

EXECUTIVE SUMMARY OF AGIA
March 5, 2007

PURPOSE: To encourage expedited development of Alaska's gas resources by offering incentives to companies that produce the state's gas resources and companies that can build a pipeline.

INCENTIVES FOR PIPELINE CONSTRUCTION: The state offers to match up to \$500 million of the costs that the licensee will incur to obtain a certificate from the Federal Energy Regulatory Commission or Regulatory Commission of Alaska. The state will appoint a state pipeline coordinator who will be empowered to coordinate amongst the state regulatory agencies with permitting responsibilities. The state will develop its qualified labor force to support project construction and operations.

INCENTIVES FOR GAS COMMITMENT: The state will adopt regulations to provide predictability in the determination of royalty value and its exercise of its right to take its royalty share in kind as gas or in value as money. The state also offers a production tax exemption for gas committed to the pipeline equal to the difference between the taxpayer's tax obligation defined in the tax law at "open season" (i.e., on the day the first solicitation of gas commitments ends), and any higher obligation that becomes effective for ten years after pipeline start-up.

LICENSE REQUIREMENTS: In order for applications to be evaluated, they must commit to the sixteen requirements in AGIA; including, in particular:

1. a commitment to solicit firm commitments to ship gas on the pipeline within 3 years of getting the license (the open season),
2. a firm date by which the applicant will apply to Federal Energy Regulatory Commission or Regulatory Commission of Alaska for a certificate authorizing the pipeline
3. a commitment to certain financial provisions that will keep tariff rates low
4. a commitment to solicit demand for pipeline expansion at least every two years, to expand when there is sufficient need, and to collect the cost of any expansions through "rolled-in" rates that pass expansion costs onto all shippers so long as rates do not increase more than a fixed amount above initial rates,
5. a description of how cost overrun risks will be managed
6. a commitment to have at least five delivery points in Alaska
7. a commitment to hire qualified Alaskans for construction and operation of the gas pipeline

APPLICATION REVIEW CRITERIA: The Commissioners evaluate the applications under the seven criteria in AGIA:

1. proposed project timeline
2. proposed method to manage cost overruns
3. proposed tariff rate structure
4. the ability of the project design to accommodate expansion
5. how much of the state matching fund will be used and the timing of the state's payments
6. whether the project is feasible
7. the applicant's ability to perform

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PROJECT PROCESS: The project begins when the Commissioners issue a request for applications no more than three months after AGIA passes. The application deadline will be established by the Commissioners in the notice. The Commissioners will publicly release complete applications and take comments for 60 days. Applicants can apply to protect proprietary information or trade secrets included in their applications. The Commissioners forward a written decision recommending award. The legislature will then have 30 days after that notice to disapprove the Commissioners' proposed action.

After a license is awarded, the licensee must complete an application to the Federal Energy Regulatory Commission or Regulatory Commission of Alaska. The licensee must sanction the project within a year of receiving a certificate from the Federal Energy Regulatory Commission if it has adequate financing. If necessary, the licensee has an additional four years to obtain financing or transfer the certificate, and all associated work product, to another licensee designated by the state.

If the project becomes uneconomic after the license is awarded, AGIA describes a process for relinquishing the license that will enable the state to recover the benefit of its investment in the project by issuing another licensee. To encourage the licensee to commit to spend funds building the pipeline, the state agrees that if it provides financial benefits to another group to encourage the construction of a competing pipeline project after the license is issued, the licensee is entitled to recover three times the amount it spent on the project from the state.