Oil and Gas introduce HJR 44. This resolution provided that the legislature would support the Producers' Enabling Legislation or the Act so long as it contained:

1. "a provision similar to that in H.R. 4 banning the over-the-top route;"
2. "provisions for Alaskans and Alaska businesses that ensure they have access to the pipeline for in-state consumption and value-added manufacture on a fair and reasonable basis and that the Regulatory Commission of Alaska play a role in determining that access;"
3. "provisions for access to the pipeline by Explorers on a fair and reasonable basis, including a proper open season and tariffs, and [for the Explorers] and the state [to] have the ability to obtain expansion of the pipeline if economically and technically feasible;"
4. "provision for the reaffirmation of Alaska Natural Gas Transportation Act of 1976 and moderniz[ation] of that Act as necessary;"

5. "provisions for federal financial incentives, including accelerated depreciation and an income tax credit that is designed to provide mitigation of long-term natural gas price risks and the risks associated with funding the large capital costs of the project;" and
6. "provisions declaring that the content of [provisions] (2) – (5) is not intended to exclude supply of Alaska North Slope natural gas to markets in the form of LNG or GTL."

Attachment "B." HJR 44 overwhelmingly passed the Alaska Legislature.

During February and early March, many modifications to S. 1766 were circulated, proposed and rumored. The producers were proposing amendments without sharing those amendments with the state. Often, Senator Murkowski's staff would expect Senator Torgerson to respond to amendments on very short notice. During January, the legislative budget & audit committee authorized Senator Torgerson to hire Karol Lyn Newman of the law firm of Hogan & Hartson to advise the Alaska legislature on the Pipeline Act and to monitor that legislation for the legislature. Her assistance was very valuable.

During this time frame, some of the producers continued to oppose a ban on the over the top route. They all seemed to be opposed to ensuring access for in-state use on any basis with teeth. They also all seemed to be opposed to providing for expansion of a pipeline. Senator Torgerson spent many hours with Senator Murkowski's staff, the legislature's attorneys in D.C., the governor's office, and the producers explaining the Joint Committee's position.

Ultimately, a Senate version of an Energy bill passed that body in late April of 2002. The following compares the Senate Energy bill with the positions taken by the Alaska Legislature in HJR 44 and in the proposal adopted by the Joint Committee.

COMPARISONS OF THE SENATE ENERGY BILL WITH POSTIONS OF THE ALASKA LEGISLATURE

Routing

The Alaska Legislature requested a provision banning a pipeline project with a route traversing east through the Beaufort Sea and then entering Canada. This provision was adopted. Sec. 704(d).

In-State Access

The Alaska Legislature requested an amendment that Alaskans have access to the pipeline for in-state consumption and value-added manufacture on a fair and reasonable basis and that the Regulatory Commission of Alaska play a role in determining that access and tariffs relating to that access in conjunction with the Federal Regulatory

Energy Commission (FERC). In essence, the Alaska Legislature was seeking a provision similar to that contained in the ANGTA, which gives the state "special rights" pertaining to access for in-state use of royalty gas. Section 13(b) of the ANGTA provides:

> "The State of Alaska is authorized to ship its royalty gas on the approved transportation system for use within Alaska and ... to withdraw such gas from the interstate market for use within Alaska; the [FERC] **shall** issue all authorizations to effectuate such shipment and withdrawal subject only to review by the Commission only of the justness and reasonableness of the rate charged for such transportation."

(Emphasis added). In essence, ANGTA provides that the state **shall** be given access for the shipment of the state's royalty share. The Senate Bill provides that the FERC, upon the state's request, **may** provide for reasonable access for state royalty gas, a weakening of the state's rights. Sec. 704(h). Additionally, the Senate Bill says that granting such access cannot increase the rates of existing shippers. The Senate Bill also requires that the holder of a FERC certificate for a pipeline project conduct a study of in-state needs, including tie-in points along the pipeline project for in-state access. Sec. 704 (g). The study, however, does not have to be approved by an independent agency.

The Alaska Legislature also requested that the Regulatory Commission of Alaska (RCA) and the FERC jointly set the rates for in-state transportation of gas. The Senate Bill provides that the FERC alone will set the rates although it first must confer with the state. Sec. 709(c).

Explorer Access

The Alaska Legislature requested provisions for access to the pipeline by Explorers on a fair and reasonable basis, including a proper open season and tariffs. The Senate Bill contains an open season provision that allows the FERC to establish regulations and procedures governing any open season, a provision that the FERC consider the effect on competition in adopting those procedures, and, for any open season beyond the initial one, those procedures maximize the opportunity for shipment of gas from units other than Prudhoe Bay and Point Thompson. Sec. 704(e).

The Alaska Legislature also requested a provision that the Explorers and the state have the ability to obtain expansion of the pipeline from the FERC if economically and technically feasible. The Act grants this authority, although it requires that the FERC make many stringent findings. Sec. 706(a)&(b).

The Joint Committee requested a provision that explorers only pay for conditioning services that they use. This provision was not adopted.

The Joint Committee requested that the term "Alaska North Slope gas" be expanded to include gas resources in the Foothills and in Nenana basin surrounding Fairbanks. This provision was included in the Act. Sec. 713(1).

Finally, it is noteworthy that one of the purposes of the Act is "to establish a process for providing access to such transportation project in order to promote competition in the exploration, development and production of Alaska natural gas." Sec. 703(1). This recognizes some of the findings made by the Alaska Legislature in passing HJR 44.

Reaffirm and Modernize ANGTA

The Alaska Legislature requested a "provision for the reaffirmation of the Alaska Natural Gas Transportation Act of 197[illegible] and moderniz[ation] of that Act as necessary." The Joint Committee also requested that there be provisions to protect the presidential waiver granted to the YPC project and that the possibility of supplying LNG to the market be protected. Provisions substantially similar to the Legislature's and the Joint Committee's proposals were adopted. Sec. 703(1); Sec. 712(a)&(b).

Other ANGTA requests by the Joint Committee including elimination of the Dempster Lateral requirement, creation of HUBs, and no tariff charges for previously performed work that has to be duplicated were not adopted.

Jobs

The Joint Committee requested a provision calling for approval of a project labor agreement for the project. Section 714 of the Senate Bill states the "Sense of the Senate and "urges the sponsors of the pipeline project to make every effort ... to negotiate a project labor agreement to expedite construction of the pipeline."

