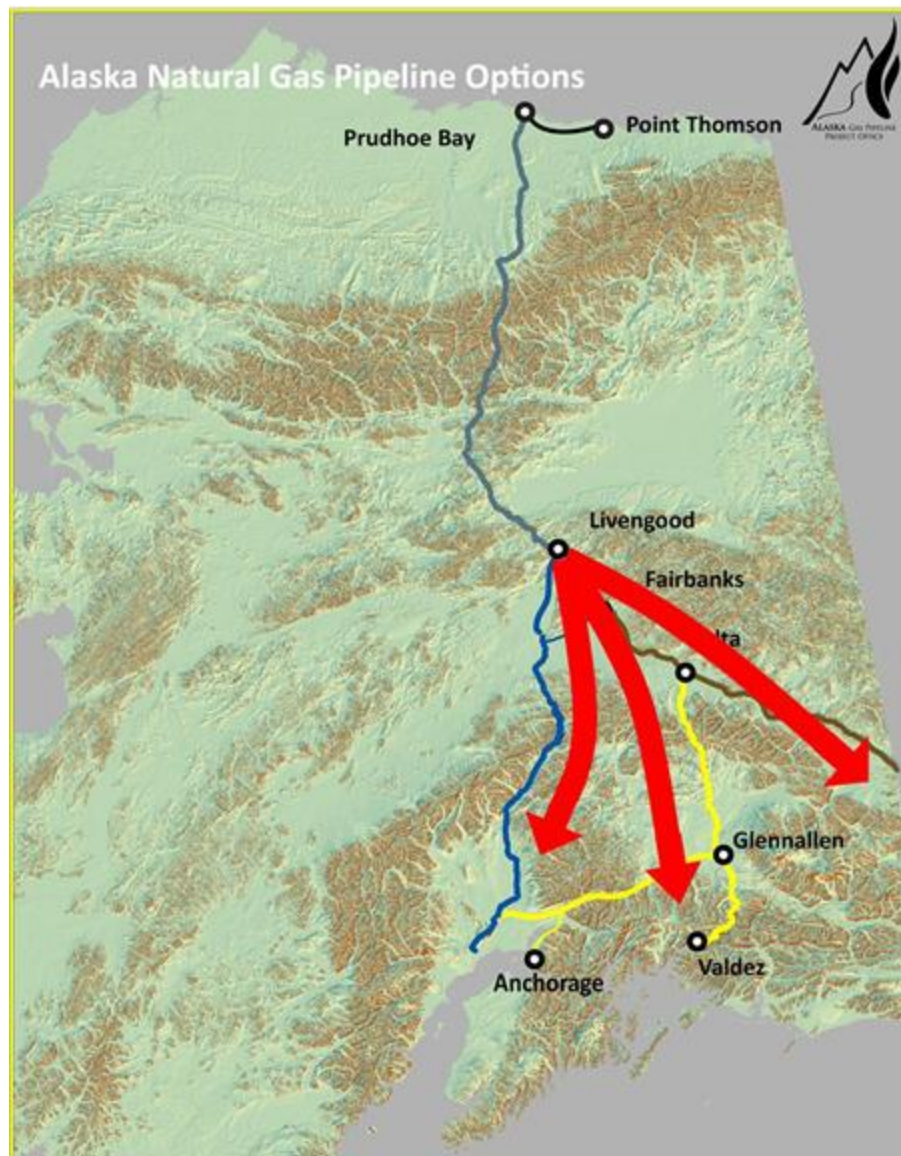


# PROJECT TRANSITION REPORT

Prepared by  
Alaska Gas Pipeline Project Office (GPPO)



August 13, 2012

Kurt Gibson, GPPO Director

## Introduction

This report from the Alaska Gas Pipeline Project Office (GPPO) is submitted as a supplement to reporting required under AS 43.90.400, the Alaska Gasline Inducement Act (“AGIA” or “the Act”). This report covers the time period from January 1, 2012 through August 10, 2012.<sup>1</sup>

AGIA was passed by the Legislature on May 16, 2007 to encourage expedited construction of a natural gas pipeline from Alaska’s North Slope. The Act instructed the Department of Revenue and Department of Natural Resources Commissioners (the “Commissioners”) to solicit applications for a license to receive certain inducements from the state. After review of the submitted applications, the Commissioners recommended a license be jointly issued to TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd (which for purposes of this report will be jointly referred to as “TC Alaska” or the “Licensee”). The recommendation was approved by the Legislature on August 1, 2008 and the license was issued and signed by the Commissioners on December 5, 2008.

In May 2009 TC Alaska joined with ExxonMobil to form the Alaska Pipeline Project (APP). From April 30 to July 30, 2010 APP conducted the first open season to commercialize Alaska North Slope natural gas. Two project options were proposed, both originating at Prudhoe Bay. One option was for a pipeline terminating in Valdez, Alaska. The other option was for a pipeline extending to the Alberta border. Significant interest was expressed in the Alberta option, which subsequently advanced to the federal permitting phase.

In January 2012, the effort to advance a natural gas project entered a transition period. For the first time since the passage of AGIA, APP and the major Alaska North Slope Producers (ExxonMobil, BP, and ConocoPhillips) have aligned to explore and develop a concept for an LNG project and associated pipeline to tidewater in Alaska. This Project transition will be governed under the AGIA framework and pertinent milestones under this transition period are the topic of this report.

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<sup>1</sup> AS 43.90.400 requires the Commissioners to submit a report to the legislature on the status of reimbursements within the first 10 days of each regular session. The report includes a list of all disbursements from the AGIA fund during the preceding fiscal year, a written justification for each reimbursement and the projected amount of money that will be required for future disbursements during each of the three fiscal years.

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## **1. Executive Summary**

In the January 19, 2012 State of the State address, Governor Sean Parnell set out a roadmap for moving forward with a major pipeline project to commercialize Alaska North Slope natural gas. The Governor called on ExxonMobil, BP and ConocoPhillips (for purposes of this report to be referred to as the “Alaska North Slope Producers” or “ANS Producers”) to align with the Alaska Pipeline Project (APP) to identify a concept for a large-diameter liquefied natural gas (LNG) project through Alaska to tidewater.

The Governor called for the ANS Producers to formally align under the AGIA framework and listed several key benchmarks requiring action by the ANS Producers, TC Alaska, APP and the State within the upcoming year. The ANS Producers agreed to proceed under that framework in a letter signed by the CEOs for ExxonMobil, ConocoPhillips and BP on March 30, 2012.

During the ensuing concept selection process for an LNG project, TC Alaska, as the AGIA licensee, remains obligated to advance the Project by applying for a Certificate of Public Convenience and Necessity (CPCN) with the Federal Energy Regulatory Commission (FERC). Under the modified timeline approved by the State as part of TC Alaska’s request for a project plan amendment (PPA) to the license, APP’s obligation to file a complete application for a CPCN with FERC is deferred from October 31, 2012 until October 31, 2014.

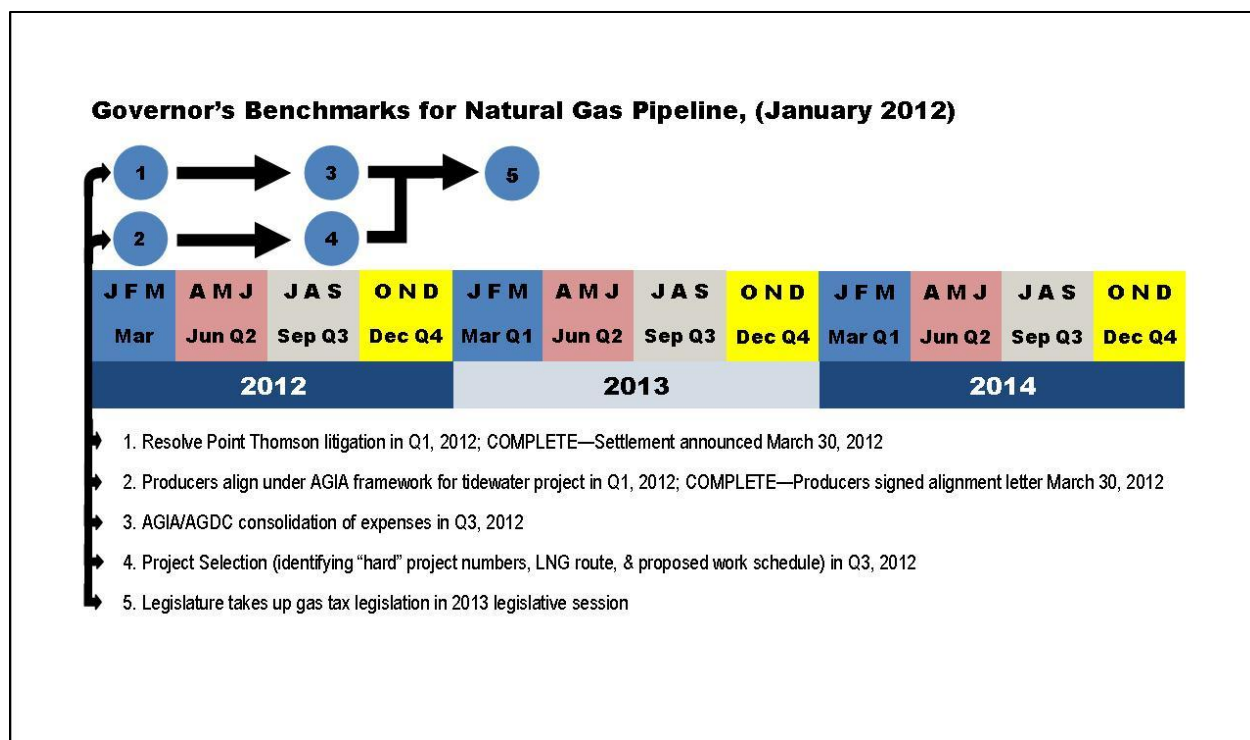
Over the past six months a number of activities outlined by the Governor have taken place to advance a gas pipeline project. The State and the major leaseholders have resolved the Point Thomson litigation. The CEOs of the ANS Producers formally aligned on an effort to explore and identify a concept for an LNG export project to export Alaska natural gas. The APP announced that it would conduct a non-binding public solicitation of interest in making future capacity commitments on a pipeline system from the Alaska North Slope to a gas liquefaction terminal at a tidewater location in south-central Alaska or to an interconnection point near the border of British Columbia and Alberta in Canada. APP and the ANS Producers are expected to harden their numbers and identify details on an LNG-pipeline project with an associated work schedule by the end of the third quarter of 2012.

