The Palin-Parnell Administration presents

AGIA

The Alaska Gasline Inducement Act

Senate Judiciary
4/16/07

FERC Policy- Rolled in Rates- In Alaska

AGIA
The Alaska Gasline Inducement Act

- 2004 ANGPA mandate to FERC:
  - "promote competition in the exploration, development and production of Alaska natural gas." (§103(e)(2)(b)).
  - "provide the opportunity for the transportation of natural gas other than from the Prudhoe Bay and Point Thomson units" for any open season for capacity exceeding the initial capacity of the line. (§103(e)(2)(c)).

FERC Policy-
Rolled in Rates- In Alaska

- FERC Concluded:

"incremental pricing of expansion could put expansion shippers at a significant rate disadvantage compared with initial shippers, and accordingly could discourage exploration, development and production of Alaska natural gas." (Order 2005 at ¶ 123)

FERC Policy-
Rolled in Rates- Lower 48

- From 1960's until 1999 FERC preferred rolled-in pricing. (Statement of Policy, 71 FERC ¶ 61,231 (1995)).

- Changed in 1999 because, "it no longer fits well with an industry that is increasingly characterized by competition between pipelines." (Statement of Policy, 88 FERC ¶ 61,227 (1999)).

FERC Policy- Rolled in Rates- Lower 48/Alaska

AGIA
The Alaska Gasline Inducement Act

- "Our existing lower-48 states policy favoring incremental rates for expansions does not apply in the case of an Alaska natural gas project. There is likely to be only one Alaska pipeline so there will be little or no opportunity for competition between pipelines." (Order 2005 at ¶ 123).

FERC Policy- Rolled in Rates- Lower 48/Alaska

The Alaska Gasline Inducement Act

A rate increase is not necessarily a subsidy. (*see,* order 2005-A at ¶ 50).

"An alternative …definition of subsidization could be whether the expansion rate is no higher than the actual initial rate or of an initial rate without built in subsidies." (Order 2005-A at ¶ 49)

FERC Policy- Rolled in Rates- Alaska

The Alaska Gasline Inducement Act

"Whether a rolled-in expansion rate that is higher than original rates is a 'subsidy' is a question that necessarily would have to be reviewed in the context of a future NGA section 7 filing. At that time, Pacific Star's argument relating to whether the federal government's loan guarantees and accelerated depreciation amount to a 'subsidy' of initial shippers' rate may be raised." (Order 2005 at ¶ 124, emphasis in original).

Governmental Contribution to Rates

AGIA

The Alaska Gasline Inducement Act

Government Contributions reduce rates by more than 15%:

- Loan Guarantee up to $18 billion
- 7-year accelerated depreciation
- Federal income tax credit for GTP
- AGIA $500 million

AGIA Policy- Rolled in Rates

The Alaska Gasline Inducement Act

- AGIA caps roll-in filing commitment roughly at level of governmental contributions to the project.

- Permits 2d or 3d generation of expansion shippers also to enjoy the benefit of governmental contributions made available to initial shippers.

FERC Process

The Alaska Gasline Inducement Act

"A pipeline company

PROPOSES

But the FERC

DISPOSES."

(an old industry adage)

FERC Process

- AGIA does not intrude on FERC's authority.
- AGIA requires that the licensee ***PROPOSE*** rolled-in rates
- FERC will ***DISPOSE.***