

Good afternoon, and welcome to Alaska.

My name is Steve Porter, and I am Deputy Commissioner of the Alaska Department of Revenue. I am also a member of Alaska's gasline negotiating team.

The Proposals

Alaska is currently evaluating several proposals to construct and operate a pipeline that would bring Alaska North Slope Gas to market.

One from the North Slope oil producers (ConocoPhillips, ExxonMobil, and BP).

Another from TransCanada Pipeline Company.

The third from the Alaska Gasline Port Authority.

A fourth application has been submitted by Enbridge, but we are currently not in negotiations with them, but they have right initiate negotiations any time they would like.

A fifth entity, the Alaska Natural Gas Development Authority, is also examining the possibility of constructing a gasline to bring Alaska North Slope Gas to market.

Because of confidentiality requirements, I am only able to speak in general terms about these negotiations.

The Alaska Stranded Gas Development Act

The negotiators are guided in this effort by Alaska's Stranded Gas Development Act.

That Act sets forth a process whereby the Governor is authorized to negotiate fiscal certainty for an extended period of time regarding taxation and other applicable issues with qualified applicants. In exchange the applicants would build the infrastructure necessary to bring Alaska's North Slope gas to market.

Once we have decided upon the terms of a contract we will submit it to the legislature and the public for their review. The review period will be a minimum of 30 days, but we will take as long as is necessary for them to give us constructive feedback.

We will then modify the terms of the contract as necessary to address the feedback we received during the public comment period.

Then the Governor will submit the final contract to the legislature for their ratification. The ratification is an up or down vote with no opportunity for amendment.

Federal Enabling Legislation

The first big step in bringing Alaska's gas to market occurred with the successful passage of federal enabling legislation.

This legislation contains a number of provisions critical to the construction of the Alaska gas pipeline.

1. Expedited judicial review.
2. Priority permit processing by FERC and other federal agencies.
3. Loan guarantees.
4. Accelerated depreciation for the pipeline.
5. Conditioning plant benefits.

FERC Regulations

In mid February of this year another big step was taken when the Federal Energy Regulatory Commission proposed regulations governing "open seasons" for the Alaska gas pipeline.

Those regulations embraced the Governor's main policy goals:

1. Providing access for new explorers.
2. Providing off-take points for instate usage.
3. Requiring serious consideration be given to in-state needs during open seasons and expansions.

With these two major milestones behind us it is up to the state to complete its negotiations with the applicants and move this project forward.

Governor's Goals

The Governor has laid out six goals that we need to accomplish through our negotiations with the various applicants. They are:

1. A fair share of the revenues for Alaska.
2. Provisions for in-state use of the gas.
3. Access to the pipeline for others who explore for gas.
4. A pipeline that may be expanded.
5. A state equity ownership in the pipeline.
6. Jobs for Alaskans and job training.

Now I would like to address the various pipeline proposals and how they relate to the Governor's six policy goals.

First,

1. A fair share of the revenues for Alaska

What does that mean.

A fair share applies to the State, the applicant and the owners of the gas. Each party should receive a fair share of the revenues based on the risks they take to bring Alaska's gas to market.

The standard under which all projects will be reviewed is the status quo.

What would the state receive in revenue from a pipeline project absent a Stranded Gas Contract. Any deviation from the value the state would receive from the status quo would need substantial justification.

We will also be considering what the Municipalities would be receiving under the status quo and what they would receive under the application.

As a part of the fair share evaluation the state must look at the commercial viability of each project and the likelihood they can accomplish what they have proposed.

Public Debate about the projects

Before I continue with this topic, I'd like to take a moment to discuss the the public debate over which is the best project and who should have the right to build it. The debate is going on both here and in Canada.

Debate is good especially if it includes a discussion of what the public feels is important to accomplish or what it needs from a gasline project. But if the debate centers around which project we should choose, it wastes our time and the public's time as well.

The state will not be persuaded by the debate in the press.

This is not a popularity contest. We are not persuaded by the personalities that step up to endorse the various projects.

We are persuaded by one thing, a commercially viable project that brings more value to the state than any other project. That will get our attention.

I recommend that each applicant spend more time solving the challenges they have in developing a commercially viable project and less time trying to convince us they are the best.

Now I would like to proceed to each of the projects and the challenges they face.

First, the **Producers, ExxonMobil, BP, and ConocoPhillips.**

As owners of gas, they don't have the problem of the need to acquire the gas. But they do have pipeline and market problems.

