

The Alaska Gasline Port Authority LNG Project

"The Future is on the Line"



Gorsuch Policy Forum

The Alaska Natural Gas Pipeline:
What's It All About

November 29th, 2005

Public Policy is Established: The Intent



At Statehood:

May 22, 1958 U.S. Congressional Record

*Rep. Dawson of Utah: "Now is the time to let her begin realizing her true potential, but **if Alaska is to be given the duties and responsibilities of statehood, she must also be given a visible means of support... To provide the new State with [a] base for a going and growing economy ... [the United States must] grant some of the public lands to the State to be used and developed by her people. All grants include the mineral rights, but these must be retained by the State... In other words, the mineral rights will always belong to the people of Alaska, and never to private individuals.** *Reflected in the Statehood Act**

Public Policy: Alaska Statehood Act



Statehood Act: Section 6(i)

***“(i) All grants [of land] made or confirmed under this Act shall include mineral deposits. The grants of mineral lands to the State of Alaska under subsections (a) and (b) of this section are made upon the express condition that all sales, grants, deeds, or patents for any of the mineral lands so granted shall be subject to and contain reservation to the State of all of the minerals in the lands so sold, granted, deeded, or patented, together with the right to prospect for, mine, and remove the same. Mineral deposits in such lands shall be subject to lease by the State as the State legislature may direct: Provided, That any lands or minerals hereafter disposed of contrary to the provisions of this section shall be forfeited to the United States by appropriate proceedings instituted by the Attorney General for that purpose in the United States District Court for the District of Alaska.*”**

Public Policy: The Constitution



ALASKA STATE CONSTITUTION ARTICLE 08, NATURAL RESOURCES

Section 8.1 – Statement of Policy.

*It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for **maximum use consistent with the public interest.***

Section 8.2 – General Authority.

*The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, **for the maximum benefit of its people.***

Public Policy: The Law



Right of Way Leasing Act

AS 38.35.010 (a) ...It is the policy of this state that the development, use, and control of a pipeline transportation system be directed to make the maximum contribution to the development of the human resources of this state, the increase in the standard of living for all of its residents, the advancement of existing and potential sectors of its economy, the strengthening of free competition in its private enterprise system, and the careful protection of its incomparable natural environment.

Stranded Gas Development Act

AS 43.82.010 The purpose of this chapter is to (1) encourage new investment to develop the state's stranded gas resources by authorizing establishment of fiscal terms related to that new investment without significantly altering tax and royalty methodologies and rates on existing oil and gas infrastructure and production;

(2) allow the fiscal terms applicable to a qualified sponsor or the members of a qualified sponsor group, with respect to a qualified project, to be tailored to the particular economic conditions of the project and to establish those fiscal terms in advance with as much certainty as the Constitution of the State of Alaska allows; and

(3) maximize the benefit to the people of the state of the development of the state's stranded gas resources.