## **2. Governor's Benchmarks**

In the January 2012 State of the State address Governor Parnell put forward a roadmap for progressing an LNG project to monetize ANS natural gas. That roadmap identified five benchmarks:

- (1) "First, these companies [representing the Point Thomson leaseholders] need to agree to resolve the Point Thomson litigation."
- (2) "During the first quarter of 2012, Alaska expects these producers [ANS Producers] to formally align under an Alaska Gasline Inducement Act framework. This alignment must include work on a large-diameter liquefied natural gas line through Alaska to tidewater."
- (3) "By third quarter of 2012, the two projects, one under the Alaska Gasline Inducement Act with the aligned parties, and the other under the Alaska Gasline Development Corporation, will complete discussions determining what potential exists to consolidate projects."
- (4) "Also, by third quarter 2012, Alaska expects the companies to harden their numbers on an Alaska liquefied natural gas project. By that time, they will identify a pipeline project with an associated work schedule."
- (5) "If these milestones are timely met, the 2013 Legislature can take up gas tax legislation designed to move the project forward."

As of the distribution of this report the first two benchmarks have been met and progress continues to be made to address benchmarks three and four by the end of third quarter of 2012.



## 2.1 Point Thomson

The Governor's first benchmark was to resolve the Point Thomson litigation. Point Thomson, located 60 miles east of Prudhoe Bay, is Alaska's largest undeveloped oil and gas field, holding an estimated 8 trillion cubic feet of natural gas and hundreds of millions of barrels of oil and gas liquids.

ExxonMobil is the unit operator at Point Thomson and with BP, ConocoPhillips, and Leede Operating Company, LLC, are the unit "Owner Group."<sup>2</sup> The field had been subject to 21 plans of development before the state terminated the Point Thomson Unit Agreement leases prompting a lawsuit.

While no specific deadline was established for resolving the litigation over this oil and gas field, pending arguments about the field's ultimate legal fate before the Alaska Supreme Court in April 2012 essentially called for a resolution by the end of the first quarter of 2012.

<sup>2</sup> Exxon Mobil Oil Corporation is the successor in interest to Chevron, which divested its interest in early 2012.

Point Thomson natural gas accounts for roughly 25-percent of the North Slope's 35 Tcf of known natural gas reserves. Resolution of this litigation is important to ensure that a sufficient amount of North Slope natural gas is available to support a large gas pipeline project.

On March 29, 2012 the State of Alaska settled its litigation with ExxonMobil and the other leaseholders. The settlement secured one of Governor Parnell's benchmarks on the roadmap for building a gas pipeline. Detailed information regarding the Point Thomson settlement is available online at:

[http://dnr.alaska.gov/commis/priorities/point\\_thomson.htm](http://dnr.alaska.gov/commis/priorities/point_thomson.htm).

## ***2.2 ANS Producer Alignment***

The second benchmark Governor Parnell set forth called for the ANS Producers to formally align under the AGIA framework. The Governor noted specifically that this alignment must include work on an LNG project to tidewater.

On March 30, 2012 the CEOs for the ANS Producers jointly signed and submitted a letter to the Governor announcing that an agreement had been reached wherein they would work together in an effort to meet the Governor's expectations. The letter stated in part:

We have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within the AGIA framework. .... We are now working together on the gas commercialization project concept selection, which would include an associated timeline and an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others.<sup>3</sup>

## ***2.3 Potential for Consolidation of AGIA/AGDC Projects***

The Governor's third benchmark was that "[b]y [the] third quarter of 2012, the two projects, one under the Alaska Gasline Inducement Act with the aligned parties, and the other under the

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<sup>3</sup> A copy of the March 30 CEO letter is included as an attachment to this report.

Alaska Gasline Development Corporation, will complete discussions determining what potential exists to consolidate projects.” Governor Parnell supports the effort to commercialize North Slope natural gas through a large volume project under AGIA. In his State of the State address he noted that the in-state gas pipeline project, under the AGDC, was valuable work, citing the fact that the in-state line is engaged in the EIS process and has a 604-mile state right-of-way.

Reducing or eliminating redundant state-funded expenditures on these projects is fiscally prudent and potentially critical to the success of both efforts. They are both natural gas pipeline projects originating at the North Slope, that share, at a minimum, a 400 mile corridor south to Livengood and both projects have received funding from the State. In addition, the two projects have complementary missions:

1. **AGDC mission:** to develop and sanction a natural gas pipeline designed to deliver natural gas from the North Slope to Southcentral Alaska, serving as many communities as practicable, with an affordable, long-term energy solution.
2. **AGIA mission:** expedite construction of a natural gas pipeline that facilitates commercialization of North Slope gas, promotes exploration, maximizes oil and gas development in the state and encourages oil and gas lessees on the North Slope to transport gas on a gas pipeline system. AS 43.90.010 (1)-(4)

AGDC directly manages its Alaska Stand Alone Pipeline (ASAP) in-state gas pipeline project. The Alaska Gas Pipeline Project office (GPPO) is the state office created under AGIA to coordinate the APP’s efforts to develop a large-diameter commercial gas pipeline. Since the Governor’s call for all stakeholders for both of these projects to explore the potential for consolidation AGDC and GPPO leadership have met regularly to confer and share information to advance this benchmark. This process will continue as we approach the third quarter of 2012, but certain challenges remain that have hampered progress in this regard:

1. Following the approval of TC Alaska’s PPA, APP continues to work towards identifying and selecting a concept for an Alaska LNG tidewater project. Identifying a project is essential for exploring the potential for consolidating AGDC/AGIA efforts. (Concept selection work is not likely to be completed until the end of September 2012).
2. In order to coordinate efforts with APP, AGDC needs the ability to protect confidential information that may be obtained or shared with the APP.



Despite these issues, GPPO and AGDC project staff remain committed towards exploring opportunities for reducing duplicative efforts and their associated expenses through coordinating efforts on these projects. Both offices are mindful that they face a September 2012 deadline from the Governor.

## ***2.4 Project Concept Selection***

Governor Parnell's fourth benchmark calls upon the ANS Producers to develop "hardened" numbers for an Alaska LNG project and to "identify a pipeline project with an associated work schedule" by the end of the third quarter of 2012.

We anticipate that the ANS Producers will meet this deadline. Collectively, these companies can draw on over 30 years of accumulated data, including several previous project proposals, to make an informed decision on the Project facilities, route, and timetable.

The concept selection process, ideally, will be validated by the results of the APP's non-binding solicitation of interest that will conclude on September 14, 2012. The solicitation was announced at the end of July and is a two-year, recurring requirement under AGIA. The solicitation will provide potential parties an opportunity to indicate their interest in either a pipeline system from the Alaska North Slope to a gas liquefaction (LNG) terminal location in Southcentral Alaska or a pipeline to an interconnection point near the border of British Columbia and Alberta in Canada.

## ***2.5 2013 Legislation***

The last benchmark in the Governor's roadmap for advancing a natural gas pipeline project is for the Alaska Legislature to take up gas tax legislation in 2013. Governor Parnell's support for pursuing legislation in 2013 was conditioned upon the completion of the benchmarks that have been or are in the process of being completed at the time of this report.