TransCanada believes they have the exclusive right to build the Canadian segment of the pipeline. If that is true the producers would need to come to agreement with TransCanada for their project to move forward. If TransCanada does not have an exclusive right to build the Canadian portion of the line, the producers still need to permit the Canadian portion of the project which is no simple task. They need only to ask their Canadian affiliates that are attempting to build the Mackenzie pipeline to understand the difficulty of permitting a gas pipeline in Canada.

Next, if the Producers try to sell the entire 4.5 bcf/d in Chicago, they will depress the price, at least until the market can adjust, which may take several years. They can mitigate that effect by splitting the gas out at Alberta, taking some to the West Coast, some to the mid West and some to the East coast.

One additional hurdle is the total cost of the project. Building a 48" or 52" line all the way to Chicago is very expensive. This can be mitigated the same way the market risk can be mitigated, by splitting the gas out at Alberta and using spare capacity that already exists in some pipelines and by expanding others to accommodate gas they want to ship.

TransCanada

TransCanada is not an owner or shipper of the gas. They are a pipeline company. So the value they bring is the ability to build a low cost pipeline with the lowest possible tariff. This is where they need to place their focus. Their challenge is to bring a commercially viable proposal to the owners of the gas that will convince them to ship on their pipeline.

TransCanada may also bring additional value to the project if what they believe about the effectiveness of their permits is true. Having TransCanada as the builder and owner of the pipeline could assist in bringing Alaska gas to market sooner than other options available to us.

The Alaska Gasline Port Authority

The Port Authority plans to sell just over 2bcf/d into the West coast markets of the United States. Our research indicates that the impact of that amount will have a more depressing effect on price than the Producers bringing 4.5 bcf/d into Chicago and the effect may last longer. They will need to mitigate that impact by finding other markets and reducing the amount of gas they plan to bring into the West Coast market.

In addition they have the added cost of building a liquefaction plant, regasification plants, more than one, and several Jones Act LNG tankers. This added transportation cost places them in a position of paying more to get Alaska's gas to market and receiving less for it when it gets there than other proposals we are currently evaluating.

To mitigate against this they will need to get a Jones Act waiver or some other form of economic incentive to reduce the overall cost of transportation.

They are also proposing to market half as much gas as the other proposals and therefore will bring in substantially less revenue than the other proposals even if they didn't have a more depressing effect on the market or have more challenging transportation costs.

One of the cornerstones of the Port Authority proposal is their tax-exempt status from the Internal Revenue Service. They would need to assure themselves and the state that they would be viewed as tax exempt under their current proposal.

In addition the Port Authority has the added regulatory difficulty of permitting regasification plants on the West Coast of the United States. This may be their greatest hurdle in bringing gas to market. New industrial facilities anywhere along the west coast suffer from substantial opposition from local citizens.

One last hurdle, if they can accomplish all the above, they would need to convince the owners of the gas of their commercial viability so the owners of the gas would either sell the gas to them or ship on their pipeline.

Five Remaining Goals

I have just finished covering the first of the governor's six goals. Now for the next five.

Actually they will take substantially less time than the first.

2. Provisions for in-state use of the gas.

The second of the Governor's goals is provision for in-state use of the gas. Here all the applicants are generally equal. The state and the Federal Energy Regulatory Commission will make sure that in-state use of gas is provided for.

The thing here to remember is the important work the Alaska Natural Gas Development Authority is doing. They are working on making sure a gas spur line to the Cook Inlet is permitted and ready to be built from whatever mainline is completed. Whatever project gets approved will have a provision for a spur line to Cook Inlet.

3. Access to the pipeline for others who explore for gas.

4. A pipeline that may be expanded.

The next two goals: access to the pipeline for others who explore for gas and a pipeline that may be expanded has generally been covered in the new Federal Energy Regulatory Commission open season regulations. We will continue to be vigilant in that process to make sure the interests of the state are protected. If we feel our interests have not been sufficiently

protected by the FERC, we will make sure we protect them in any contract we sign.

5. A state equity ownership in the pipeline.

Next, State equity ownership in the pipeline.

We are discussing state ownership in the pipeline with both the producers and with TransCanada. We have not discussed it with the Alaska Gasline Port Authority.

6. Jobs for Alaskans and job training.

Lastly, jobs for Alaskans and job training. Here almost all proposals are similar. There are roughly the same number of pipeline jobs available under each of the projects. The Gasline Port Authority would have additional jobs created because they would need to build a liquefaction plant in Valdez.

Closing

In closing, Alaska seeks a contract containing what it takes to get our gasline built.

It will have the earliest in-service date possible, contain the best fiscal benefit package possible, and afford new explorers and Alaskans the best access possible.

It will be what is best for Alaskans and all parties today and what will be best for Alaskans and all parties tomorrow.

Thank you for your attention.