The Joint Committee also requested that Congress approve a preference for qualified Alaskan businesses for the construction and maintenance of the pipeline. Although the Senate did not approve a preference, it did pass several provisions to enhance the opportunities for Alaska employees and contractors. Sec. 715. They include:

1. The Secretary of Labor is required to prepare a report setting forth a program to train Alaska residents in the skills and crafts required to design, construct and operate a pipeline to enhance employment and contracting opportunities for Alaskan residents.
2. The Report should recommend needed changes to laws or regulations that act as a deterrent to hiring Alaskans or contracting with Alaskans.
3. The Secretary of Labor must establish training centers within Alaska to train Alaskans in the skills and crafts necessary.
4. $20,000,000 is appropriated to the Secretary to carry out these programs.

Financial Proposals

The Joint Committee opposed incentives for foreign LNG production and none are in the Act. The Alaska Legislature requested provisions for federal financial incentives, including accelerated depreciation and an income tax credit that is designed to provide

mitigation of long-term natural gas price risks and the risks associated with funding the large capital costs of the project. The Senate Bill does not contain an accelerated depreciation provision although there is some speculation that it will be adopted in conference committee. The Senate Bill, however, does provide for a federal loan guarantee of up to $10 billion. More significantly, it contains a price risk reduction mechanism. Section 2503. The mechanism provides a seller of gas who gets less than $3.25, inflation adjusted, shall be given a tax credit. If the price is greater than $4.85, any previous credits must be paid back until all previous credits are repaid. This provides a major boost to the economics of the Alaska pipeline. Our lobbyists, Hogan & Hartson, report that at least one Senator wants the loan guarantee provision removed from the bill because he was led to believe that if risk mechanism passed the loan guarantee would be taken out of the bill.

WAY FORWARD
April 2002 and Beyond

Given that there are substantial disparities between the House and Senate Energy versions of the Energy Bill, there will be a conference committee between the Senate and the House. There are substantial questions whether and when a compromise will be reached. See Attachment "D." Our lobbyists report that: "Due to controversial differences between the two versions of the legislation, the conference negotiations could prove to be lengthy and difficult."

We know that the Producers have been diligently working to have some of the provisions most beneficial to Alaska, including in-state use of gas, explorer access, and expansion, stripped out of the bill in conference committee. Moreover, at least one of the Producers is working to remove the ban on the over-the-top route. That same Producer is working against the subsidies in the act including the loan guarantee and price risk reduction mechanism. See Attachment "D."

The price risk mechanism has generated considerable controversy, particularly in Canada. See Attachment "D." The Canadians are concerned that it will delay construction of the proposed Mackenzie Delta pipeline and that it will depress Canadian gas production. Producers in the lower 48 are also worried that the mechanism might affect their production.

Appointments from the Senate side have been made to the conference committee. Senator Murkowski is one of the appointees. The House members have not been appointed yet. Most observers believe that Congressman Young will be appointed. When the committee will meet is anybody's guess. Congressman Young has been quoted as saying, "There's no big rush [to get going], because the Senate bill doesn't produce any energy." Attachment "D."

Senator Torgerson, as chairman of the Joint Committee, plans to work with the conference committee to try to change some of the provisions in the Senate Bill to further

benefit the citizens of Alaska. He anticipates making reports to the Joint Committee as information becomes available.

ATTACHMENT A:

12 PROPOSALS OF FEDERAL LEGISLATION BY JOINT COMMITTEE

ALASKA STATE LEGISLATURE

JOINT COMMITTEE ON NATURAL GAS PIPELINES

Official Business

12 Proposals on Federal Legislation

Proposal # 1

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress reaffirm that the Alaska Natural Gas Transportation Act (ANGTA) is the prevailing law with respect to a transportation system for delivery of Alaska natural gas to ~~Alaska~~ the contiguous States, and other markets, and the construction and initial operation of that system.

The Joint Committee on Natural Gas Pipelines also respectfully requests that Congress allow certain amendments to ANGTA to modernize the act without changing the basic nature and general route of the approved transportation system or otherwise preventing or impairing in any significant respect the expeditious construction and initial operation of the transportation system.

Justification for Proposal # 1

Before the enactment of ANGTA there were three competitive proposals for an Alaska Natural Gas Transportation System. Specifically those proposals were:

1) the Arctic Gas Project, which proposed an overland pipeline extending from Prudhoe Bay, across the North Slope of Alaska to the Canadian Mackenzie Delta and thence southerly through Canada to the lower forty-eight states;
2) the El Paso LNG Project, which proposed an overland pipeline extending from Prudhoe Bay to Southern Alaska, where the gas would have been liquefied and transported by tankers to terminals in the western United States; and
3) the Alcan Pipeline Project, referred to in Canada as the Alaska Highway Pipeline Project, which proposed an overland pipeline

Session: January – May
State Capitol, #427
Juneau, AK 99801
Phone: 907-465-2828
Fax: 907-465-4779

Interim: May – December
35477 Kenai Spur Hwy., Suite 101A
Soldotna, AK 99669
Phone: 907-260-3041
Fax: 907-260-3044

extending from Prudhoe Bay to Fairbanks, Alaska, and thence southeasterly through western Canada to the lower forty-eight states.

All of these proposals were filed under the Natural Gas Act, debated by FERC, and Congress passed ANGTA, which authorized the President to select a route. The President then approved the ALCAN route and entered into a treaty with Canada, which were later confirmed by Congress. The Canadian Parliament also passed the Northern Pipeline Act, the equivalent of ANGTA. ANGTA was never repealed. In fact, in 1992 the federal inspector recommended that ANGTA be abolished, but Congress rejected that notion.

Proposal # 2

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress adopt provisions that prohibit the over-the-top route through the Beaufort Sea as a pipeline route.

Justification for Proposal # 2

- The Alaska Legislature has banned this route in Senate Bill 164.
- The House of Representatives in Congress has adopted an amendment in the Energy Bill to ban this route.
- This route seriously decreases the benefits Alaskan's will receive from the development of natural gas.
- The North Slope Borough and the Alaska Eskimo Whaling Captains oppose this route.

Proposal # 3

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress create a mechanism for allowing the transparent and fair distribution of the costs allowed to be included in the tariffs associated with a conditioning plant(s).

Justification for Proposal # 3

Other producers will likely discover gas downstream from access to a conditioning plant in Prudhoe Bay that will require them to construct an additional conditioning plant. These producers will need to be treated fairly with regard to tariffs to encourage development and exploration of all North Slope gas resources.

Proposal # 4

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to eliminate the Dempster-Lateral route from provisions in ANGTA, if necessary.

