

**Tom Irwin**  
Commissioner

550 W. 7th Ave., Ste 1400  
Anchorage, AK 99501  
907-269-8431



**Public Information Center**  
550 W. 7th Ave., Ste. 1260  
Anchorage, AK 99501  
[www.dnr.alaska.gov](http://www.dnr.alaska.gov)  
907-269-8400

## Press Release

COMMISSIONER'S OFFICE

FOR IMMEDIATE RELEASE  
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Media Contact: Mark Morones, (907) 375-7754  
AGIA Coordinator's Office

### State Proposes Royalty Regulations in Preparation for Open Season

**(Anchorage, AK)** – The Department of Natural Resources (DNR) announced natural gas royalty regulations today that establish a method for valuing the state's royalty share of gas production and identify the terms under which the state will exercise its right to switch between taking its royalty in value (as money) or in kind (in gas). The regulations will apply to lessees who commit to ship gas in firm transportation capacity acquired through the first binding open season for a project licensed under the Alaska Gasline Inducement Act (AGIA).

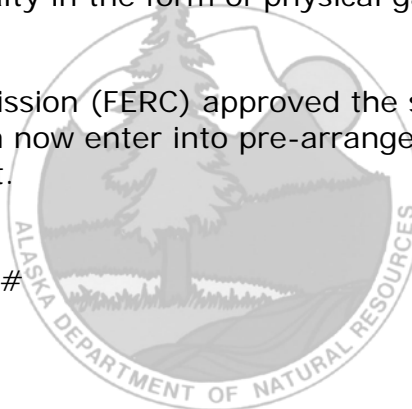
"For qualifying entities that elect to have their gas valued under the proposed regulations, the specified allocation, accounting and valuation mechanisms simplify and clarify the value of the state's royalty share," said Kevin Banks, Director of the DNR's Division of Oil and Gas. "These regulations are intended to be robust to possible changes in market conditions, so that the state continues to get fair market value for its royalty. At the same time, they provide an inducement for lessees to commit to capacity in the upcoming Alaska Pipeline Project open season. The regulations minimize retroactive adjustments to royalty value. By providing clarity about how royalty will be valued for a qualified lessee, they substantially reduce the prospects of litigation. They are intended to be responsive to concerns that lessees have voiced concerning royalty valuation."

The proposed regulations base royalty value on fair market value at the first destination markets for Alaska gas. The DNR identified likely first destination markets to include the NOVA System, including AECO-C, in Alberta, Canada, the Alliance Pipeline (including but not downstream of Chicago, Ill) and possibly destinations reached through the West Coast Pipeline (including but not downstream of Sumas, WA).

In addition to providing qualified parties a measure of fiscal certainty regarding valuation of gas royalties taken as payment (royalty-in-value or RIV), the proposed regulations address situations where the state might elect to take its royalty in the form of physical gas (royalty-in-kind or RIK).

In late January the Federal Energy Regulatory Commission (FERC) approved the state's request to waive a FERC rule. Under the waiver, the state can now enter into pre-arranged deals to acquire capacity from a lessee at the lessee's full cost.

## More ##



*(Royalty Regulations release, pg. 2 of 2)*

“Without the waiver, under current FERC rules, a shipper would potentially pay the full cost for shipping its allotted capacity of gas to market (known as a reservation charge), even if the state pulls its royalty gas share from the shipper’s capacity,” said Antony Scott, Commercial Analyst with the Division of Oil and Gas. “We wanted to remove the risk that shippers would be charged for unused capacity.”

The proposed regulations would provide shippers additional notice of the state’s decision to switch between taking royalty gas or royalty payment. That will, in turn, provide lessees the opportunity to release capacity they are no longer using. “Essentially the regulations take advantage of the capacity waiver granted by the FERC. The potential savings to shippers over the lifetime of the pipeline project can be measured in the billions of dollars,” said Scott.

Interested parties have until the close of business on Monday, March 22, 2010 to submit written comments. The regulations, public notice, and accompanying documentation are available online at:

<http://www.dog.dnr.state.ak.us/oil/>

Copies of the regulations can be obtained by calling the Oil and Gas Division at (907) 269-8611. Comments or questions about the regulations should be directed to Antony Scott with the Division of Oil and Gas at: [antony.scott@alaska.gov](mailto:antony.scott@alaska.gov).

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