

RE-APPLICATION OF
THE ALASKA GASLINE PORT AUTHORITY TO
THE STATE OF ALASKA,
FOR APPROVAL UNDER A.S. 43.82
THE ALASKA STRANDED GAS DEVELOPMENT ACT

March 30, 2005



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**Application of the Alaska Gasline Port Authority to
the State of Alaska, Department of Revenue
Under the Alaska Stranded Gas Development Act**

The Alaska Gasline Port Authority (Port Authority) submits this application pursuant to the Alaska Stranded Gas Development Act, AS 43.82.010. By submitting this application, the Port Authority expresses its intent to secure Alaska North Slope natural gas supplies, enter into contracts with natural gas, LNG and LPG purchasers for intrastate, interstate and export use, obtain financing for and contract to construct and operate a gas pipeline for the transportation of North Slope natural gas to market.

This pipeline will consist of an overland gas pipeline from Prudhoe Bay, Alaska to tidewater at Valdez that will run parallel to the existing Trans-Alaska Oil Pipeline. The Port Authority is willing to oversize the pipeline to Delta Junction (550 miles) to allow for a future line from Delta Junction along the Alcan Highway for gas into the Mid West (“Prebuild Option”). Additionally, a line will be built from Glennallen, Alaska into the Matanuska-Susitna Valley, (approximately 125 miles) to connect with the existing South Central natural gas grid to provide gas to the Matanuska-Susitna Valley, Anchorage and the Kenai Peninsula (“Project”).¹

As required under AS 43.82.130, the Port Authority submits for consideration and approval to the Department of Revenue, along with this application, the required project plan. The ultimate plan will depend on whether the State and producers select the Prebuild Option. For the purpose of this application the Port Authority has assumed that the Prebuild Option will be

¹ Exhibit 1 - AGPA Project Presentation Book

selected. The Port Authority requests a determination by the Commissioner of the Department of Revenue that the proposed project plan is a qualified project plan within the requirements of AS 43.82.130. While the Port Authority itself does not require concessions from the State with respect to the tax regime, etc.; the Port Authority recognizes that producers, who wish to sell gas to it and may operate and or build parts of the project, will want some measure of certainty and stability with respect to royalty, severance taxes, etc. for such activities. This reapplication is to ensure a forum for such determinations for the sellers of gas to this project as opposed to the other projects under consideration.

I. Introduction

The Alaska Gasline Port Authority is a municipal port authority established on October 5, 1999, in accordance with the Alaska Municipal Port Authority Act (AS 29.35.600), et. seq. (Port Authority).² The Port Authority was formed by the municipalities of the North Slope Borough, Fairbanks North Star Borough and the City of Valdez.³ An election was held in each of those municipalities and the percentage of voter approval for the formation of Port Authority averaged approximately 80%. Shortly following its formation, the Port Authority submitted to the IRS an application for a private letter ruling establishing that all income to the Port Authority would be tax exempt. On January 24, 2000, the IRS issued the requested private letter ruling declaring that income to the Port Authority would be exempt from federal income taxes.⁴ According to petroleum economist and consultant Dr. Pedro Van Meurs, this IRS ruling provides \$10-20 billion in additional benefits to the Port Authority Project,⁵ Further, the amount of this benefit exceeds any State and Municipal tax breaks that could conscionably be negotiated to improve the economics of an otherwise taxable gas pipeline project.

Project Cost Estimate

The Port Authority engaged the services of Bechtel Corporation to provide an engineering, procurement, and construction study for the Project. The initial

² Exhibit 2 – Alaska Municipal Port Authority Act

³ Exhibit 3 – Establishing Ordinances

⁴ Exhibit 4 – IRS Ruling

⁵ Exhibit 5 – Pedro Van Meurs Letter

Project consisted of a gas pipeline from Prudhoe Bay to run parallel to the Trans-Alaska oil pipeline, to an LNG liquefaction terminal in Valdez, utilizing existing permits. The Project has since been modified to be able to prebuild a larger line to Delta Junction and enable the addition of a line through Canada. The Project also includes a line from Glennallen to approximately Sutton to connect with the existing Southcentral natural gas grid in an addendum to the project cost estimate.⁶ Bechtel is currently updating its cost estimate to reflect the recent increases in steel and other material costs as of March 2005.

Economic Model

In conjunction with work done by Bechtel Corporation, the Port Authority engaged the services of Taylor-DeJongh to develop an economic model incorporating the work performed by Bechtel Corporation. Taylor-DeJongh is an organization of internationally acclaimed energy financial advisors headquartered in Washington, D.C., with offices worldwide, and has, in some capacity, been involved in most of the international LNG projects financed around the world over the past 10 years.⁷ See www.taylor-dejongh.com. The economic model will be updated by Greengate Capital LLC to reflect the new Bechtel numbers and the new data will be submitted in the next couple of weeks.

⁶ Exhibit 1, pg. 6-10 - Bechtel Project Cost Estimate

⁷ Exhibit 1, pg. 5 - Taylor DeJongh Economic Model

Financing

Financing for the Port Authority gas pipeline would be through the Federal loan guarantee for up to 80% of the project costs.

As a result of the over 55,000 work hours by Bechtel developing a hard-dollar estimates for the Project, which includes substantial contingencies and the AGPA's economic models, the Port Authority is confident that the LNG All-Alaska line plus an oversize line to Delta Junction for gas to the Mid West and a line into the existing Southcentral Alaska natural gas grid, is the most financially beneficial project to Alaska.⁸

In addition to obtaining a ruling of federal income tax exempt status from the IRS, a turn- key price estimate from Bechtel Corporation and an economic model from Taylor-DeJongh that confirms the Project financing feasibility, the Port Authority has entered into an MOU with a company that has applied for permits to construct and operate an LNG receiving terminal off the coast of California. The Port Authority has also entered into a Development Agreement with Sempra Alaska who will contract with the Port Authority to perform a number of services and will buy and market gas from the Port Authority. The Port Authority's Project infrastructure and the inclusion of propane and butane, returns the greatest well-head price for the gas and the greatest financial benefit to all Alaskans from Alaska's natural gas reserves.

A basic element of the Port Authority Project is the inclusion of a Project revenue distribution to all municipalities in Alaska providing a stable community

⁸ Exhibit 6 – Alaska State Constitution Article VIII, sec. 1&2

dividend that may be used for funding of capital projects, basic services and improved quality of life.

Allowing for maximum competition in the development of Alaska North Slope natural gas is in the best interest of Alaska. The Port Authority is committed to assuring no undue restrictions of access to gas pipeline capacity for producers of ANS gas.

The Port Authority welcomes an opportunity to fully discuss this application with the Commissioner of the Department of Revenue or appointed designees.

Additional information about this application and inquiries about the Alaska Gasline Port Authority should be directed to:

William M. Walker
Walker & Levesque, LLC
731 N Street
Anchorage, AK 99501
278-7000
bill-wwa@ak.net
www.alaskagaslineportauthority.com