

**TESTIMONY OF WILLIAM CORBUS, COMMISSIONER,  
DEPARTMENT OF REVENUE,  
STATE OF ALASKA  
TO THE  
FERC OPEN SEASON TECHNICAL CONFERENCE  
Anchorage, Alaska**

**December 3, 2004**

Thank you Chairman Wood, FERC Commissioners and Mr. Cupina for giving me the opportunity to appear on this panel. With me is Bob Loeffler of Morrison & Foerster, our FERC Counsel.

As you know, and as the Governor just emphasized, Alaska strongly desires to see an Alaska gas pipeline project come to fruition. Oil and gas discoveries on the North Slope led to the construction of an oil pipeline -- the TransAlaska Pipeline. That pipeline has supplied a significant percentage of this nation's oil needs for nearly 30 years. Yet, over that same period of time the vast North Slope gas reserves have remained locked up, unable to serve the gas needs of people in the lower 48 and here in Alaska. The time has now come for changing that gas situation and Alaska intends to help lead that change.

The State is a proponent of getting an Alaska gas pipeline built now. To that end, as the Governor just stated, good faith Stranded Gas Act negotiations continue independently with the Producers and with TransCanada. The State remains available to continue discussions with Enbridge and any other entities, and is available to provide support to ANGDA and the Port Authority.

Alaska is negotiating State equity ownership. Alaska's participation as an owner would help reduce the risk exposure of the other potential owners and thereby help get this mammoth and very costly pipeline finally built. Alaska hopes to reach an agreement on pipeline participation early in 2005. For Alaska to own a part of the pipeline would be a new role for the State or, for that matter, for any state in the U.S.

As a potential investor and part owner of a gas pipeline, we need to know the regulatory rules of the road. The open season rulemaking is a critical step forward in meeting this need and we support the Commission's efforts. Together with my colleague the Commissioner of Natural Resources, we will suggest improvements the Commission can make to the draft open season regulations that will serve the goal of establishing clear rules of the road. Also, we will suggest that the Commission take a second step and, after the conclusion of this rulemaking, launch an inquiry to an issue critical to all – the issue of the expandability. In an expansion inquiry, the Commission could address the important issue of rolled in vs. incremental pricing.

Alaska's potential role as a pipeline owner leads me to make three suggestions about the draft open season regulations. They reflect obligations that a pipeline owner must fulfill.

First, let me address the issue of the size and design of the pipe. In my mind, nothing can be more important to successfully delivering North Slope gas reserves than getting the pipeline's original size and future expandability correct. How the pipeline is originally sized—the diameter of the pipe and the number, size and location of the initial compressor stations—will be critically important to shippers and owners alike. I applaud the FERC's draft requirement that the open season notice provide potential bidders with information on some 17 factors, including various sizing factors. However, more is needed. We favor early FERC intervention in the open season process as a way to get information out early. Commissioner Irwin will describe our specific proposal for early Commission involvement in the open season process.

The ultimate goal is to have a gas pipeline capable of i) handling all qualified initial gas tenders, and ii) being expanded sufficiently to handle all reasonably foreseeable gas tenders. By qualified tenders, we mean creditworthy parties willing to execute firm long term transportation contracts for the requested capacity at max rates.

The final open season regulations should specifically set forth the goal of full accommodation of all qualified bids as an objective that the pipeline should meet. If the

State is an owner, it pledges that it will work to advance that goal. If the pipeline's certificate application does not meet that goal, however, we propose that the open season final regulations should require the applicant to explain and justify to FERC why the pipeline could not be sized to accommodate all qualified gas tenders. Failure to provide sufficient economic or technical justification for a pipeline that is sized to accommodate less than the qualified initial tenders should merit rejection or at least close scrutiny of any certificate application. Our proposal is based on the premise that potential pipeline owners are better off if they know early what the expectations of your Commission are with respect to size and expandability.

If, notwithstanding the pipeline's best reasonable efforts to accommodate all initial gas tenders, the pipeline is unable to do so, then a fair capacity allocation methodology must be implemented. Commissioner Irwin will address that point.

Second, in-State gas consumption. Here the open season proposed regulations are silent—but Congress was not.

- Section 103 (g) of The Alaska Natural Gas Pipeline Act of 2004 (ANGPA) requires the pipeline certificate holder to show that it has conducted a study of in-State needs, including tie-in points for in-State access. This is a requirement, not an option. For this provision to be meaningful, the study should be performed prior to the completion of the binding open season so that

the pipeline's open season notice can address how local service will be accommodated. The open season final regulations should include this requirement.

- Section 103 (h) of the ANGPA also provides that upon a request by Alaska and after a hearing, FERC may provide for "reasonable access" to the pipeline for the in-State use of Alaska's royalty gas. The State is considering asking for its reasonable access hearing before the completion of the binding open season so the open season notice can also address transportation of royalty gas.

Third, pipeline expansion. There are two types of possible expansion for this pipeline: mandatory and voluntary. The ANGPA has an unprecedented provision that allows FERC, subject to certain conditions, to order the pipeline to expand. It also provides that the FERC may issue regulations to implement that new authority. The Notice of Technical Conference asks whether the Commission's rule should address expansion requirements now.

In the State's opinion, the open season regulations are not the vehicle to take up that important and complex topic. However, because expansion parameters are one of the important rules of the road that a potential pipeline owner (and shipper) must know and understand, the State requests that the FERC address expansion in a follow-on proceeding early next year. I emphasize that very little is publicly known about the cost

or engineering of expansion. An early and full public vetting of the expansion issues could take place in time to inform potential owners and shippers alike. Again, let's learn the rules of the road early. In our comments to be filed following this hearing we will address the issues we believe that the Commission should address in its expansion proceeding.

Commissioner Irwin will address additional aspects of the proposed open season rule. In conclusion, I want to thank you for the opportunity to speak and we will be happy to answer any questions.