Justification for Proposal # 4

The original version of ANGTA included approval for the construction of a Dempster-Lateral pipeline to deliver natural gas to market from the Northwest Territories. The Northwest Territories has developed plans for their own pipeline route to Alberta, making the Dempster-Lateral line obsolete.

Proposal # 5

The Joint Committee on Natural Gas Pipelines respectfully requests that the Congress pass legislation that limits tariff charges for prior work to compensation for work done that does not have to be duplicated and which is deemed appropriate to the current transportation system.

Justification for Proposal # 5

The current owner of the authorizations under ANGTA is Foothills Pipeline Ltd. Previously, Foothills had several partners, which over time have withdrawn from the partnership. The withdrawn partners spent funds in support of the ANGTA route and have filed documents with the FERC to include recovery of those costs in any tariff for transportation of Alaska natural gas. Foothills has been negotiating with the withdrawn partners to resolve this outstanding liability. However, those negotiations have not been successful to date.

Foothills and its partners should be compensated for the work done in furtherance of the ANGTA system that does not need to be duplicated. If the work needs to be redone or modernized, they should not be entitled to collect for the funds previously expended. Accordingly, the Joint Committee should support this request.

Proposal # 6

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress pass legislation to assure that Alaska have fair and reasonable access to gas produced within the State and to create a joint board consisting of members appointed from the Federal Energy and Regulatory Commission and the Regulatory Commission of Alaska to recommend access and tariffs that affect the state of Alaska.

Justification for Proposal # 6

Unlike the Trans-Alaska Transportation System for oil, the Natural Gas Act does not provide for the Regulatory Commission of Alaska to set rates for gas used in Alaska. Although section 13(b) of ANGTA provides that the state is authorized to ship its royalty gas on the approved system for use within Alaska and to withdraw such gas from the interstate market for use within Alaska, it does not deal specifically with how Alaska delivery points along the line will be approved. Access to gas is necessary for social and economic development of Alaska. Alaska's regulatory commission should be part of a team that determines how intra-state access and rates are determined.

Proposal # 7

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to develop a formula that would allow for the setting of different tariff rates for natural gas distribution points along the route. (HUBS)

Justification for Proposal # 7

Alaska is studying different proposals for usage of natural gas within the state, including several proposals for LNG facilities, a petrochemical plant, several GTL plants, and in-state usage by communities. It is important to be able to set the tariff at different rates to allow these take off points.

Proposal # 8

The Joint Committee on Natural Gas Pipelines respectfully requests that the Congress pass legislation to assure that gas producers that do not have an ownership interest in the pipeline have fair and reasonable access to space on the pipeline and the ability to obtain expansion capacity of the pipeline.

Justification for Proposal # 8

ANGTA originally precluded the Producers from participating in the ownership of the gas pipeline. In 1981, a waiver was sought and obtained by President Reagan to permit the Producers to have an ownership share in the pipeline. Their participation, however, had to be approved by the FERC and could be approved only after consideration of the advice from the Attorney General and upon a finding by FERC that the participation would not (a) be inconsistent with the antitrust laws or (b) in and of itself create restrictions on access to the transportation system for non-owner shippers or restrictions on capacity expansion.

Alaska has much more gas than that contained in known fields. Current estimates provide that there is greater than 100 tcf of gas undiscovered on the Alaska North Slope. Currently, companies are considering exploring for such gas. If discoveries are made, that gas will need access to the pipeline on fair and reasonable terms. If significant discoveries are made after the initial capacity is filled, the pipeline will need to be expanded and any expansion request needs to be determined on fair and reasonable terms. Accordingly, the law must be clear that the FERC has the authority to make such determinations

Proposal # 9

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to approve a provision for project labor agreements.

Proposal # 10

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to approve a preference for qualified Alaskan businesses for the construction and maintenance of a natural gas pipeline.

Proposal # 11

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress pass legislation that prohibits tax incentives for LNG from sources outside of North America.

Justification for Proposal # 11

The President and Congress have recommended a variety of incentives as part of a national energy policy. Alaska natural gas is in competition with LNG imported from foreign sources to supply gas to the lower 48 states. It is the policy of the United States to reduce dependence on foreign energy sources. Accordingly, Congress should not pass any law that gives tax incentives to facilities importing LNG from sources outside North America. Rather, Congress should enact incentives that benefit production from the frontier areas of the United States, including Alaska. Otherwise, United States gas in frontier areas may be stranded.

Proposal # 12

The Joint Committee on Natural Gas Pipelines respectfully requests that the Congress pass legislation providing a tax incentive that allows for an accelerated depreciation schedule of seven years for Alaska natural gas brought to United States markets.

Justification for Proposal # 12

The President and the Congress has recommended a variety of incentives as part of a national energy policy. It is the policy of the United States to reduce dependence on foreign energy sources. Alaska has significant gas resources that can reduce that dependence and bring cleaner burning fuel to United States markets. However, the construction of a pipeline to the lower 48 would cost billions of dollars and involve significant risk. Accordingly, Congress should enact tax incentives, such as accelerated depreciation, investment tax credits, and downside price tax credits that benefit gas production from Alaska.

ATTACHMENT B:

HJR 44

SCS FOR CS FOR HOUSE JOINT RESOLUTION NO. 44(RES) am S(reengrossed)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Amended: 4/10/02
Offered: 4/4/02

Sponsor(s): HOUSE SPECIAL COMMITTEE ON OIL AND GAS BY REQUEST OF THE JOINT COMMITTEE ON NATURAL GAS PIPELINES

A RESOLUTION

Strongly urging the President of the United States, the United States Congress, and appropriate federal officials to support the construction and operation of the Alaska Highway Natural Gas Pipeline route.

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

WHEREAS the Alaska North Slope (ANS) has the largest known, discovered natural gas resources, estimated to be 35 trillion cubic feet, in the United States and estimated, undiscovered gas resources in excess of 100 trillion cubic feet; and

WHEREAS demand for natural gas in the lower 48 states is expected to experience record growth, rising from approximately 22 trillion cubic feet a year in 2000 to 30 - 35 trillion cubic feet a year in 2020, with some experts predicting demand to be as large as 50 trillion cubic feet a year in 2020; and

WHEREAS the lower 48 states have an inadequate resource base to meet this expected demand and experts expect that more natural gas will have to be imported from Canada and from other countries in the form of liquefied natural gas (LNG); and

WHEREAS the near record drilling in the last two years in the lower 48 failed to

provide any significant gas supply increase and many experts are questioning whether other United States frontier areas like the deepwater Gulf of Mexico will be able to deliver material new gas supplies and, therefore, more imports may be required than previously thought; and

