ALASKA NATURAL GAS TRANSPORTATION PROJECTS
OFFICE OF THE FEDERAL COORDINATOR

Alaska natural gas pipeline project history

BACKGROUND

The Prudhoe Bay oil discovery announced in 1968 also found an estimated 26 trillion cubic feet of natural gas – more gas than the entire United States consumes in a year.

In 1976, Congress passed the Alaska Natural Gas Transportation Act (ANGTA) to expedite development of a natural gas pipeline from Alaska's North Slope and provide congressional and presidential participation in the process. The policy steps of the process were completed in 1977.

In May 1977, the Federal Power Commission, now the Federal Energy Regulatory Commission, recommended an overland pipeline route through Canada to move Alaska gas to the Lower 48 states. In September 1977, President Jimmy Carter chose a route along the Alaska Highway that the commission considered, and Congress approved the President's decision by joint resolution, taking another step toward moving Alaska natural gas to customers.

In the winter of 1977-1978, federally regulated price controls contributed to natural gas shortages. In response, Congress passed the Natural Gas Policy Act of 1978 and the Powerplant and Industrial Fuel Use Act of 1978. The Fuel Use Act restricted construction of new power plants and boilers using natural gas and oil as primary fuels, encouraging instead the use of coal, nuclear energy and alternative fuels. (The restrictions were lifted in 1987.)

As Lower 48 natural gas supplies began to respond favorably to the nation's revised energy policy — and higher prices — any immediate need for the Alaska Natural Gas Transportation System (ANGTS) declined. Natural gas prices later softened as a supply bubble developed, which persisted for years in response to wellhead price decontrol. Prices were too low to cover the costs of an Alaska gas line project, and commercial attention to the Alaska pipeline initiative essentially disappeared during the 1980s.

However, southern sections of the system were constructed. Producers from the province of Alberta, along with U.S. and Canadian pipeline companies completed the downstream legs of ANGTS after the discovery of significant quantities of natural gas in the Western Canadian Sedimentary Basin. The western leg of ANGTS (Pacific Gas Transmission) went into service from Alberta to California in 1981. The eastern leg of ANGTS (Northern Border Pipeline) went into service from Alberta to the U.S. Midwest in 1982.

In the 1980s, the U.S. Maritime Administration authorized a study of marine system options to determine whether there might be commercial opportunities for the U.S. shipbuilding industry. The results indicated that U.S. liquefied natural gas sales to Pacific Rim nations generally had greater economic potential than delivering LNG to U.S. West Coast markets, but Pacific Rim exports were not politically viable considering

the large domestic energy resource that would be exported.

PIPELINE PROJECT REVIVED

Serious reconsideration of constructing a natural gas pipeline from Alaska's North Slope began around 2000 on both federal and state fronts for multiple reasons, including rising natural gas prices, long-term market projections of growing U.S. demand, environmental and climate concerns, declines in Western Canadian gas production and declines in Alaska oil production.

The 2001 National Energy Plan included a recommendation to expedite construction of an Alaska natural gas pipeline to serve the Lower 48 states. Also in 2001, an Alaska natural gas interagency task force formed. This task force included the State Department, Department of the Interior (including Bureau of Land Management and Minerals Management Service — now Bureau of Ocean Energy Management, Regulation and Enforcement), Department of Transportation and Department of Energy (including FERC).

Then in 2004, Congress passed the Alaska Natural Gas Pipeline Act (ANGPA) that:

- Created the Office of the Federal Coordinator as a small, independent agency to coordinate activities of other federal agencies involved in the pipeline project, and expedite and strengthen oversight of the project.
- Clarified that one environmental impact statement would be written and used by all agencies, and that FERC would be the lead agency preparing it.
- Provided for a federal loan guarantee up to $18 billion for the project (indexed to the consumer price index from 2004).
- Provided for accelerated tax depreciation for the pipeline (7 years versus 15 years) and an enhanced oil recovery tax credit for the cost of a North Slope gas treatment plant.
- Established guidance to ensure FERC would regulate the open season capacity bidding process so that access to pipeline capacity would be available to parties beyond the three major North Slope producers. The intent was to promote competition in North Slope natural gas development.

FERC issued a final rule on the open season Feb. 9, 2005 (FERC Order No. 2005). In an open season, potential shippers on a pipeline can compete for available capacity.

In 2006, former Alaska State Sen. Drue Pearce was confirmed as federal coordinator; she served until January 2010. The president nominated Larry Persily as her replacement, and the Senateh confirmed him in March 2010.

In 2006, 16 federal agencies with roles and responsibilities relating to the pipeline signed a memorandum of understanding to establish a framework for cooperation on the project management. Other relevant agencies were identified and added to the memorandum in 2010.

STATE ACTIONS

Since construction of the trans-Alaska oil pipeline in the 1970s, every Alaska governor has tried to spur construction of a natural gas pipeline. The gas pipeline project has grown in importance for the state in recent years as North Slope oil production has declined.