Adopting a fair, stable and predictable fiscal environment for developing North Slope natural gas is one of a number of important variables in the overall likelihood for a gasline project to move forward.

In the March 30 alignment letter the CEO's for ExxonMobil, ConocoPhillips and BP included a caveat that they would require assistance from the state in order to commercialize North Slope natural gas. In that letter the CEOs stated:

Commercializing Alaska natural gas resources will not be easy. There are many challenges and issues that must be resolved, and we cannot do it alone. Unprecedented commitments of capital for gas development will require competitive and stable fiscal terms with the State of Alaska first be established. Appropriately structured, stable fiscal arrangements have opened new opportunities around the world, and will play a pivotal role in making Alaska competitive in the global market and unlocking the economic potential of North Slope resources.

### **3. Project Transition**

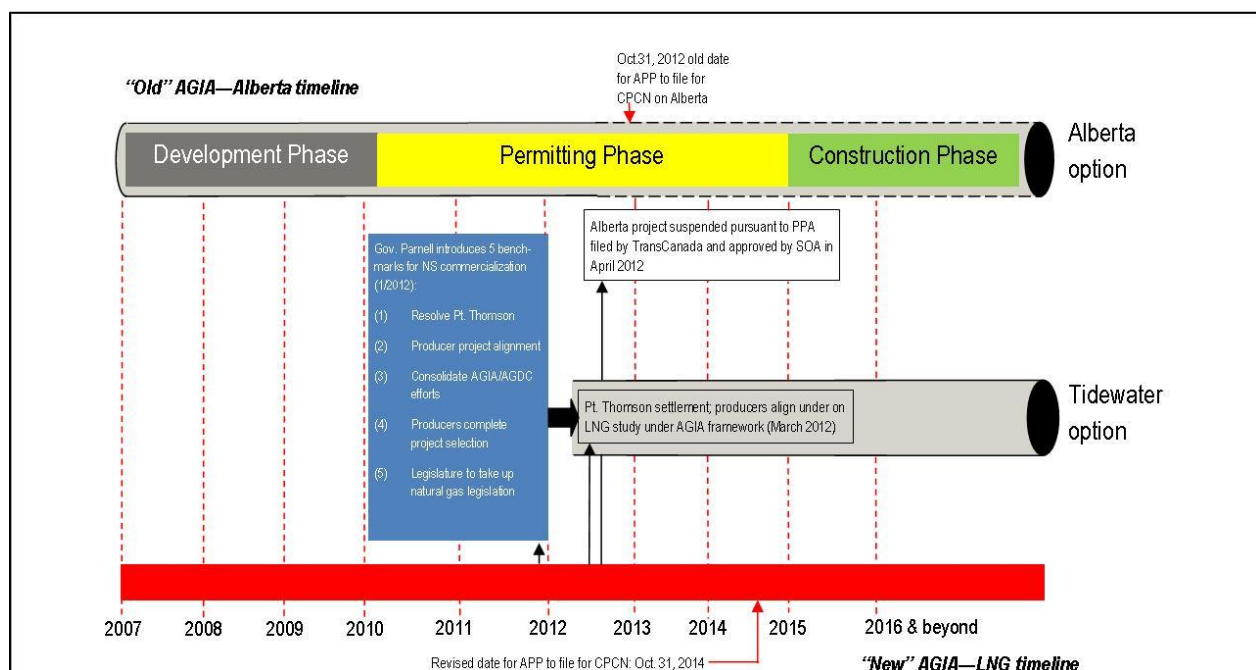
From April 30 to July 30, 2010 the APP conducted the first ever open season to commercialize Alaska North Slope natural gas. At the close of the open season the Project announced that it had received multiple bids for significant volumes from major industry players and others.

During the next year and a half APP made unprecedented progress in the development and permitting phases of the project. Under the project timeline APP was required to file an application for a CPCN with the FERC in October 2012.

By the approach of 2012 it was apparent that dramatic changes in the American gas market were having an effect on interest in an Alaska pipeline project being developed under the Alberta option. While a number of factors could impact the economic viability for a project of this scope, it is widely believed that major advances in shale gas production and hydrofracturing technology meant that the Lower 48 states had new potential access to tremendous amounts of natural gas making the economics of transporting Alaska gas for domestic consumption comparatively more challenged. Consequently the overland project became more uncertain than it previously appeared to be.

Today there is a significant gap between domestic and international prices for natural gas. Currently the price of gas is around \$3.00 MMBtu in the U.S.<sup>4</sup>, \$12.00-14.00/MMBtu in Europe and \$17.00/MMBtu in Asia<sup>5</sup>. A number of companies are now exploring exporting LNG.

In late 2011 Governor Parnell started urging the major North Slope producers to evaluate the possibility of an LNG project to export Alaska gas. This request became one of the five benchmarks included in his January 2012 State of the State address.



On March 15, 2012 TC Alaska submitted a request to the Commissioners for a PPA. Alaska Statute (AS) 43.90.210 allows for the AGIA licensee to request approval of a PPA to allow them to adjust to the changed circumstances.

<sup>4</sup> Natural Gas Weekly Update, U.S. Energy Information Administration, July 26, 2012 (SEE <http://www.eia.gov/naturalgas/weekly/#im-prices>)

<sup>5</sup> Helman, Christopher. *The U.S. Has A Natural Gas Glut; Why Exporting It As LNG Is a Good Idea*, Forbes (June 13, 2012), (SEE <http://www.forbes.com/sites/energysource/2012/06/13/the-u-s-has-a-natural-gas-glut-why-exporting-it-as-lng-is-a-good-idea/>)

Following the March 30 announcement from the ExxonMobil, ConocoPhillips and BP CEOs, Natural Resources Commissioner Dan Sullivan and Revenue Commissioner Bryan Butcher approved TC Alaska's PPA request in a letter signed on May 2, 2012. The commissioners agreed to allow TC Alaska to join the ANS Producers and shift its focus to a large-diameter line that will run from Alaska's North Slope to tidewater in Alaska for in-state use, liquefaction and export.

The PPA was the key mechanism for achieving project alignment between the ANS Producers, the State and the AGIA Licensee. As described in the Commissioners' letter, the PPA lays out an orderly transition phase for TC Alaska to shift its work on the Alberta Project to an LNG export project. Furthermore, it describes the State's significant, near-term expectations for TC Alaska and the North Slope producers in keeping with Governor Parnell's benchmarks.

The Commissioners' determination on the PPA calls for TC Alaska to complete its initial work on an LNG project by September 2012 and conduct a comprehensive market solicitation by year's end to all potential market participants, including North Slope producers, explorers, LNG terminal developers, and entities seeking to import Alaska gas into Asian and other markets. In fact, APP announced on July 30 that it would conduct a non-binding public solicitation of interest that will take place from August 31 through September 14, 2012.

In early 2013, the State expects TC Alaska to provide another PPA request to address the details of the LNG project and its associated timeline. This PPA request will also need approval by the Commissioners.

To accommodate the transition to an LNG project, the Commissioners agreed to defer the filing of an application for a CPCN to the FERC from October 2012 to October 2014. A majority of the work done by TC Alaska so far on the Alberta option – including engineering and environmental studies – is directly applicable to the gas pipeline portion of an LNG project. The work to date provides greater optionality for APP and opportunity for the State because the Alberta option will be maintained in shelf-ready condition should circumstances indicate that the overland option represents the best opportunity to monetize North Slope natural gas.

With work winding down on the Alberta option TC Alaska is shifting its focus to tidewater. The Commissioners' letter, posted at <http://gasline.alaska.gov>, authorizes TC Alaska to perform its share of the LNG work as part of its AGIA license. This specifically pertains to midstream work, including the gas treatment facility, the pipeline, and pipeline facilities (outside of the liquefaction plant), for which TC Alaska will remain entitled to reimbursement. The AGIA does not authorize reimbursement for work by the ANS Producers on other aspects of the LNG project, such as an export terminal or upstream development work that may be necessary in advance of a major gas sale.

## **4. Alberta Option**

### ***4.1 Description***

On April 30, 2010 the APP commenced the first open season to commercialize Alaska North Slope natural gas. At that time the project put forth two options:

1. A Valdez LNG option from Prudhoe Bay to Valdez, Alaska, that included a gas treatment plant, approximately 811 miles of pipe, and two compressor stations, with a capacity of 3.0 bcf/day.
2. An Alberta overland option from Prudhoe Bay to Alberta, Canada, that included a gas treatment plant, approximately 1717 miles of pipe, and nineteen compressor stations (eight in Alaska), with a capacity of 4.5 bcf/day (SEE [http://www.thealaskapipelineproject.com/project\\_description](http://www.thealaskapipelineproject.com/project_description)).