WHEREAS it is important for the United States to have a reliable and affordable source of domestic natural gas for its citizens and businesses, and for national security, especially given the recent tragic events; and

WHEREAS energy supply disruptions have significant negative effect on the United States economy, including the losses of tens of millions of United States jobs; and

WHEREAS if the United States imports significant amounts of LNG, it can be subjected to the market power of the exporting country through mechanisms such as embargos and price making; and

WHEREAS ANS is one of few known locations in the United States that can supply significant natural gas supplies to the lower 48 for years to come; and

WHEREAS, given these supply and demand projections, several companies and entities have studied three different pipeline routes, including a "northern" route, running off the shore of the Arctic National Wildlife Refuge in the Beaufort Sea to the Mackenzie Delta and south through Canada to the lower 48; a "southern" route along the Alaska Highway through Canada to the lower 48; and an "LNG" route adjacent to the Trans Alaska Pipeline System pipeline to Valdez and LNG tankers for delivery to California; and

WHEREAS, in 1976, Congress passed the Alaska Natural Gas Transportation Act of 1976 (ANGTA) authorizing the President to select a route to transport natural gas from ANS to the lower 48 and providing procedures to expedite the construction and operation of the selected route; and

WHEREAS, in 1977, following lengthy public hearings and negotiations with Canada, the President issued a decision ("President's Decision") choosing the southern route and selecting the predecessor of a consortium of pipeline companies headed by Foothills Pipe Lines, Ltd. ("Pipeline Companies") to construct and operate the Alaska segment of the project; and

WHEREAS the Alaska Gas Producers Pipeline Team ("Producers") has proposed new federal enabling legislation that is currently being debated in the United States Senate; and

WHEREAS the Majority Leader of the United States Senate has introduced the Energy Policy Act of 2002, which contains the Alaska Natural Gas Pipeline Act of 2002 ("Pipeline Act"); and

WHEREAS the Pipeline Act is not opposed by the Pipeline Companies, and they desire certain amendments to the ANGTA to modernize it; and

WHEREAS ANGTA granted the State of Alaska "authoriz[ation] to ship its royalty gas on the approved transportation system for use within Alaska and . . . to withdraw such gas from the interstate market for use within Alaska," which rights will be impaired if a northern route is followed; and

WHEREAS President Carter's decision in support of the southern route explicitly recognized that it could "supply the energy base required for long-term economic development" within Alaska and it could supply natural gas to communities within Alaska along the route as well as other Alaska communities through local distribution lines, and these potential benefits will be lost if a northern route is followed; and

WHEREAS the United States Senate has concurred with the United States House of Representatives to oppose the northern route and has expressed its support for the southern route; and

WHEREAS the southern route presents the United States with petrochemical extraction opportunities in the United States while the northern route does not; and

WHEREAS a northern route pipeline could not easily be expanded to increase the volume of gas when needed; and

WHEREAS the southern route provides petrochemical extraction opportunities in the United States and other marketing opportunities for ANS gas, including gas to liquids (GTL) and LNG, to the West Coast or Asia; and

WHEREAS it is widely recognized that maximum benefit to Alaskans from the commercialization of ANS natural gas lies in market exposure for that gas, opportunities for in-state use of the natural gas, and for participation by Alaskans in construction, maintenance, and operation of the gas pipeline transportation project, and the recovery of revenue by the state from the development, transport, and sale of ANS gas reserves; and

WHEREAS the Alaska State Legislature has expressed a preference for the expedited construction and operation of a natural gas pipeline along a southern route and has authorized

funds to conduct various studies regarding a natural gas pipeline, including the study of in-state natural gas demand, natural gas supply, a natural gas fiscal system, and the effect of natural gas sales on the Prudhoe Bay reservoir; and

WHEREAS the Twenty-Second Alaska State Legislature established the Joint Committee on Natural Gas Pipelines ("Joint Committee") to take whatever action may be appropriate to ensure that the best interests of the state are protected; and

WHEREAS it is vital for the continued exploration and development of natural gas resources on the ANS that oil and gas companies that do not have an ownership interest in the pipeline ("Explorers") have access to it on fair and reasonable terms and have the ability to seek expansion of the pipeline when economically and technically feasible; and the Joint Committee adopted recommendations supporting enactment of these provisions in federal law; and

WHEREAS it is vital for the economic development of Alaska that Alaskans and Alaska businesses have access to gas from the pipeline on a fair and reasonable basis, and that the Regulatory Commission of Alaska participate with the Federal Energy Regulatory Commission to develop methods to provide for such access; and the Joint Committee adopted recommendations supporting enactment of these provisions in federal law; and

WHEREAS the Joint Committee has issued various recommendations requesting that Congress reaffirm the validity of ANGTA and modernize it; and

WHEREAS natural gas prices in the lower 48 states periodically fluctuate below those required to adequately cover investment; and

WHEREAS governmental involvement, including tax incentives, is essential and quite common on major projects to enable private enterprises to undertake the risks;

BE IT RESOLVED that the Alaska State Legislature strongly urges the President of the United States, the United States Congress, and appropriate federal officials to actively support the expeditious construction and operation of a natural gas pipeline through Alaska along a southern route; and be it

FURTHER RESOLVED that the Alaska State Legislature strongly urges passage during the first half of 2002 of the Alaska Gas Producers Pipeline Team's federal enabling legislation, so long as it contains a provision similar to that in H.R. 4 banning the over-the-top route and the following amendments:

(1) provisions for Alaskans and Alaska businesses that ensure they have access to the pipeline for in-state consumption and value-added manufacture on a fair and reasonable basis and that the Regulatory Commission of Alaska is part of the process in determining that access;

(2) provisions for access to the pipeline by Explorers on a fair and reasonable basis, including a proper open season with fair and reasonable tariffs, and that provide that they and the State have the ability to obtain expansion of the pipeline if economically and technologically feasible;

(3) provisions for the reaffirmation of the validity of the Alaska Natural Gas Transportation Act of 1976 and the modernization of that Act as necessary;

(4) provisions for federal financial incentives, including accelerated depreciation and an income tax credit that is designed to provide mitigation of long-term natural gas price risks and the risks associated with funding the large capital costs of the project; the amount of any tax credit should be limited in operation to periods when natural gas prices are extremely low and recovered when natural gas prices are high; and

(5) specific provisions declaring that the content of amendments (1) - (4) is not intended to exclude supply of Alaska North Slope natural gas to markets in the form of LNG or GTL.

