

AGIA turning gas line possibility into reality

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Something extraordinary happened on April 30, 2010. The Alaska Pipeline Project (APP) initiated the first ever open season for North Slope natural gas. The open season is a stage in the development of a pipeline project where the pipeline company negotiates with potential shippers to determine the terms under which shipping commitments will be made to the project. These commitments then serve as the foundation for financing the project.

Alaskans have dreamed of a gas pipeline for over thirty years but all efforts that preceded the adoption of the Alaska Gasline Inducement Act (AGIA) in 2007 failed.

In 1998 the Alaska Legislature adopted the Stranded Gas Development Act (SGDA). At the time, the producers said that without an agreement on a comprehensive and durable fiscal system, they would not invest in further advancement of the project. Efforts to negotiate a gasline deal with the North Slope producers under the terms of the SGDA were lengthy and ultimately left Alaskans stranded. Countless concessions were made by the state but none provided "ANY" guaranteed benefits to the state. The agreement reached under the SGDA failed to include any commitment from the industry to advance the project to open season and beyond. Basically, the state was in an extremely leveraged position, the producer's were inflexible in their message that without extreme concessions from the state, they would not advance the gasline project.

The Alaska Legislature determined that a new approach was necessary and found that in AGIA.

AGIA was passed to ensure that a pipeline project moved through open season and beyond to the point where a project could be permitted by the Federal Energy Regulatory Commission (FERC). It mandates fair and reasonable transportation rates, open access to new shippers, and access to Alaska gas for Alaskans. In turn the legislation demonstrates the state's commitment to move a project forward by providing financial and other inducements to develop and advance a project through open season to project sanction.

The strategy behind this approach is working.

TransCanada Alaska (TC Alaska) submitted an application that complied with each and every one of the requirements set forth under AGIA. After being awarded the AGIA License, TC Alaska and Exxon Mobil signed an agreement to establish the Alaska Pipeline Project (APP). In keeping with the competitive nature of AGIA, ConocoPhillips and BP created their own project called Denali.

APP's open season plan was approved by the FERC in March 2010. The APP submitted a comprehensive plan for an Alaska natural gas pipeline that identified two potential routes – one to Alberta and the North American market and another to Valdez to explore commercial interest for an LNG option. APP formally commenced its open season on April 30. On June 8, Denali's open season plan was approved by the FERC. Denali will begin its open season sometime in July. Further evidence of the success of the AGIA strategy is found in the commercial terms contained in each project's open season plan. Both projects have proposed tariff rate setting methods valuable to the State and to future explorers on the

North Slope. The value of these pipeline terms lessens the economic pressure to alter the State's fiscal system. In short, getting to an open season has improved the state's leverage in fiscal discussions.

With two competing projects reaching open season in 2010, we're witnessing a paradigm change thanks to the AGIA approach. Learning from the mistakes and miscues of the past, the State of Alaska designed and implemented a game-changing strategy where decades of stagnation had been the norm. We've moved from talking about whether a pipeline is possible to discussing which pipeline project will win the competition.

Throughout this process the State continues to evaluate whether changes to our fiscal system are justified. Looking forward, the AGIA strategy ensures that regardless of the posturing and negotiations that are natural to the open season process, the APP project will continue forward to a FERC certificate.

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