A comprehensive description of the Alberta option is included in APP Draft Resource report #1, filed with the Federal Energy Regulatory Commission (FERC) on January 13, 2012 and available at FERC's e-library, docket no. PF09-11-000, at:

[http://elibrary.FERC.gov/idmws/file\\_list.asp?accession\\_num=20120113-5203](http://elibrary.FERC.gov/idmws/file_list.asp?accession_num=20120113-5203)

#### ***4.2 Key Events - Open Season and regulatory process***

- APP received FERC approval for using pre-file review process, (May 1, 2009)
- Alberta was one of two options put forward by the APP during the 2010 open season (April 30 to July 30, 2010)
- Alberta route became the preferred option upon closure of an open season after APP received “multiple bids for significant volumes from major industry players and others.” (July 31, 2010)
- APP Alaska Stakeholder Engagement Plan filed with FERC, (April 5, 2010)
- Preliminary draft resources reports 1 & 10 (route & alternatives) filed with FERC on (April 29, 2011)
- APP conducted 47 community meetings across Alaska to discuss Alberta option, (March-June 2011)
- APP filed draft resource reports 1 through 11 with FERC, (January 2012)
- FERC held scoping meetings, (January-February 2012)
- TC filed PPA with SOA, (March 15, 2012)
- ANS Producer CEOs submitted alignment letter, (March 30, 2012)
- Point Thomson settlement announced, (March 30, 2012)
- APP submitted 2010-2011 Phase 1 Cultural resource Overview and Survey report to FERC, (May 1, 2012)
- PPA approved, (May 2, 2012)
- APP notified FERC that 1<sup>st</sup> binding Open Season was terminated, (May 3, 2012)
- APP filed notice with FERC that pre-filing activities on the Alberta option would be suspended as other options to commercialize Alaska North Slope natural gas were being evaluated (May 11, 2012)

#### ***4.3 Reimbursement***

AGIA provides for a natural gas pipeline development incentive of \$500 million in “matching” capital reimbursements to the AGIA licensee for qualified expenditures. Qualified expenditures are those expenditures that are directly and reasonably related to the development and construction of a natural gas pipeline. Reimbursements are available for a seven-year period immediately following the date the AGIA license was awarded on December 8, 2008. Prior to the close of the first binding open season the licensee, TransCanada Alaska (TC Alaska), was entitled to receive reimbursements for up to 50 percent of its qualified expenditures. When the

first binding open season closed on July 30, 2010, TC Alaska became entitled to receive up to a 90 percent reimbursement of its qualified expenditures. *See AS 43.90.110.*

Alaska Statute (AS) 43.90.400(d) of AGIA requires the Commissioners to submit a report to the legislature within the first 10 days of each regular session on the status of reimbursements from the AGIA reimbursement fund. The latest such annual report was distributed on January 27, 2012.

As of the fiscal year ending June 30, 2012, the state had reimbursed TC Alaska \$180,584,244 for qualified expenditures submitted through the fourth quarter (4Q) of 2011. On August 15 the State will provide TC Alaska with a reimbursement in the amount of \$19 mill. This would bring the total reimbursement to TC Alaska, as of August 15, to approximately \$200 mill. A detailed disbursement report will be presented to the Alaska Legislature in January 2013.

Much consideration to the reimbursement incentive was made by the Commissioners following TC Alaska's March 15, 2012 request for a PPA. The Commissioner's May 2, 2012 approval of TransCanada's PPA request was conditioned upon the continuance of reimbursements "in accordance with AGIA for expenditures within the parameters of the project plan as amended in the commissioners' determination." Specifically the letter states:

[T]he State will continue to reimburse the Licensees for reimbursable costs in accordance with AGIA for expenditures within the parameters of the project plan as amended by this determination. No reimbursements will be provided or paid for any costs relating to the LNG Pipeline Midstream facilities which occur after the period covered in the revised work plan, timeline and budget unless the Licensees have obtained approval of a subsequent project plan amendment covering work in the subsequent period. – Commissioners' May 2, 2012 letter, pg. 5.

#### ***4.4 Future Status of Alberta Option and Project Work Product***

In approving TC Alaska's request for a PPA the Commissioners found that the PPA was "necessary because of changed circumstances outside the Licensees' control and not reasonably foreseeable before the license was issued."

In fashioning its approval for the PPA request the Commissioners noted that they expect the ANS Producers to make "substantial and timely progress with the APP Parties in developing an LNG project, consistent with the ANS Producers' obligations under their leases with the state." This expectation of progress was also noted in context with the aggressive work schedule for concluding the concept selection process referenced in the CEO letter dated March 30, 2012.

This progress is consistent with the goals and requirement of AGIA that a project be developed and progressed to the point of application for a CPCN with FERC under the AGIA timeline. In granting the PPA request, the Commissioners deferred but did not terminate TC Alaska's obligation to file for a CPCN. The deadline to file for a CPCN with FERC was extended from October 31, 2012 to October 31, 2014. The commissioners' letter notes that, "subject to this deferral, the Licensees will minimize the expenditure of State funds on the Alaska-Alberta alternative while the commercial focus shifts to the LNG alternative."

While work on the Alberta Option is suspended, the option itself will be preserved in a "shelf-ready" status and shall remain as a potential option for moving a natural gas pipeline project forward.

To that end, the Commissioners required that "all work product related to the Alaska-Alberta Project generated by or on behalf of APP, including both complete and incomplete work, will be inventoried as soon as practicable and preserved. This inventory ... will include ... a description of the currently incomplete work that is expected to become complete and be transferred to the Licensees over the period of the Initial Work Plan Amendment...." Commissioners' Letter, pg. 5.



## 5. Conclusion

The APP continues to progress in a manner consistent with the purpose and intent of AGIA. In 2010 the Project identified two options for constructing a large-diameter natural gas pipeline and received significant interest to explore a project to Alberta at the conclusion of the first ever open season to commercialize Alaska North Slope natural gas.

Over the following two years the APP made significant and unprecedented efforts to refine the Alberta option under FERC's regulatory process.

When new technologies for producing natural gas dramatically changed the supply and demand curves within lower 48 markets the APP was able to amend its project plan under AGIA to keep the prospects for commercializing Alaska North Slope gas alive.

Starting with his State of the State address in January 2012 Governor Parnell identified a roadmap for advancing this project and established important benchmarks to:

1. Secure additional reserves of natural gas through the settlement of the Point Thomson litigation
2. Obtain alignment between the state, the ANS Producers and the APP on an LNG concept, under the AGIA framework
3. Continue meaningful efforts to coordinate two state-financed projects to monetize North Slope natural gas and secure a portion of that gas for in-state use
4. Establish a date under which the APP and ANS Producers will select a conceptual outline for an Alaska North Slope LNG export project by the end of Q3, 2012, and
5. Invite meaningful efforts to adopt legislation to provide fiscal certainty to encourage the construction of a gas pipeline-LNG project.

To date, the first two benchmarks have been met and significant progress is taking place on the third and fourth benchmarks. We are well positioned to move forward with the fifth and final benchmark on gas fiscal legislation in the upcoming legislative session.

As all the critical stakeholders explore this sea change to explore LNG, the parties will be able to use significant information secured as part of the unprecedented efforts to advance the Alberta

option through the FERC regulatory process. In addition, the Alberta option will remain procedurally secured and shelf ready in the event that the Alberta route should become a preferred addition or alternative in the future.

## **6. Appendices**

***6.1 Governor Parnell's State of the State Address (January 19, 2012) at pg.***

***6.2 ANS Producers CEO Alignment Letter (March 30, 2012) at pg.***

***6.3 DNR/DOR Commissioners PPA Approval Letter (May2, 2012) at pg.***

## **Governor Sean Parnell**

*Presented to the 27th Alaska Legislature*

January 19, 2012

Mr. Speaker, Mr. President, Lieutenant Governor, distinguished guests and fellow Alaskans, this evening we continue a tradition that speaks to the strength of our republic. Alaska's Constitution calls the governor to deliver a message to the Legislature about the state of the State. As we convene in one chamber tonight, we remember that we have come for one reason – to serve the people of Alaska.

So let us work in a spirit worthy of Alaskans. Let us honor the proud history we share by building a brighter future. And let us ensure the Last Frontier forever remains first in freedom, and first in opportunity.

Tonight, we begin by celebrating the courageous crew of the U.S. Coast Guard Cutter Healy. With ice blocking the Bering Sea, the Healy cleared a path for a tanker carrying much-needed fuel to Nome. The Healy had already been away from home for seven months when Rear Admiral Thomas Ostebo asked the crew to accept the mission. It would mean extending their tour of duty at sea by several more weeks. But the crew's response lived up to the Coast Guard's sacred creed: Semper Paratus. Always Ready.

To the crew of the Healy and to all the other federal, state, and local officials who made this operation possible: Thank you for your service, and thank you for your sacrifice. We are honored to have Admiral Ostebo and Adjutant General Tom Katkus with us tonight. Through them, we want to send a message to all our men and women in uniform around the world: You enliven and embolden our liberty, and we are eternally grateful. Please join me in showing our profound gratitude for our military members.