COPIES of this resolution shall be sent to the Honorable George W. Bush, President of the United States; the Honorable Richard B. Cheney, Vice-President of the United States and President of the U.S. Senate; the Honorable J. Dennis Hastert, Speaker of the U.S. House of Representatives; the Honorable Tom Daschle, Majority Leader of the U.S. Senate; the Honorable Trent Lott, Minority Leader of the U.S. Senate; the Honorable Colin Powell, United States Secretary of State; the Honorable Gale Norton, United States Secretary of the Interior; the Honorable Don Evans, United States Secretary of Commerce; the Honorable Spencer Abraham, United States Secretary of Energy; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

ATTACHMENT C:

ALASKA NATURAL GAS PIPELINE ACT OF 2002 AND CREDIT FOR PRODUCTION OF ALASKA NATURAL GAS IN SENATE BILL

TITLE VII—NATURAL GAS PIPELINES

Subtitle A—Alaska Natural Gas Pipeline

SEC. 701. SHORT TITLE.

This subtitle may be cited as the "Alaska Natural Gas Pipeline Act of 2002".

SEC. 702. FINDINGS.

The Congress finds that:

(1) Construction of a natural gas pipeline system from the Alaskan North Slope to United States markets is in the national interest and will enhance national energy security by providing access to the significant gas reserves in Alaska needed to meet the anticipated demand for natural gas.

(2) The Commission issued a conditional certificate of public convenience and necessity for the Alaska Natural Gas Transportation System, which remains in effect.

SEC. 703. PURPOSES.

The purposes of this subtitle are—

(1) to provide a statutory framework for the expedited approval, construction, and initial operation of an Alaska natural gas transportation project, as an alternative to the framework provided in the Alas-

ka Natural Gas Transportation Act of 1976 (15 U.S.C. 719–719o), which remains in effect;

(2) to establish a process for providing access to such transportation project in order to promote competition in the exploration, development and production of Alaska natural gas;

(3) to clarify Federal authorities under the Alaska Natural Gas Transportation Act; and

(4) to authorize Federal financial assistance to an Alaska natural gas transportation project as provided in this subtitle.

SEC. 704. ISSUANCE OF CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY.

(a) AUTHORITY OF THE COMMISSION.—Notwithstanding the provisions of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719–719o), the Commission may, pursuant to section 7(c) of the Natural Gas Act (15 U.S.C. 717f(c)), consider and act on an application for the issuance of a certificate of public convenience and necessity authorizing the construction and operation of an Alaska natural gas transportation project other than the Alaska Natural Gas Transportation System.

(b) ISSUANCE OF CERTIFICATE.—(1) The Commission shall issue a certificate of public convenience and necessity authorizing the construction and operation of an Alaska

natural gas transportation project under this section if the applicant has satisfied the requirements of section 7(e) of the Natural Gas Act (15 U.S.C. 717f(e)).

(2) In considering an application under this section, the Commission shall presume that—

(A) a public need exists to construct and operate the proposed Alaska natural gas transportation project; and

(B) sufficient downstream capacity will exist to transport the Alaska natural gas moving through such project to markets in the contiguous United States.

(c) EXPEDITED APPROVAL PROCESS.—The Commission shall issue a final order granting or denying any application for a certificate of public convenience and necessity under section 7(c) of the Natural Gas Act (15 U.S.C. 717f(c)) and this section not more than 60 days after the issuance of the final environmental impact statement for that project pursuant to section 705.

(d) PROHIBITION ON CERTAIN PIPELINE ROUTE.—No license, permit, lease, right-of-way, authorization or other approval required under Federal law for the construction of any pipeline to transport natural gas from lands within the Prudhoe Bay oil and gas lease area may be granted for any pipeline that follows a route that traverses—

(1) the submerged lands (as defined by the Submerged Lands Act) beneath, or the adjacent shoreline of, the Beaufort Sea; and

(2) enters Canada at any point north of 68 degrees North latitude.

(e) OPEN SEASON.—Except where an expansion is ordered pursuant to section 706, initial or expansion capacity on any Alaska natural gas transportation project shall be allocated in accordance with procedures to be established by the Commission in regulations governing the conduct of open seasons for such project. Such procedures shall include the criteria for and timing of any open seasons, be consistent with the purposes set forth in section 703(2) and, for any open season for capacity beyond the initial capacity, provide the opportunity for the transportation of natural gas other than from the Prudhoe Bay and Point Thompson units. The Commission shall issue such regulations no later than 120 days after the enactment of this subtitle.

(f) PROJECTS IN THE CONTIGUOUS UNITED STATES.—Applications for additional or expanded pipeline facilities that may be required to transport Alaska natural gas from Canada to markets in the contiguous United States may be made pursuant to the Natural Gas Act. To the extent such pipeline facilities include the expansion of any facility

constructed pursuant to the Alaska Natural Gas Transportation Act of 1976, the provisions of that Act shall continue to apply.

(g) STUDY OF IN-STATE NEEDS.—The holder of the certificate of public convenience and necessity issued, modified, or amended by the Commission for an Alaska natural gas transportation project shall demonstrate that it has conducted a study of Alaska in-State needs, including tie-in points along the Alaska natural gas transportation project for in-State access.

(h) ALASKA ROYALTY GAS.—The Commission, upon the request of the State of Alaska and after a hearing, may provide for reasonable access to the Alaska natural gas transportation project for the State of Alaska or its designee for the transportation of the State's royalty gas for local consumption needs within the State: Provided, That the rates of existing shippers of subscribed capacity on such project shall not be increased as a result of such access.

(i) REGULATIONS.—The Commission may issue regulations to carry out the provisions of this section.

SEC. 705. ENVIRONMENTAL REVIEWS.

(a) COMPLIANCE WITH NEPA.—The issuance of a certificate of public convenience and necessity authorizing the construction and operation of any Alaska natural gas transportation project under section 704 shall be treated as

a major Federal action significantly affecting the quality of the human environment within the meaning of section 102(2)(C) of the National Environmental Policy Act of 1969 (42 U.S.C. 4332(2)(C)).

(b) DESIGNATION OF LEAD AGENCY.—The Commission shall be the lead agency for purposes of complying with the National Environmental Policy Act of 1969, and shall be responsible for preparing the statement required by section 102(2)(c) of that Act (42 U.S.C. 4332(2)(c)) with respect to an Alaska natural gas transportation project under section 704. The Commission shall prepare a single environmental statement under this section, which shall consolidate the environmental reviews of all Federal agencies considering any aspect of the project.