Public Policy: The Leases



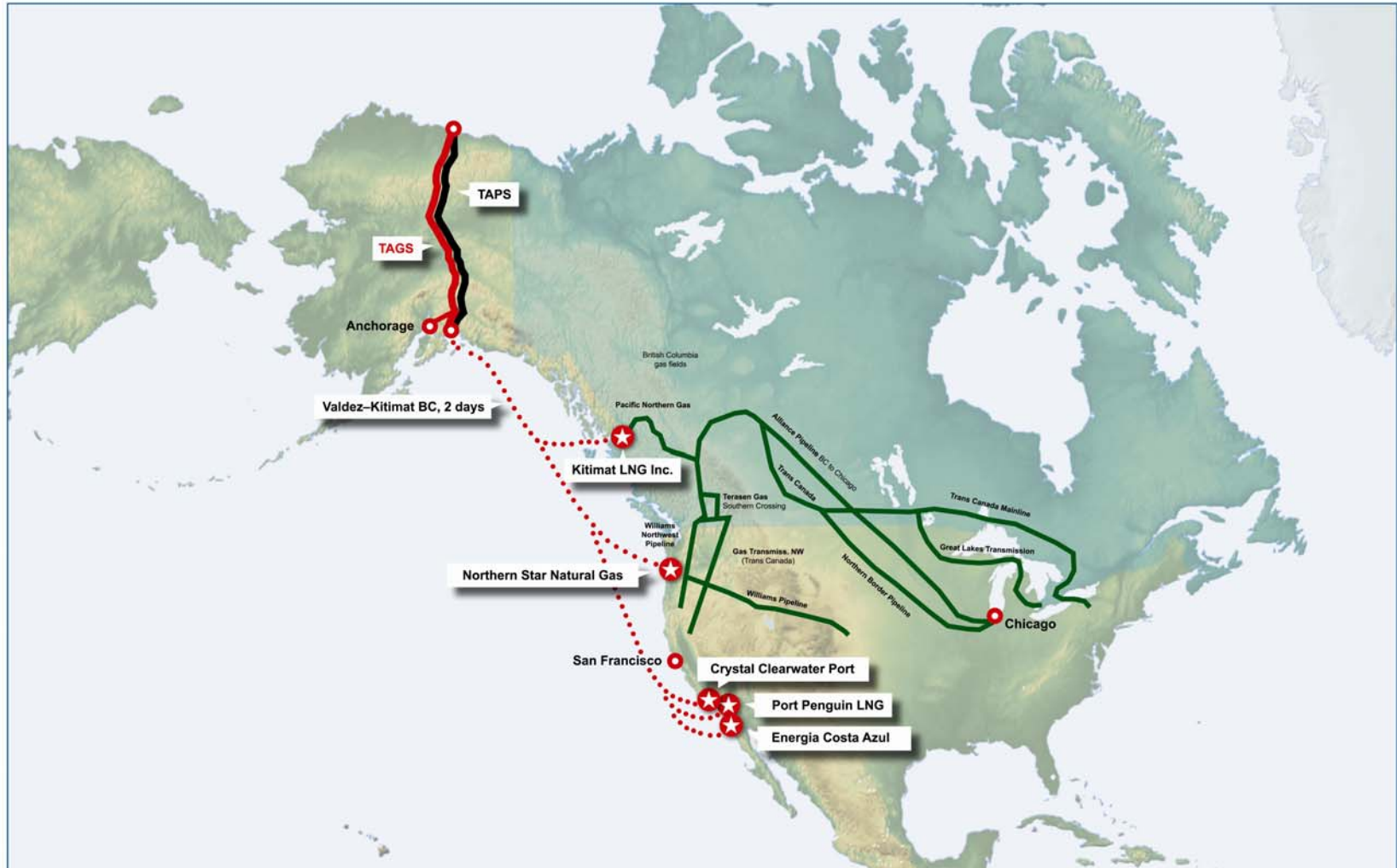
13. DILIGENCE AND PREVENTION OF WASTE.

(b) Upon discovery of oil or gas on the leased area ... the lessee must drill those wells as a reasonable and prudent operator would drill, having due regard for the interest of the state as well as the interest of the lessee.

20. DEFAULT AND TERMINATION; CANCELLATION.

(a) The failure of the lessee to perform timely its obligations under this lease, or the failure of the lessee otherwise to abide by all express and implied provisions of this lease, is a default of the lessee's obligations under this lease. Whenever the lessee fails to comply with any of the provisions of this lease, and fails within 60 days after written notice of that default to begin and diligently prosecute operations to remedy that default, the state may terminate this lease...