Since we met last year, 27 Alaska-based service members gave their lives for us. To the families of all our fallen military heroes: Your loved ones made the ultimate sacrifice for our freedom, and we will honor their memories tonight and for all time.

This evening, we also remember Alaskans whose names will live large through the ages: Dr. Walter Soboleff, Hannah Solomon, and Caleb Pungowiyi. Finally, we pay tribute to the legacy of former Alaskan legislators who once served in this chamber – Dick Eliason, Carroll Fader, Ben Grussendorf, Phillip Guy, Don Harris, Walter Kubley, Ed Orbeck, and Howard Pollock.

Tonight, we meet during a period of great global challenges. In the Middle East and Africa, revolutions have swept across the region, while Iran's nuclear ambitions cast a menacing shadow. In Europe, a debt crisis threatens to plunge the global economy into an abyss. Meanwhile, America's economy teeters between recession and recovery, as the federal government succumbs to its own spending addiction.

But amid this sea of uncertainty, Alaska has emerged as a rock of stability. While millions of Americans go without work, Alaska's unemployment rate remains nearly one and a half points below the national average. While the dream of home ownership has turned into a nightmare for many American families, Alaska has posted the nation's lowest foreclosure levels.

While more Americans slip below the poverty line, Alaska's median income has remained among the highest in the country. And while many states face unprecedented budget deficits, we have preserved surpluses of nearly \$13 billion. As Alaska leads our nation to a new era of growth and opportunity, our friends in the Lower 48 have more reason than ever to look North to the Future.

But while we are well positioned, Alaska is not immune from an ailing global economy. Instability in other parts of the world can send shockwaves to our shores. The upheaval in the Middle East can seem a world away, but our people pay the price for our heavy dependence on foreign oil. The debt troubles in Europe can sound distant, but our fishermen – and their families – depend on these nations to buy our seafood. The deficit debates in Washington can seem detached from reality, but no one should doubt that real cuts will be necessary and painful. And while Alaska currently enjoys a surplus of revenue, that is only so long as high oil prices mask declining production.

With these challenges looming, Alaska cannot be complacent. Our future depends on the actions we take this session. How we approach these issues will determine what legacy we leave our children: a future of shrinking possibilities, or a future of greater opportunity. The decision is ours.

Tonight, I will tell you where I stand on the issues, and I will ask you to stand with me. During this year of decision, we must stand together for an economy that creates new jobs and fuels prosperity.

It is an undeniable fact: Oil production drives Alaska's economy. In the public sector, it provides the revenue we need for teachers, troopers, and transportation. In the private sector, oil production fuels work for restaurant waiters, small business owners, contractors, engineers, and many more. It even funds the environmental industry.

For many years, the Trans Alaska Pipeline System has provided a pathway to prosperity for Alaskans. But where more than two million barrels of oil per day once flowed through the pipeline, less than 600,000 barrels now inch through.

Unless we act to reverse this decline, we will pay a stiff price in lost jobs, lost State revenues, and lost opportunities. This is not the future our children deserve, and this is not a future we will accept. To chart a course for faster growth and greater opportunity, we must act in five critical areas.

First, we will be wise stewards of our citizens' money. I have proposed a balanced budget that holds the line on government spending, so we can add nearly \$4 billion to our savings accounts for future years. This budget reduces total expenditures by \$856 million without shortchanging

important investments. It includes more than \$1 billion for infrastructure projects, ranging from roads and airports to the Alaska Marine Highway and harbors. It forces agencies to save where they can – eliminating 288 vacant positions – so we can spend where we must.

In short, this budget balances short-term needs with long-term priorities. This budget is a model of clear-eyed, conservative planning. And by ensuring we live within our means today, this budget will provide greater economic security for Alaskans tomorrow.

Second, we will grow Alaska's economy by encouraging more private-sector investment in oil production. While oil production continues declining, any real downward adjustment in oil prices will send the State budget into the red. Even worse, there will come a day when the Trans Alaska Pipeline System shuts down. Some say this point will come at 300,000 barrels. Others say at 100,000. I say: Let's not find out.

The people of Alaska want a future of economic growth, not economic decline. That's why I have set a goal of increasing oil production to one million barrels a day over the next decade. We know what must be done to achieve it.

If the Legislature passes meaningful tax reform, companies have already pledged at least \$5 billion in new investments, and we will likely see billions more. Significant new investment in oil production would be a game changer for our state – a down payment on Alaska's future we cannot afford to turn down. The question before us now is not whether we have enough oil reserves to meet our goals. The question is this: Do we have enough will to give up short-term gains for long-term growth? I believe the answer is "yes."

Our State's constitution tasks us with managing our natural resources for the maximum benefit of Alaska's people – that means for Alaskans today and for Alaskans tomorrow. If our policy is to grab all the tax dollars we can from declining oil production today, our children and grandchildren will have to fend for themselves. If we fail to incentivize new oil production through tax reform, companies will continue to send more investment dollars to other places in this global economy. Alaska's oil production decline will become Alaska's decline.

Alaskans deserve better. I know you agree. So tonight I'm asking each of you to vote yes on meaningful tax reform. The logic is clear: Meaningful tax reform means Alaska will have a more competitive economy. A more competitive Alaska economy means more investment in Alaska. More investment in Alaska means more oil production. And more oil production means a bigger economic pie for Alaskans.

In addition to lowering taxes, we are working to increase oil production by streamlining the State's permitting processes, and by making Alaska's resources more accessible through our Roads to Resources initiative. The message is clear: Never write off Alaska. Far from being tapped out, we are only beginning to tap into our vast potential.

Unfortunately, there are those in Washington who view our land differently. Years of misinformation and lobbying have convinced some bureaucrats that Alaska is just one big national park, with no room for economic growth. In some cases, the Environmental Protection

Agency will no longer issue permits unless businesses first reach agreement with environmental organizations. In effect, the EPA has outsourced its permitting function to a stakeholder with a political agenda.

It's time to stop putting extreme special interests above our people's interests. Where the federal government would lock us out, we will open the doors of opportunity for Alaskans. So long as I am governor, we will not revert to colonial status – and we will not cede control of Alaska's future.

Members of the Legislature: This evening, I ask you to join me in refilling Alaska's pipeline to prosperity. You have had time to study this issue closely. We cannot allow the paralysis of analysis to set in. We must act, and we must act now. Let's meet my goal of one million barrels a day. Let's enact the oil tax reform and spark investment and growth in Alaska. And let's show the world that Alaska's resources can lead to America's energy independence.

Third, we will also grow Alaska's economy by accessing our abundant natural gas. Experts estimate our state has more than 200 trillion cubic feet of natural gas in the ground. This gas represents cheaper heating fuel for Alaska homes and Alaska businesses, and these reserves can energize and grow Alaska's economy. But before we can realize these benefits, a gasline must be built to bring these reserves to market.

Currently, Alaska is pursuing parallel tracks to get a gasline. The State financially supports two different projects – one under the Alaska Gasline Inducement Act, and the other under the Alaska Gasline Development Corporation. While both are making progress, neither can finish the job alone.

So last year, I called on the parties to consolidate their efforts. As one step to that end, I invited three CEOs, representing the major leaseholders of Alaska's gas, to come together and begin a new era for Alaska. Remember that, until just recently, these three companies pursued different directions on Alaska's gas.

We had a productive discussion together. Teams from the companies have been working diligently to align on a gas project. Our State teams in the Department of Natural Resources and the Department of Law have worked very hard, as well, to resolve outstanding litigation issues. Within the last 24 hours, I have talked with all three CEOs again to get a progress report. I ascertained that while teams were diligently working, agreement on key issues has not yet been reached. So, tonight, the State of Alaska sets some expectations - some benchmarks of progress we will look to during 2012.

Here's a roadmap to a gasline in Alaska's interest: First, these companies need to agree to resolve the Point Thomson litigation. If no settlement in the State's interest can be reached with all parties, the State will fight for Alaska's interests at the Alaska Supreme Court hearing on February 8 in Anchorage.

During the first quarter of 2012, Alaska expects these producers to formally align under an Alaska Gasline Inducement Act framework. This alignment must include work on a large-diameter liquified natural gas line through Alaska to tidewater.

By third quarter of 2012, the two projects, one under the Alaska Gasline Inducement Act with the aligned parties, and the other under the Alaska Gasline Development Corporation, will complete discussions determining what potential exists to consolidate projects.

The AGDC has valuable ongoing work. It is already engaged in an Environmental Impact Statement process for an in-state gasline route to tidewater. And, the AGDC has a 417-mile State right-of-way in hand, assets useful in a consolidated project.

Also, by third quarter 2012, Alaska expects the companies to harden their numbers on an Alaska liquified natural gas project. By that time, they will identify a pipeline project with an associated work schedule.

If these milestones are timely met, the 2013 Legislature can take up gas tax legislation designed to move the project forward.