(c) OTHER AGENCIES.—All Federal agencies considering aspects of the construction and operation of an Alaska natural gas transportation project under section 704 shall cooperate with the Commission, and shall comply with deadlines established by the Commission in the preparation of the statement under this section. The statement prepared under this section shall be used by all such agencies to satisfy their responsibilities under section 102(2)(C) of the National Environmental Policy Act of 1969 (42 U.S.C. 4332(2)(C)) with respect to such project.

(d) EXPEDITED PROCESS.—The Commission shall issue a draft statement under this section not later than 12 months after the Commission determines the application to be complete and shall issue the final statement not later than 6 months after the Commission issues the draft statement, unless the Commission for good cause finds that additional time is needed.

SEC. 706. PIPELINE EXPANSION.

(a) AUTHORITY.—With respect to any Alaska natural gas transportation project, upon the request of one or more persons and after giving notice and an opportunity for a hearing, the Commission may order the expansion of such project if it determines that such expansion is required by the present and future public convenience and necessity.

(b) REQUIREMENTS.—Before ordering an expansion the Commission shall—

(1) approve or establish rates for the expansion service that are designed to ensure the recovery, on an incremental or rolled-in basis, of the cost associated with the expansion (including a reasonable rate of return on investment);

(2) ensure that the rates as established do not require existing shippers on the Alaska natural gas transportation project to subsidize expansion shippers;

(3) find that the proposed shipper will comply with, and the proposed expansion and the expansion of service will be undertaken and implemented based on, terms and conditions consistent with the then-effective tariff of the Alaska natural gas transportation project;

(4) find that the proposed facilities will not adversely affect the financial or economic viability of the Alaska natural gas transportation project;

(5) find that the proposed facilities will not adversely affect the overall operations of the Alaska natural gas transportation project;

(6) find that the proposed facilities will not diminish the contract rights of existing shippers to previously subscribed certificated capacity;

(7) ensure that all necessary environmental reviews have been completed; and

(8) find that adequate downstream facilities exist or are expected to exist to deliver incremental Alaska natural gas to market.

(c) REQUIREMENT FOR A FIRM TRANSPORTATION AGREEMENT.—Any order of the Commission issued pursuant to this section shall be null and void unless the person or persons requesting the order executes a firm transportation agreement with the Alaska natural gas transpor-

tation project within a reasonable period of time as specified in such order.

(d) LIMITATION.—Nothing in this section shall be construed to expand or otherwise affect any authorities of the Commission with respect to any natural gas pipeline located outside the State of Alaska.

(e) REGULATIONS.—The Commission may issue regulations to carry out the provisions of this section.

SEC. 707. FEDERAL COORDINATOR.

(a) ESTABLISHMENT.—There is established as an independent establishment in the executive branch, the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects.

(b) THE FEDERAL COORDINATOR.—The Office shall be headed by a Federal Coordinator for Alaska Natural Gas Transportation Projects, who shall—

(1) be appointed by the President, by and with the advice of the Senate,

(2) hold office at the pleasure of the President, and

(3) be compensated at the rate prescribed for level III of the Executive Schedule (5 U.S.C. 5314).

(c) DUTIES.—The Federal Coordinator shall be responsible for—

(1) coordinating the expeditious discharge of all activities by Federal agencies with respect to an Alaska natural gas transportation project; and

(2) ensuring the compliance of Federal agencies with the provisions of this subtitle.

(d) REVIEWS AND ACTIONS OF OTHER FEDERAL AGENCIES.—(1) All reviews conducted and actions taken by any Federal officer or agency relating to an Alaska natural gas transportation project authorized under this section shall be expedited, in a manner consistent with completion of the necessary reviews and approvals by the deadlines set forth in this subtitle.

(2) No Federal officer or agency shall have the authority to include terms and conditions that are permitted, but not required, by law on any certificate, right-of-way, permit, lease or other authorization issued to an Alaska natural gas transportation project if the Federal Coordinator determines that the terms and conditions would prevent or impair in any significant respect the expeditious construction and operation of the project.

(3) Unless required by law, no Federal officer or agency shall add to, amend, or abrogate any certificate, right-of-way, permit, lease or other authorization issued to an Alaska natural gas transportation project if the Federal Coordinator determines that such action would prevent or im-

pair in any significant respect the expeditious construction and operation of the project.

(e) STATE COORDINATION.—The Federal Coordinator shall enter into a Joint Surveillance and Monitoring Agreement, approved by the President and the Governor of Alaska, with the State of Alaska similar to that in effect during construction of the Trans-Alaska Oil Pipeline to monitor the construction of the Alaska natural gas transportation project. The Federal Government shall have primary surveillance and monitoring responsibility where the Alaska natural gas transportation project crosses Federal lands and private lands, and the State government shall have primary surveillance and monitoring responsibility where the Alaska natural gas transportation project crosses State lands.

SEC. 708. JUDICIAL REVIEW.

(a) EXCLUSIVE JURISDICTION.—The United States Court of Appeals for the District of Columbia Circuit shall have exclusive jurisdiction to determine—

(1) the validity of any final order or action (including a failure to act) of any Federal agency or officer under this subtitle;

(2) the constitutionality of any provision of this subtitle, or any decision made or action taken thereunder, or

(3) the adequacy of any environmental impact statement prepared under the National Environmental Policy Act of 1969 with respect to any action under this subtitle.

(b) DEADLINE FOR FILING CLAIM.—Claims arising under this subtitle may be brought not later than 60 days after the date of the decision or action giving rise to the claim.

(c) EXPEDITED CONSIDERATION.—The United States Court of Appeals for the District of Columbia Circuit shall set any action brought under subsection (a) of this section for expedited consideration, taking into account the national interest as described in section 702 of this subtitle.

(d) AMENDMENT TO ANGTA.—Section 10(c) of the Alaska Gas Transportation Act of 1976 (15 U.S.C. 719h) is amended by adding the following paragraph:

"(2) EXPEDITED CONSIDERATION.—The United States Court of Appeals for the District of Columbia Circuit shall set any action brought under subsection (a) of this section for expedited consideration, taking into account the national interest described in section 2 of this Act.".

SEC. 709. STATE JURISDICTION OVER IN-STATE DELIVERY OF NATURAL GAS.

(a) LOCAL DISTRIBUTION.—Any facility receiving natural gas from the Alaska natural gas transportation project for delivery to consumers within the State of Alaska shall be deemed to be a local distribution facility within the meaning of section 1(b) of the Natural Gas Act (15 U.S.C. 717), and therefore not subject to the jurisdiction of the Federal Energy Regulatory Commission.