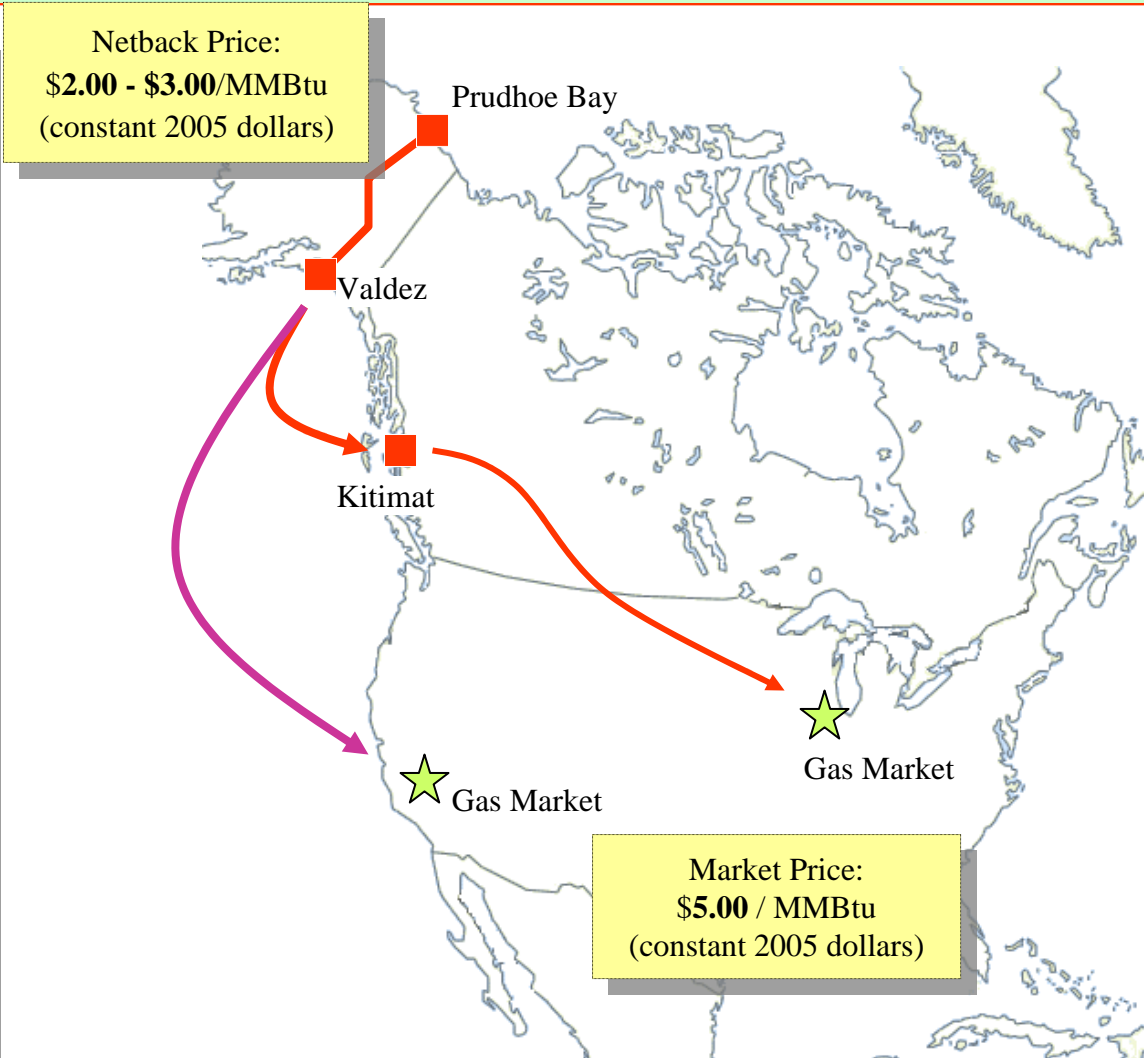
The Alaska LNG Project: Description



Base Case: Pro Forma Netback Results



- Assumed Lower 48 price index (Henry Hub): \$5.00/MMBtu in real 2005 terms
- Base Case real netback price for 2012 at the Pipeline inlet projected to be in excess of \$2.00/MMBtu (in constant 2005 dollars) for the ramped-up project.
- 2014
 - \$1.5 billion to the State
 - \$384 million Municipalities
 - \$2 billion net to Producers
- First 20 years of project life, over \$10 billion more revenue to the state and municipalities than the producer's project.



Alaska's Risk