The path ahead is better defined and benchmarks for progress are in place. While a lot more work remains, Alaska is closer to the day when our gas can move from the ground to Alaskans and markets beyond.

Fourth, outside of oil and gas, we will foster a climate that cultivates investment in Alaska's other natural resources. We are blessed to live in a land that provides many ways to earn a living. Alaska offers the world's best seafood. When I visited Europe for a trade mission last year, I spoke with companies that buy our wild, sustainably harvested seafood. I explained how our fisheries support families and villages across our state. And I showed how we sustainably manage our fisheries for future generations. Fishing is part of Alaska's history. It is part of Alaska's future. And we will keep it strong.

Alaska also has a vibrant mining industry that supports more than 5,500 jobs, and this is only scratching the surface of the potential. Indeed, Alaska has many deposits of untapped rare earth elements. These minerals are critical to America's security and economy. The nation should not have to depend on foreign rare earths when we have plentiful supplies here in this state. My budget includes almost \$3 million for an assessment of rare earths. Tonight, I ask you to appropriate these funds this session.

The timber industry also has deep roots in Alaska. I am proud to report that, with your help, we expanded the Southeast State Forest, because when we open more land for timber, we open more opportunity and more jobs for Alaskans.

Fifth, we will act to support Alaska's entrepreneurs and small business owners who represent the true pioneer spirit of our state. Like many of you, Alaska's entrepreneurial spirit runs deep within me. As a child, I saw my parents operate a retail store in Anchorage. I remember helping



them put prices on merchandise, run the cash register, and serve customers. And when I opened my own law practice, I learned the challenges of owning a small business firsthand.

Now as governor, our State's policy is to unleash new opportunities for Alaska's small business owners. My administration has reduced processing times for business filings, so new ventures can launch faster. We have strengthened financing programs, so small businesses can better access capital. We have stepped up tourism marketing, so new customers walk into Alaskan shops and businesses. And we have promoted new avenues for trade, so people around the globe can buy the world's best products – those made right here in Alaska.

During this year of decision, we must also stand together to develop Alaska's most valuable resource – our children. By improving education, we can give Alaska's children the skills they need to succeed. Two years ago, we took an historic step. We created a mechanism in law that provides fair school construction funding between urban and rural districts. This year, we funded a renovation in Kwigillingok and a school replacement in Napaskiak.

My administration also resolved the Kasayulie case, a long-term lawsuit addressing inadequate rural schools. In resolving the case, I pledged to support funding for five of the highest-priority rural school projects.

Together, we are taking historic strides toward a great goal: ensuring educational excellence across our state. Our joint efforts have made this progress possible – and I thank you for supporting our schools. I also thank you for working with me to create a merit scholarship that gives all Alaska's children an incentive to complete a more rigorous high school curriculum. The Alaska Performance Scholarship opens doors of higher learning to more students – for those who want to go to a university, and for those who want to go to a certified job training school.

In just its first year, this scholarship is already changing lives. More students are taking the SAT and ACT, with a 20 percent uptick in Fairbanks alone. This is a sign that students are setting their sights higher than ever.

One person who has experienced the change firsthand is Tracy Badger. She is a counselor in the Lower Yukon School District. Tracy recently sent a note saying: "The Alaska Performance Scholarship ... is a good motivator for students to shoot for goals that go beyond district minimums. This scholarship is the biggest incentive for them to continue working ahead." Tracy, I couldn't agree more. Those working to earn the Alaska Performance Scholarship represent the future of our state.

One Alaska Performance Scholarship recipient is Chelsea Mills of Kake. She is a freshman at UAS, and she is with us tonight. Congratulations, Chelsea. You make us proud!

In its first year, this scholarship has been a remarkable success. Now we must secure it for future years. This legislative session, let us take the \$400 million that we set aside last year, and build a strong fence of moral obligation around it. Let us create a fund for that money so the fund's earnings can pay for these scholarships for future generations. Send our students this

unmistakable message: If you keep your end of the bargain in the classroom, we will keep our end of the bargain in this chamber.

During this year of decision, we must also stand together to strengthen public safety. Alaska has the nation's finest first responders. We salute our National Guard and Coast Guard, our State Troopers, our VPSOs, VPOs, local police officers, firefighters, our EMTs and paramedics, and all our first responders. Please join me in honoring them.

Increasing public safety remains a core priority – and that will not change. Increasing public safety means bringing law enforcement officers to communities that have none. So my new budget adds 16 new law enforcement officers.

Increasing public safety means shining the light of justice and a ray of hope into places where domestic violence and sexual assault have ruled, for we will not rest until every Alaskan lives safe from abuse and terror.

Our administration's budget includes nearly \$12 million to eradicate this epidemic. The Choose Respect initiative focuses on prevention and enforcement, and it provides services for victims and survivors. But Choose Respect is more than just a government initiative – it is a personal initiative. It is about each of us honoring the dignity and value of every human being. It is about setting people free from generations of abuse.

Tonight, I want to recognize a Juneau coach who helps his players make that choice in their own lives – Coach John Blasco. As we speak, his Thunder Mountain Falcons boys basketball team is practicing for tomorrow's game against the Chugiak Mustangs. When Coach Blasco's players warmed up before a game last season, they wore Choose Respect T-shirts, and they will wear them again tomorrow. Thank you, Falcons, for sending a powerful message both on and off the court.

Increasing public safety also means stepping up preparedness for natural disasters, so we can respond to victims quicker and help them rebuild their lives faster. When storms battered our coastal communities this fall, the damage was far less than expected thanks to good planning. During this winter of heavy snowfall, we have once again seen the importance of preparedness.

When 16 feet of snow buried Cordova, the men and women of the Alaska National Guard and many other Alaskans were ready to help – and they have earned our thanks.

Last legislative session you responded to my request to fund emergency generators and water purifiers for larger scale disasters. In the legislative session ahead, we must take the next steps in disaster preparation. My proposed budget increases funding for emergency food supplies and finances a cold-climate rescue helicopter in the Interior. These investments are a matter of life and death, and we must make them.

The legislative session that together we now begin will be one of the most consequential in our state's history. The debates will be intense. The choices will be tough. And the stakes will be high. Of all the decisions we face, the most important is the legacy we leave future Alaskans.

Let it be said that when oil production declined, we made the bold reforms needed to refill Alaska's pipeline to prosperity. Let it be said that when we had the opportunity to align our efforts for a gas pipeline, we did not shrink from it. Let it be said that we gave our children every opportunity to learn and earn a world-class education. And let it be said that by choosing respect, we broke the chains of abuse and freed families from the tyranny of fear.

Throughout our history, Alaskans have blazed the trail for others. We are the descendants of elders and pioneers who pushed the boundaries of this Last Frontier. While these early Alaskans did not always know what challenges would arise between checkpoints, they never lost faith in where they were headed – to greater opportunity.

Our journey today is no different. Rather than hunkering down and hoping for the best, it is time to act. While those of us in this chamber will not always agree on the means, we have a common vision for the ends: more opportunity, more prosperity, and more freedom. Let this be the legacy we leave our children and grandchildren.

No one should doubt Alaska's future, because it belongs to men and women of extraordinary courage. Alaska's future belongs to people like Tessa Baldwin, a Mount Edgecombe senior from Kotzebue. When she addressed fellow students last April at a conference, she found the courage to speak about a tragedy too often shrouded in silence – suicide. Tessa has since started a campaign to provide student services for preventing suicide. She has testified before Congress and serves on the Statewide Suicide Prevention Council. Tessa, thank you for joining us. As you stand in defense of human life, it is only fitting that we stand in thanks for you now.

Alaska's future belongs to people like the heroes aboard the State ferry Malaspina. Last June, as Roger Sperber manned the lookout, he heard a cry in the night. Captain Nick Kollars swung the ship to starboard, so the crew and passengers could scan the shoreline with their binoculars. They launched a rescue boat and delivered a bleeding and bruised hiker to safety. To the entire crew of the Malaspina, and on behalf of a grateful state, we thank you.

As these Alaskans answered the call of duty, we in this chamber must now answer the call of history. We will rise to the challenge. We will meet our moment. And yes, we will create a future of greater opportunity.

Thank you, and may God bless our wondrous state and her people.

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March 30, 2012

Governor Sean Parnell  
550 West 7<sup>th</sup> Avenue, Suite 1700  
Anchorage, Alaska 99501

Dear Governor Parnell,

Our three corporations, collectively and individually, value our relationship with Alaska and believe that its citizens across the state, as well as our shareholders around the world, share a common interest in responsible resource development. We write today to inform you of our progress in working together on the next generation of North Slope resource development.