(b) ADDITIONAL PIPELINES.—Nothing in this subtitle, except as provided in subsection 704(d), shall preclude or affect a future gas pipeline that may be constructed to deliver natural gas to Fairbanks, Anchorage, Matanuska-Susitna Valley, or the Kenai peninsula or Valdez or any other site in the State of Alaska for consumption within or distribution outside the State of Alaska.

(c) RATE COORDINATION.—Pursuant to the Natural Gas Act, the Commission shall establish rates for the transportation of natural gas on the Alaska natural gas transportation project. In exercising such authority, the Commission, pursuant to Section 17(b) of the Natural Gas Act (15 U.S.C. 717p), shall confer with the State of Alaska regarding rates (including rate settlements) applicable to natural gas transported on and delivered from the Alaska natural gas transportation project for use within the State of Alaska.

SEC. 710. LOAN GUARANTEE.

(a) AUTHORITY.—The Secretary of Energy may guarantee not more than 80 percent of the principal of any loan made to the holder of a certificate of public convenience and necessity issued under section 704(b) of this Act or section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) for the purpose of constructing an Alaska natural gas transportation project.

(b) CONDITIONS.—(1) The Secretary of Energy may not guarantee a loan under this section unless the guarantee has filed an application for a certificate of public convenience and necessity under section 704(b) of this Act or for an amended certificate under section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) with the Commission not later than 18 months after the date of enactment of this subtitle.

(2) A loan guaranteed under this section shall be made by a financial institution subject to the examination of the Secretary.

(3) Loan requirements, including term, maximum size, collateral requirements and other features shall be determined by the Secretary.

(c) LIMITATION ON AMOUNT.—Commitments to guarantee loans may be made by the Secretary of Energy only to the extent that the total loan principal, any part of which is guaranteed, will not exceed $10,000,000,000.

(d) REGULATIONS.—The Secretary of Energy may issue regulations to carry out the provisions of this section.

(e) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the Secretary such sums as may be necessary to cover the cost of loan guarantees, as defined by section 502(5) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661a(5)).

SEC. 711. STUDY OF ALTERNATIVE MEANS OF CONSTRUCTION.

(a) REQUIREMENT OF STUDY.—If no application for the issuance of a certificate or amended certificate of public convenience and necessity authorizing the construction and operation of an Alaska natural gas transportation project has been filed with the Commission within 18 months after the date of enactment of this title, the Secretary of Energy shall conduct a study of alternative approaches to the construction and operation of the project.

(b) SCOPE OF STUDY.—The study shall consider the feasibility of establishing a Government corporation to construct an Alaska natural gas transportation project, and alternative means of providing Federal financing and ownership (including alternative combinations of Government and private corporate ownership) of the project.

(c) CONSULTATION.—In conducting the study, the Secretary of Energy shall consult with the Secretary of the

Treasury and the Secretary of the Army (acting through the Commanding General of the Corps of Engineers).

(d) REPORT.—If the Secretary of Energy is required to conduct a study under subsection (a), he shall submit a report containing the results of the study, his recommendations, and any proposals for legislation to implement his recommendations to the Congress within 6 months after the expiration of the Secretary of Energy's authority to guarantee a loan under section 710.

SEC. 712. CLARIFICATION OF ANGTA STATUS AND AUTHORITIES.

(a) SAVINGS CLAUSE.—Nothing in this subtitle affects any decision, certificate, permit, right-of-way, lease, or other authorization issued under section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) or any Presidential findings or waivers issued in accordance with that Act.

(b) CLARIFICATION OF AUTHORITY TO AMEND TERMS AND CONDITIONS TO MEET CURRENT PROJECT REQUIREMENTS.—Any Federal officer or agency responsible for granting or issuing any certificate, permit, right-of-way, lease, or other authorization under section 9 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719g) may add to, amend, or abrogate any term or condition included in such certificate, permit, right-of-way, lease, or

other authorization to meet current project requirements (including the physical design, facilities, and tariff specifications), so long as such action does not compel a change in the basic nature and general route of the Alaska Natural Gas Transportation System as designated and described in section 2 of the President's Decision, or would otherwise prevent or impair in any significant respect the expeditious construction and initial operation of such transportation system.

(c) UPDATED ENVIRONMENTAL REVIEWS.—The Secretary of Energy shall require the sponsor of the Alaska Natural Gas Transportation System to submit such updated environmental data, reports, permits, and impact analyses as the Secretary determines are necessary to develop detailed terms, conditions, and compliance plans required by section 5 of the President's Decision.

SEC. 713. DEFINITIONS.

For purposes of this subtitle:

(1) The term "Alaska natural gas" means natural gas derived from the area of the State of Alaska lying north of 64 degrees North latitude.

(2) The term "Alaska natural gas transportation project" means any natural gas pipeline system that carries Alaska natural gas to the border between Alaska and Canada (including related facilities subject to

the jurisdiction of the Commission) that is authorized under either—

(A) the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719–719o); or

(B) section 704 of this subtitle.

(3) The term "Alaska Natural Gas Transportation System" means the Alaska natural gas transportation project authorized under the Alaska Natural Gas Transportation Act of 1976 and designated and described in section 2 of the President's Decision.

(4) The term "Commission" means the Federal Energy Regulatory Commission.

(5) The term "President's Decision" means the Decision and Report to Congress on the Alaska Natural Gas Transportation system issued by the President on September 22, 1977 pursuant to section 7 of the Alaska Natural Gas Transportation Act of 1976 (15 U.S.C. 719c) and approved by Public Law 95–158.

SEC. 714. SENSE OF THE SENATE.

It is the sense of the Senate that an Alaska natural gas transportation project will provide significant economic benefits to the United States and Canada. In order to maximize those benefits, the Senate urges the sponsors of the pipeline project to make every effort to use steel that is man-

ufactured or produced in North America and to negotiate a project labor agreement to expedite construction of the pipeline.

SEC. 715. ALASKAN PIPELINE CONSTRUCTION TRAINING PROGRAM.

(a) Within six months after enactment of this Act, the Secretary of Labor (in this section referred to as the "Secretary") shall submit a report to the Committee on Energy and Natural Resources of the United States Senate and the Committee on Resources of the United States House of Representatives setting forth a program to train Alaska residents in the skills and crafts required in the design, construction, and operation of an Alaska gas pipeline system and that will enhance employment and contracting opportunities for Alaskan residents. The report shall also describe any laws, rules, regulations and policies which act as a deterrent to hiring Alaskan residents or contracting with Alaskan residents to perform work on Alaska gas pipelines, together with any recommendations for change. For purposes of this subsection, Alaskan residents shall be defined as those individuals eligible to vote within the State of Alaska on the date of enactment of this Act.