In 1998 the Alaska Legislature passed the Alaska Stranded Gas Development Act to encourage North Slope producers to bring the natural gas to market by allowing the state and producers to negotiate tax, royalty and other fiscal terms for a liquefied natural gas project. A new version of the law enacted in 2003 applied to any North Slope gas pipeline project. Under that new law,

the state negotiated project contract terms with the North Slope's three major producers: ExxonMobil, ConocoPhillips and BP. In 2006, then-Gov. Frank Murkowski presented the contract to the public and legislators. The Alaska Legislature rejected the contract that year.

In 2007, the Alaska Legislature enacted the Alaska Gasline Inducement Act, another attempt to spur gas pipeline construction. AGIA provided 50 percent state reimbursement of a developer's qualifying expenses through the initial open season and 90 percent thereafter. The reimbursements are capped at $500 million. In exchange for the AGIA license, the applicant had to agree to a number of "must-haves," including rolled-in pipeline tariffs for any project expansions, an aggressive development schedule, an open season in 2010, proceeding through full licensing by FERC, and a commitment to use project labor agreements with unions. AGIA, however, is merely a financial partnership with the state and does not give the licensee any exclusive right to permits or state rights of way, and it does not affect FERC jurisdiction over the interstate gas line.

TransCanada's AGIA proposal was the only one deemed complete by the state. On Aug. 1, 2008, the Alaska Legislature approved TransCanada as the state licensee and on Dec. 5, 2008, the AGIA license was signed by the governor and issued to TransCanada. On April 23, 2009, TransCanada applied to FERC to initiate the pre-file process with the agency. FERC granted the request on May 1, 2009. TransCanada held its open season in 2010 and formally closed its open season in May 2012 without signing any agreements with shippers.

The AGIA license required TransCanada to file a complete application with FERC in October 2012 for a certificate to build and operate the pipeline, but the state in May 2012 agreed to postpone that deadline for two years, giving TransCanada and the North Slope producers more time to determine the best market for Alaska gas and review the option of liquefying the gas and shipping it to Asian markets.

Producer involvement in the TransCanada-led project started when ExxonMobil announced June 15, 2009, it had joined up with TransCanada under the name Alaska Pipeline Project. More information can be found at the Alaska Pipeline Project's website.

Denali—The Alaska Gas Pipeline, a joint venture of North Slope producers ConocoPhillips and BP, was established in April 2008 to compete with the TransCanada project. Denali entered the pre-file process with FERC in 2008 and conducted an open season in 2010. In May 2011, Denali announced it would no longer pursue development of the project due to lack of interest from potential customers.

THE PROJECT IN CANADA

Besides 803 miles of pipeline in Alaska, the project envisioned to serve North American markets would span 972 miles in Canada, with the pipeline ending at the British Columbia-Alberta border. The Canadian section already has some key government authorizations. Foothills Pipe Lines Ltd. is the project sponsor in Canada. Foothills is a TransCanada subsidiary, and it originally received the critical Canadian construction certificate, a land easement in the Yukon Territory, and other authorizations in the late 1970s and early 1980s. Foothills works with the Northern Pipeline Agency, a Canadian federal agency, to coordinate the permitting, construction and operation of the project in Canada. The project underwent environmental and socio-economic reviews in Canada initially. To update that work from 30 years ago, TransCanada/ExxonMobil has been conducting summer field work in Canada.

THE ENVIRONMENTAL IMPACT STATEMENT

On Aug. 1, 2011, FERC announced it would prepare an environmental impact statement on the Alaska portion of the TransCanada/ ExxonMobil gas pipeline project.

On Jan. 13, 2012, TransCanada/ExxonMobil filed 11 environmental reports – called draft resource reports – on the pipeline corridor for the project to the Canadian border. FERC requires project applicants to provide these reports, which detail and discuss the project's potential impact on soils, vegetation, streams, lakes, wetlands, water quality, wildlife, fish and other resources. The final reports would be submitted when the project developer formally applies to FERC for a construction and operating certificate, and would be used by FERC as it prepares the environmental impact statement. State and federal agencies submitted comments on the draft resource reports for the project developer to consider if it proceeds to final reports and a formal application to FERC.

In January and February 2012, FERC began government-to-government consultations with Native Alaska tribal entities along the pipeline corridor and held seven public scoping meetings across Alaska to help define what environmental effects the impact statement would consider. FERC prepared a report of issues raised during the scoping meetings.

On March 30, 2012, the chief executives of ExxonMobil, ConocoPhillips and BP wrote to Alaska Gov. Sean Parnell that their companies had started working with TransCanada to assess whether a project to export liquefied natural gas from Alaska made more sense than a pipeline into Canada because of more favorable prices in Asia. An LNG project would include a pipeline from the North Slope south through the state to a liquefaction plant at tidewater.

THE LIQUEFIED NATURAL GAS PROJECT

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On Oct. 1, 2012, the four companies provided Gov. Parnell with an update on their initial work assessing an LNG export project. Their early concept envisions a project costing $45 billion to more than $65 billion for a gas treatment plant, roughly 800-mile pipeline, liquefaction plant at a site to be determined, LNG storage and a tanker terminal. This concept would involve exports of 15 million to 18 million metric tons of LNG annually, the equivalent of 2 billion to 2.4 billion cubic feet a day of gas.

For more information, please visit our website: www.arcticgas.gov

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