Alaska's vast North Slope holds over 35 trillion cubic feet of discovered natural gas. To date, this gas has been used to enhance North Slope oil production, adding several billion barrels to Prudhoe and Kuparuk recoveries. However, under the right business climate, the full commercial potential of this world-class resource can be unlocked. North Slope gas commercialization will bring new job opportunities, increased state revenues, reliable in-state energy supplies and new exploration opportunities, which will further the development of North Slope oil and gas. This will be key toward reaching your goal of one million barrels of oil per day through the Trans-Alaska Pipeline System.

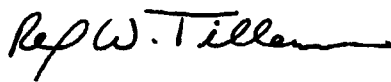
Serious discussions between our companies have taken place over the past several months, along with the Alaska Pipeline Project (APP) parties who are supporting the AGIA License. We have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework. As a result of the rapidly evolving global market, large-scale liquefied natural gas (LNG) exports from south-central Alaska will be assessed as an alternative to gas line exports through Alberta. In addition to broadening market access, a south-central Alaska LNG approach could more closely align with in-state energy demand and needs. We are now working together on the gas commercialization project concept selection, which would include an associated timeline and an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others.

Commercializing Alaska natural gas resources will not be easy. There are many challenges and issues that must be resolved, and we cannot do it alone. Unprecedented commitments of capital for gas development will require competitive and stable fiscal terms with the State of Alaska first be established. Appropriately structured, stable fiscal arrangements have opened new opportunities around the world, and will play a pivotal role in making Alaska competitive in the global market and unlocking the economic potential of North Slope resources.

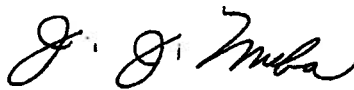
Point Thomson is an excellent example of a challenged, world-class resource. With approximately 25% of known North Slope natural gas, Point Thomson development is an important element in consideration of North Slope gas commercialization. However, economic models must span decades into an uncertain future to estimate economic returns. Your Administration has taken the lead in forging a Point Thomson settlement that will bring long-term resources, revenues and jobs to help Alaska's economy. With settlement now finalized, our companies are moving forward, as participating co-venturers, with the initial development phase at Point Thomson with confidence that North Slope gas development will ultimately bring the Point Thomson resource to market.

We agree the next generation of North Slope resource development is achievable, working together with the APP parties, as well as with the State of Alaska. Thank you for your leadership and your confidence in us to take on these challenges. We join you in a vision of prosperity and promise. There is much work to do and opportunities yet to discover.

Sincerely,



Rex Tillerson



Jim Mulva



Bob Dudley

# STATE OF ALASKA

**SEAN PARNELL, GOVERNOR**

550 WEST 7<sup>TH</sup> AVENUE, SUITE 1400  
ANCHORAGE, ALASKA 99501-3650  
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**DEPARTMENT OF NATURAL RESOURCES  
DEPARTMENT OF REVENUE  
OFFICE OF THE COMMISSIONERS**

May 2, 2012

Mr. Tony Palmer  
Vice President, Major Projects Development  
TransCanada Pipelines Limited  
450 - 1<sup>st</sup> Street S.W.  
Calgary, Alberta, T2P-5H1 Canada

Re: Approval of AGIA Licensees' Project Plan Amendments

Dear Mr. Palmer:

We are in receipt of your "AS 43.90.210 – Request for approval of project plan amendments under the [AGIA] License in respect of a potential LNG alternative – Phase 1" (the "PPA"), dated March 15, 2012. The PPA requests approval of two modifications to the project plan, described and identified by TransCanada Alaska Company, LLC ("TC Alaska"), Foothills Pipe Lines (North B.C.) Ltd. and Foothills Pipe Lines (South Yukon) Ltd. (jointly, the "Licensees" or "TransCanada") as the "Requested Amendments". Pursuant to AS 43.90.210, the Commissioner of Revenue and the Commissioner of Natural Resources for the State of Alaska ("Commissioners") approve the Requested Amendments to the project plan, as provided below.

## **BACKGROUND**

On December 5, 2008, the Licensees were issued a license under the Alaska Gasline Inducement Act ("AGIA"), AS 43.90, *et seq.* The AGIA License incorporates the project plan set forth in the Licensees' November 30, 2007 AGIA application ("AGIA project plan" or "project plan"), as amended by the project plan modifications approved by the Commissioners by letter dated January 29, 2010.

Under Section 210 of AGIA, the Commissioners may approve a proposal by the AGIA licensee to change its project plan if, among other things:

the amendment or modification is necessary because of changed circumstances outside the licensee's control and not reasonably foreseeable before the license was issued. An amendment or modification approved under this section must be consistent with the requirements of AS 43.90.130 and, except for an amendment or modification required because of an order or requirement of a regulatory agency with jurisdiction over the project or by the Alaska Oil and Gas Conservation Commission, may not substantially

*"To responsibly develop Alaska's resources by making them available for maximum use and benefit consistent with the public interest."*

diminish the value of the project to the state or the project's likelihood of success.

The Licensees propose two amendments to the project plan. First, the Licensees propose to include in the project plan the limited work plan, timeline and associated budget set forth in the PPA and identified as the "Initial Work Plan Amendment".<sup>1</sup> The Licensees state in the PPA that this amendment would facilitate participation by the Alaska Pipeline Project ("APP")<sup>2</sup> with the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly "ANS Producers") in a concept selection assessment of a liquefied natural gas ("LNG") alternative specifically relating to a gas pipeline and related midstream facilities to deliver natural gas from the Alaska North Slope to the tidewater of south-central Alaska. These work plans are part of formal agreements executed between APP and the ANS Producers. More generally, these LNG work plans were set forth in a joint letter on March 30, 2012 by the chief executive officers of the ANS Producers to Governor Parnell. The Licensees state that while this concept selection process is occurring, they would continue work on the current project plan that contemplates a pipeline from the North Slope to Alberta ("Alaska-Alberta Project") to the extent required to preserve rights and the Alaska-Alberta Project as an alternative to commercialize ANS gas.

Second, the Licensees propose to amend the date by which the Licensees are required to file an application for a certificate of public convenience and necessity ("CPCN") for the Alaska-Alberta Project from the Federal Energy Regulatory Commission ("FERC") from October 2012 to October 31, 2014, set forth in the PPA and identified as the "Regulatory Amendment". The deferral of the FERC filing deadline would coincide with the process of assessing the in-state LNG project alternative discussed above.

As discussed below, the Licensees contend that the PPA meets the requirements of AGIA Section 210 because of changed circumstances outside their control and not reasonably foreseeable before the license was issued. The Licensees also contend that the PPA does not substantially diminish the value of the project to the state or the project's likelihood of success, and is consistent with the requirements of AS 43.90.130.

## **DISCUSSION**<sup>3</sup>

The Requested Amendments would facilitate the ability of the APP Parties, on behalf of the Licensees, to continue work on the efforts to commercialize ANS gas with a focus on an in-state LNG project. These amendments are an outgrowth of Governor Parnell's request to the ANS Producers and the AGIA Licensees that they align under the AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska. In response, the chief executive officers of the ANS Producers recently announced that they and the APP Parties "have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework."<sup>4</sup> In their

<sup>1</sup> TransCanada requested confidentiality of the PPA, due to a claim of certain proprietary information contained within the PPA. The Commissioners granted this requested as provided under AS 43.90.210. However, much of the information contained in the PPA was not considered confidential by the Commissioners and is discussed in full in this determination.

<sup>2</sup> The Alaska Pipeline Project (APP) is being developed under an agreement entered into in 2009 between affiliates of TransCanada and ExxonMobil ("APP Parties") to jointly develop the project set forth in the Licensees' AGIA project plan.

<sup>3</sup> To the extent this determination does not address a specific statement or representation made in the PPA, it should not be construed as agreement with, or rejection of, any such statements or representations.

<sup>4</sup> ANS Producers' CEO March 30, 2012 letter to Governor Parnell (hereinafter "ANS Producers' CEO Letter").

letter to the Governor, the ANS Producers state that they “are now working together” with a focus on “large-scale liquefied natural gas (LNG) exports from south-central Alaska . . . as an alternative to gas line exports through Alberta.”<sup>5</sup>

Related to this alignment, the State and the ANS Producers also recently reached agreement on a settlement regarding development of the oil and gas resources at Point Thomson. Under the settlement, the ANS Producers “are moving forward . . . with the initial development phase at Point Thomson with confidence that North Slope gas development will ultimately bring the Point Thomson resource to market.”<sup>6</sup>

With these developments, particularly the alignment by the ANS Producers and the APP Parties in focusing on LNG commercialization, the proposed Initial Work Plan Amendment would enable the Licensees, through the APP Parties, to participate with the ANS Producers and focus commercial efforts on the LNG alternative, while reducing the level of expenditures on the Alaska-Alberta Project during the period the LNG alternative is being evaluated. The Requested Amendments lay out a transition phase between an ANS gas commercialization project that is focused on Lower 48 markets to one that is focused on LNG export markets abroad.