(b) Within 1 year of the date the report is transmitted to Congress, the Secretary shall establish within the State of Alaska, at such locations as are appropriate, one or more

training centers for the express purpose of training Alaskan residents in the skills and crafts necessary in the design, construction and operation of gas pipelines in Alaska. Each such training center shall also train Alaskan residents in the skills required to write, offer, and monitor contracts in support of the design, construction, and operation of Alaska gas pipelines.

(c) In implementing the report and program described in this subsection, the Secretary shall consult with the Alaskan Governor.

(d) There are authorized to be appropriated to the Secretary such sums as may be necessary, but not to exceed $20,000,000 for the purposes of this subsection.

Subtitle B—Operating Pipelines

SEC. 721. ENVIRONMENTAL REVIEW AND PERMITTING OF NATURAL GAS PIPELINE PROJECTS.

(a) INTERAGENCY REVIEW.—The Chairman of the Council on Environmental Quality, in coordination with the Federal Energy Regulatory Commission, shall establish an interagency task force to develop an interagency memorandum of understanding to expedite the environmental review and permitting of natural gas pipeline projects.

(b) MEMBERSHIP OF INTERAGENCY TASK FORCE.—The task force shall consist of—

Credit For Production of

Alaska Natural Gas

SEC. 2503. CREDIT FOR PRODUCTION OF ALASKA NATURAL GAS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as

amended by this Act, is amended by adding at the end the following new section:

"SEC. 45M. ALASKA NATURAL GAS.

"(a) IN GENERAL.—For purposes of section 38, the Alaska natural gas credit of any taxpayer for any taxable year is the credit amount per 1,000,000 Btu of Alaska natural gas entering any intake or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude, which is attributable to the taxpayer and sold by or on behalf of the taxpayer to an unrelated person during such taxable year (within the meaning of section 45).

"(b) CREDIT AMOUNT.—For purposes of this section—

"(1) IN GENERAL.—The credit amount per 1,000,000 Btu of Alaska natural gas entering any intake or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude (determined in United States dollars), is the excess of—

"(A) $3.25, over

"(B) the average monthly price at the AECO C Hub in Alberta, Canada, for Alaska natural gas for the month in which occurs the date of such entering.

"(2) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after the first calendar year ending after the date described in subsection (g)(1), the dollar amount contained in paragraph (1)(A) shall be increased to an amount equal to such dollar amount multiplied by the inflation adjustment factor for such calendar year (determined under section 43(b)(3)(B) by substituting 'the calendar year ending before the date described in section 45M(g)(1)' for '1990').

"(c) ALASKA NATURAL GAS.—For purposes of this section, the term 'Alaska natural gas' means natural gas entering any intake or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude produced in compliance with the applicable State and Federal pollution prevention, control, and permit requirements from the area generally known as the North Slope of Alaska (including the continental shelf thereof within the meaning of section 638(1)), determined without regard to the area of the Alaska National Wildlife Refuge (including the continental shelf thereof within the meaning of section 638(1)).

"(d) RECAPTURE.—

"(1) IN GENERAL.—With respect to each 1,000,000 Btu of Alaska natural gas entering any in-

take or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude after the date which is 3 years after the date described in subsection (g)(1), if the average monthly price described in subsection (b)(1)(B) exceeds 150 percent of the amount described in subsection (b)(1)(A) for the month in which occurs the date of such entering, the taxpayer's tax under this chapter for the taxable year shall be increased by an amount equal to the lesser of—

"(A) such excess, or

"(B) the aggregate decrease in the credits allowed under section 38 for all prior taxable years which would have resulted if the Alaska natural gas credit received by the taxpayer for such years had been zero.

"(2) SPECIAL RULES.—

"(A) TAX BENEFIT RULE.—The tax for the taxable year shall be increased under paragraph (1) only with respect to credits allowed by reason of this section which were used to reduce tax liability. In the case of credits not so used to reduce tax liability, the carryforwards and carrybacks under section 39 shall be appropriately adjusted.

"(B) NO CREDITS AGAINST TAX.—Any increase in tax under this subsection shall not be treated as a tax imposed by this chapter for purposes of determining the amount of any credit under this chapter or for purposes of section 55.

"(e) APPLICATION OF RULES.—For purposes of this section, rules similar to the rules of paragraphs (3), (4), and (5) of section 45(d) shall apply.

"(f) NO DOUBLE BENEFIT.—The amount any deduction or other credit allowable under this chapter for any fuel taken into account in computing the amount of the credit determined under subsection (a) shall be reduced by the amount of such credit attributable to such fuel.

"(g) APPLICATION OF SECTION.—This section shall apply to Alaska natural gas entering any intake or tie-in point which was derived from an area of the State of Alaska lying north of 64 degrees North latitude for the period—

"(1) beginning with the later of—

"(A) January 1, 2010, or

"(B) the initial date for the interstate transportation of such Alaska natural gas, and

"(2) except with respect to subsection (d), ending with the date which is 15 years after the date described in paragraph (1).".

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by this Act, is amended by striking "plus" at the end of paragraph (22), by striking the period at the end of paragraph (23) and inserting ", plus", and by adding at the end the following new paragraph:

"(24) The Alaska natural gas credit determined under section 45M(a).".

(c) ALLOWING CREDIT AGAINST ENTIRE REGULAR TAX AND MINIMUM TAX.—

(1) IN GENERAL.—Subsection (c) of section 38 (relating to limitation based on amount of tax), as amended by this Act, is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

"(5) SPECIAL RULES FOR ALASKA NATURAL GAS CREDIT.—

"(A) IN GENERAL.—In the case of the Alaska natural gas credit—

"(i) this section and section 39 shall be applied separately with respect to the credit, and

"(ii) in applying paragraph (1) to the credit—

"(I) the amounts in subparagraphs (A) and (B) thereof shall be treated as being zero, and

"(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the Alaska natural gas credit).

"(B) ALASKA NATURAL GAS CREDIT.—For purposes of this subsection, the term 'Alaska natural gas credit' means the credit allowable under subsection (a) by reason of section 45M(a).".

(2) CONFORMING AMENDMENTS.—Subclause (II) of section 38(c)(2)(A)(ii), as amended by this Act, subclause (II) of section 38(c)(3)(A)(ii) as amended by this Act, and subclause (II) of section 38(c)(4)(A)(ii), as added by this Act, are each amended by inserting "or the Alaska natural gas credit" after "producer credit".

(d) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by this Act, is amended by adding at the end the following new item:

"Sec. 45M. Alaska natural gas.".