

The Palin-Parnell Administration presents

# AGIA

The Alaska Gasline Inducement Act

## Presentation two

# **Introduction**

**State value for the \$500M (Part 2)**  
**Evaluation Criteria and Process**  
**Increasing Predictability for Producers**  
**Getting Gas for the Pipeline**

# **Economic analyses based on prototype gas pipeline model**

- **4.3 Bcf/day to Alberta**
- **70/30 debt to equity, 14% ROE**
- **Current PPT tax structure (no GTP credit)**
- **Pipeline cost of \$20.5B (\$2007)**
- **30 year project life**
- **Gas flow 2016-2046**
- **Oil to Gas ratio = 7 (fixed)**
- **Oil price of \$36.50 fixed real for project life**
- **\$ values increase at 2%/yr**

# **State Value for \$500 million**

## **Presentation 1:**

- Project moves forward faster**
- Lower tariffs**
- Expansion Commitments**
- Rolled-in rates**

## **Presentation 2:**

- In-State Use**

## In-State Use

- 5 off-take points
- Distance sensitive rates
- Expansion provisions

## Hypothetical: Gas Off-take in Fairbanks

- Off-take volume to meet heating needs only
- Main pipeline sized at 4.3 BCF/D delivered to Alberta
- Main pipeline cost \$20.5B
- Main Pipeline has 70% debt financing at 14% ROE

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**Full Tariff from NS to AK/Canada border = 72¢**

**Mileage-based rate from NS to Fairbanks = 46¢**

# Distance sensitive rates

## Fairbanks Gas Prices if capacity acquired at initial or subsequent Open Season

With distance sensitive rates:

\$5.50 Alberta Gas price  
minus \$2.14 pipeline (Alaskan + Canadian) and GTP costs  
= \$3.36 North Slope netback value  
+ 49¢ GTP fee  
+ 47¢ tariff to Fairbanks  
**= \$4.32 Fairbanks price**

Without distance sensitive rates:

\$3.35 North Slope netback value  
+ 49¢ GTP fee  
+ 72¢ tariff to Fairbanks  
**= \$4.62 Fairbanks price**

## Fairbanks Gas Prices if no capacity available through expansion

If in-state entities are not ready to subscribe for capacity in the initial open season, and if there are no expansions, then benefits of distance sensitive rates are not enjoyed.

### Illustration:

\$5.50 Alberta Gas price  
- \$2.14 pipeline and GTP costs  
= \$3.36 North Slope netback value  
+ \$2.14 pipeline and GTP costs  
= \$5.50 Fairbanks gas price

# Evaluation Criteria



## **Value to State:**

- **Timing**
- **Cost overrun mitigation**
- **Favorable tariffs**
- **Initial capacity and expansion**
- **State match after open season**

## **Likelihood of Success:**

- **Feasibility of work plan and budget**
- **Financial strength**
- **Technical expertise**
- **Track Record**

# Evaluation Process



- 1) Applications made public**
- 2) Public review and comment - 60 days**
- 3) Commissioners select licensee and make findings.**
- 4) Legislative review, opportunity to disapprove**
  - Review of published applications**
  - Review of Commissioners' finding- 30 days**

# **Increasing Predictability for Producers**

## **1. Royalty predictability**

- **“Higher-of” Provision**
- **RIV vs. RIK**

## **2. Production tax exemption**

- **Description of tax exemption structure**
- **Constitutionality**

## **Royalty Predictability**

- **Minimize retroactive adjustments**
- **Use public price indices**
- **RIK/RIV switching**

## Production tax predictability

- **Tax Exemption = gas production tax obligation (current year) minus gas production tax obligation (open season year)**
- **Available only on gas shipped in capacity acquired in first binding open season**
- **Available first ten years of gas flow**

## Production tax exemption

### Constitutionality

## Constitution of Alaska

### Article 9 - Finance and Taxation

#### § 1. Taxing Power

**The power of taxation shall never be surrendered. This power shall not be suspended or contracted away, except as provided in this article.**

## Constitution of Alaska

### Article 9 - § 4. Exemptions

The real and personal property of the State or its political subdivisions shall be exempt from taxation .... [P]roperty used exclusively for non-profit religious, charitable, cemetery, or educational purposes, ... shall be exempt from taxation. Other exemptions of like or different kind may be granted by general law. All valid existing exemptions shall be retained until otherwise provided by law.

# Getting Gas for the Pipeline

- **How Much is Needed?**
- **Prudhoe Bay**
  - **AOGCC off-take study**
- **Point Thomson**
- **New exploration**

# Summary



- **Get project built, quickly**
  - Significant cost of delay
  - Need timelines, benchmarks
- **Open the North Slope gas basin**
  - Mandatory Expansion
  - Rolled in Tariffs
- **Open and competitive process**
  - Evaluation Criteria
- **Low tariffs**
  - State Contribution
  - Debt to Equity Ratio
- **Gas for Alaska**
  - Distance Sensitive Rates
- **Jobs for Alaska**
  - Training Program
- **Increase Predictability for Producers**