The proposed Regulatory Amendment, which would postpone the 2012 FERC filing date by two years, is expected to result in a reduction of Fiscal Year 2013 State-reimbursable expenditures on the Alaska-Alberta project under the AGIA License. This reduction would be achieved by deferring until October 2014 the Licensees’ obligation under AS 43.90.130(3) and the AGIA License to file a complete application at FERC for a CPCN for the Alaska-Alberta project while the Licensees, APP and the ANS Producers focus on the LNG alternative.<sup>7</sup>

In support of its PPA, TransCanada contends that changed circumstances justify both of its proposed amendments. Specifically, TransCanada points to (a) the decline in natural gas prices experienced in the U.S. largely as a result of increased shale gas production, (b) the projection by the U.S. Energy Information Administration (“EIA”) that the U.S. will become a net exporter of natural gas in the future, and (c) the interest the ANS Producers have expressed in focusing their efforts on an LNG alternative to the Alaska-Alberta Project. TransCanada also notes that, according to a January 2012 report by the EIA, “natural gas prices span a range from . . . \$4 per MMBtu in the United States and \$16 per MMBtu in Asian markets that rely on LNG imports.”

Based on the relevant facts that exist at this time, including the specific and limited nature of the requested PPA, the Commissioners find that changed circumstances exist for purposes of AS 43.90.210.<sup>8</sup> The relevant facts include: (1) a substantial increase in U.S. shale gas reserve

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<sup>5</sup> ANS Producers’ CEO Letter.

<sup>6</sup> *Id.*

<sup>7</sup> Among other things, TransCanada also committed to use the FERC’s pre-filing procedures prior to filing its certificate application. TransCanada has an obligation to pursue that commitment and its other license commitments in a diligent manner, which the Commissioners expect would result in a determination by FERC that TransCanada’s certificate application is complete once that application is filed. *See* the Request for Applications issued by the State of Alaska on July 2, 2007, at p. 49 (Section 5.1(40), stating that the licensee will pursue regulatory approvals and other actions “Promptly and Diligently”, which is defined as “a manner that is commercially reasonable in the interstate gas pipeline industry in the U.S. with respect to timing and execution of relevant actions.”).

<sup>8</sup> Under AS 43.90.210, each project plan amendment must be separately and independently justified and subject to the Commissioners’ approval. The Commissioners, therefore, do not address the Licensees’ request for acknowledgment or approval at this time that any future project plan amendments relating to the “LNG Pipeline Midstream Facilities” be considered to have arisen from the same set of changed circumstances as detailed in the PPA. This does not preclude the Licensees from raising the same or other changed circumstances in future requests for project plan amendments as



estimates; (2) significantly higher natural gas prices in Asia and other world markets, reflecting a higher oil to natural gas price ratio; (3) EIA's related projection that the U.S. will become a net exporter of natural gas in the future; and (4) the interest of the ANS Producers in aligning their work efforts behind an LNG alternative, which was not foreseeable at the time of the AGIA Findings and when the License was issued in 2008 because, at that time, the Lower-48 market looked much more robust.<sup>9</sup> This is the first time since AGIA was enacted that the Licensees and all three ANS Producers have been aligned on a gas commercialization effort.

The Commissioners also find that the PPA does not substantially diminish the value of the project to the State or the project's likelihood of success.<sup>10</sup> As noted by the Licensees, the U.S. EIA has recently found that natural gas prices in Asia are much higher than in the U.S. Focusing efforts among the Licensees, APP, and ANS Producers on the feasibility of an LNG project to serve higher-priced Asian and other markets may improve the value of the project to the State and the project's likelihood of success. Given the high natural gas prices that currently exist in Asia and in other world markets, an LNG project may be even more economic than it was at the time of the AGIA Findings. In addition, this shift in focus will not diminish the ability to meet in-state gas needs.<sup>11</sup>

Thus, the Commissioners expect the ANS Producers to make substantial and timely progress with the APP Parties in developing an LNG project, consistent with the ANS Producers' obligations under their leases with the State. In particular, the Commissioners expect that these parties will continue to pursue an aggressive work schedule to meet Governor Parnell's State of the State timeline to conclude the concept selection process referenced in the March 30, 2012 letter by the end of September 2012.

As noted above, ANS gas commercialization efforts are in a transition phase with ANS Producers, the APP Parties, and the Licensees working together for the first time on a single effort. After this initial concept selection work is completed, we expect the Licensees to file a more definitive PPA that will reflect the details of the project selection, the public solicitation (see below) and an associated timeline relating to an LNG project.<sup>12</sup>

The Commissioners also find that the PPA is consistent with the requirements of AS 43.90.130, which obligate the AGIA Licensees to certain commitments. Under the PPA, the Licensees continue to be bound by the requirements of AGIA, including all of their AGIA commitments under AS 43.90.130. The Licensees continue to be required to file a complete application for a CPCN at FERC for the Alaska-Alberta project by a date certain; the obligation to file a complete application is merely deferred until October 31, 2014.<sup>13</sup> Subject to this deferral, the

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appropriate to the request, which the Commissioners will then address based on the facts and circumstances that exist at that time.

<sup>9</sup> The mere fact that natural gas prices have changed since the AGIA License was issued in 2008, standing alone, does not meet the changed circumstances standard set forth under section 210. However, such price changes are a relevant factor when combined with the other relevant factors discussed above, under the circumstances that exist at this time and given the limited nature of the requested PPA.

<sup>10</sup> While it is not determinative to this decision, the Commissioners do not comment on, or find it necessary to rule on the merits of, the Licensees' limited interpretation of the term "value to the State".

<sup>11</sup> In addition to a focus on an in-state LNG project, the ANS Producers' CEO Letter also highlights the importance of addressing in-state Alaska gas needs and demands.

<sup>12</sup> The ANS Producers' CEO letter references an "associated timeline" as part of the gas commercialization project selection.

<sup>13</sup> See *supra* note 6.

Licensees will minimize the expenditure of State funds on the Alaska-Alberta alternative while the commercial focus shifts to the LNG alternative.

The Commissioners' approval of the Initial Work Plan Amendment and the Regulatory Amendment is subject to the following:

First, the Licensees will conduct and complete a comprehensive and meaningful public solicitation of interest in an LNG project by December 31, 2012, including interest in making firm pipeline capacity commitments on a pipeline from the North Slope to a new or existing LNG liquefaction terminal at tidewater as well as to Alberta. This solicitation must satisfy the requirements of AGIA and the AGIA license, and include all potential market participants, including but not limited to North Slope producers, explorers, LNG terminal developers, and entities seeking to import Alaska gas into Asian and other markets.

Second, the State will continue to reimburse the Licensees for reimbursable costs in accordance with AGIA for expenditures within the parameters of the project plan as amended by this determination. No reimbursements will be provided or paid for any costs relating to the LNG Pipeline Midstream facilities which occur after the period covered in the revised work plan, timeline and budget unless the Licensees have obtained approval of a subsequent project plan amendment covering work in the subsequent period. Consistent with Governor Parnell's State of the State address, the Licensees will consult with the Alaska Gasline Development Corporation ("AGDC") to determine whether useful work product is available from AGDC and, if so, then the Licensees will take reasonable steps to obtain or utilize the AGDC work product from AGDC. This is in the interest of prudently avoiding unnecessary and duplicative expenditure of state funds on projects that share the important objectives of addressing in-state demands for natural gas and commercialization of ANS gas.

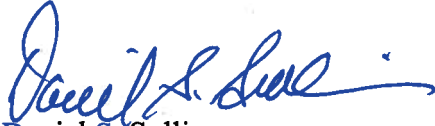
Third, all work product related to the Alaska-Alberta Project generated by or on behalf of APP, including both complete and incomplete work, will be inventoried as soon as practicable and preserved. This inventory, which must be provided to the Commissioners, will include, without limitation, a description of the currently incomplete work that is expected to become complete and be transferred to the Licensees over the period of the Initial Work Plan Amendment. In addition, all work product related to the LNG Pipeline Midstream Facilities pursuant to the Initial Work Plan Amendment generated by or on behalf of APP or the Licensees during the concept selection process for the LNG alternative will be transferred to the Licensees at the end of the concept selection stage, as described in the PPA.

## **FINDINGS AND CONCLUSIONS**

For the reasons discussed above, the Commissioners conclude as follows:

1. The PPA is necessary because of changed circumstances outside the Licensees' control and not reasonably foreseeable before the license was issued,
2. The PPA is consistent with the requirements of AS 43.90.130,
3. The PPA does not substantially diminish the value of the project to the state or the project's likelihood of success, and
4. The PPA is approved as provided herein.

The Commissioners emphasize that the foregoing discussion, findings and conclusions are limited to the two Requested Amendments proposed in the PPA. The Commissioners do not approve or acknowledge any additional or future project plan amendments that may be stated or implied in the PPA.



Daniel S. Sullivan  
Commissioner  
Dept. of Natural Resources



Bryan Butcher  
Commissioner  
Dept. of Revenue