

# **Discussion of AGIA**

## **Resource Development Council**

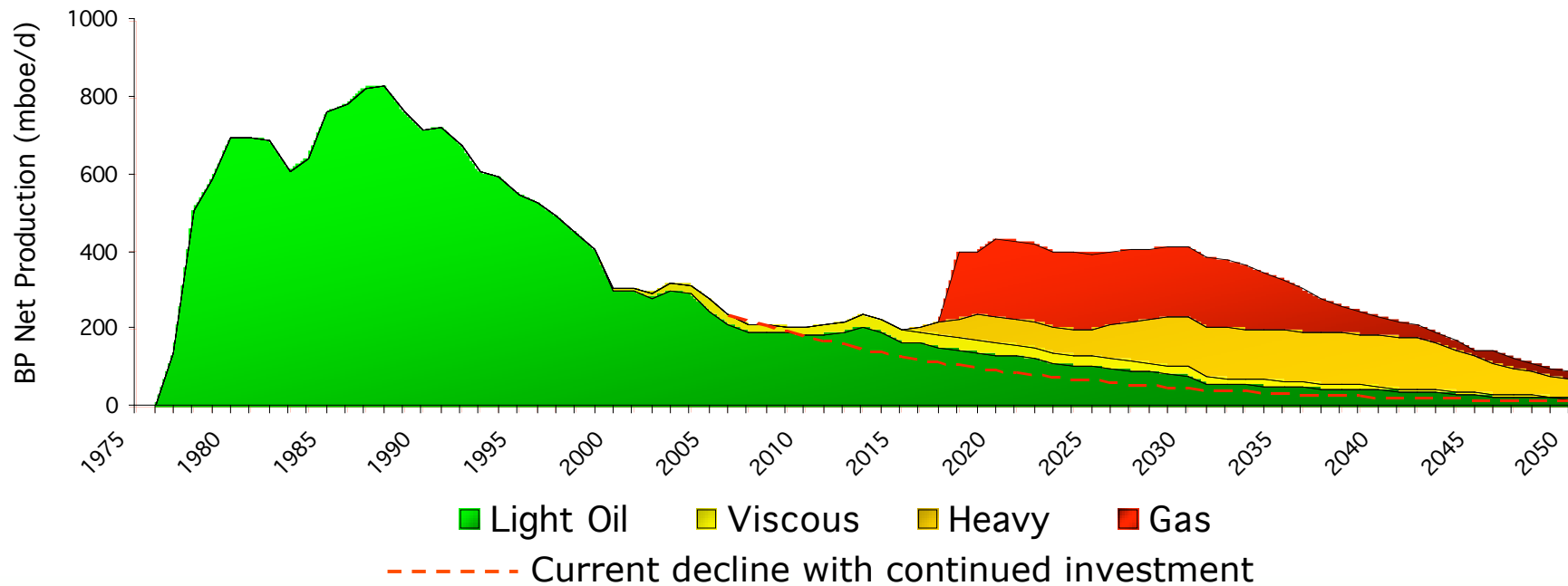
April 9, 2007





# BP's Vision for Alaska

- BP has a long history in Alaska....
- .....and we look forward to a 50-year future
- That future is only possible with a gas pipeline



# BP Key Messages

---



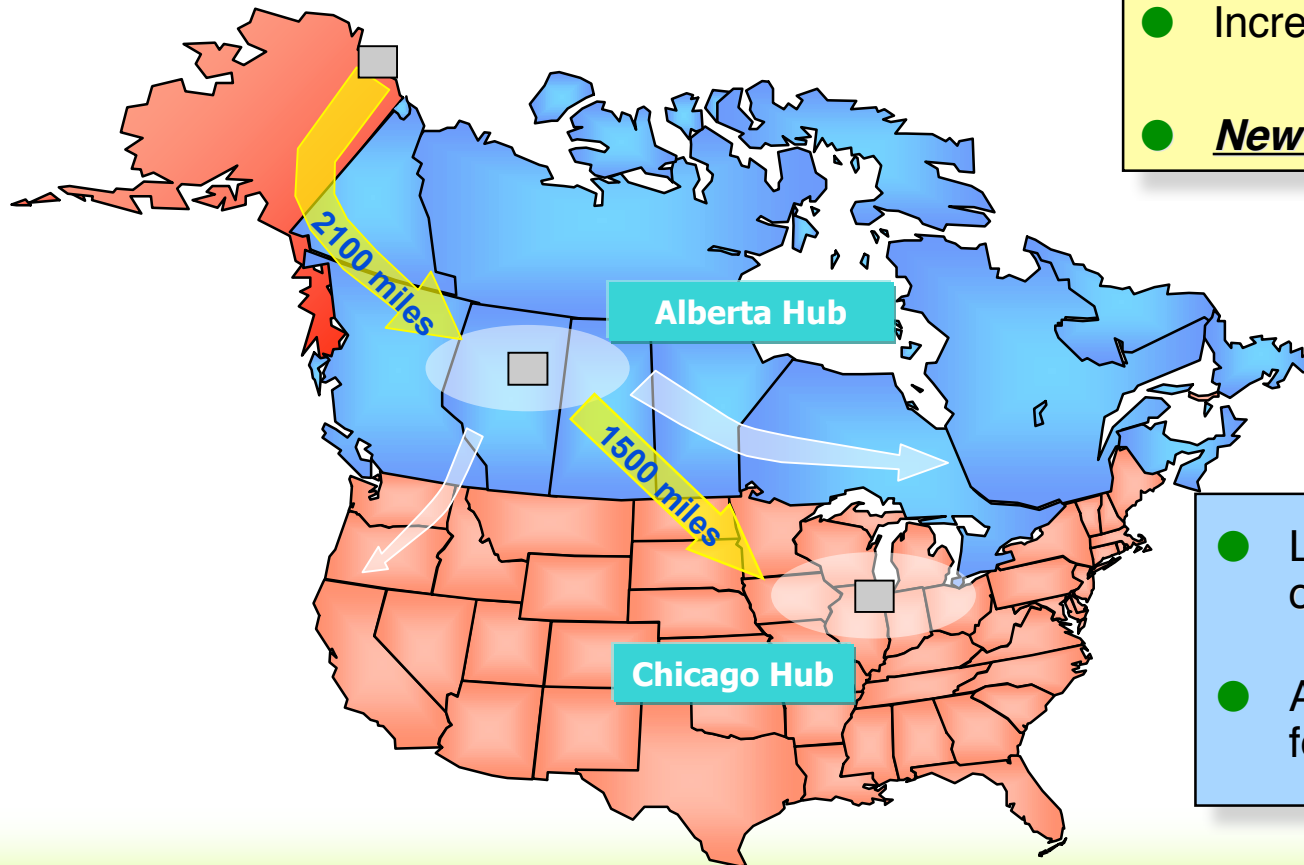
- BP supports Gov. Palin's desire to get Alaska's gas to market
- AGIA can help deliver a successful gasline project provided key issues are addressed
  - Encourage best solution by offering objectives, rather than requirements
  - Don't require initial shippers to subsidize others
  - Encourage competition by allowing the market to determine the "winner"
  - Resource rules should be clearly defined and not be subject to change



# What A Successful Gasline Means

- ***Jobs*** for Alaskans
- Additional ***revenue*** for future generations

- Increased ***economic activity***
- ***New businesses*** created



- Long term ***gas supply*** opportunity for Alaskans
- A more diversified economy for ***decades***

***AGIA can help deliver a gas pipeline if we....***

## **Use Objectives instead of Prescriptive Requirements**

---



- Prescribing solutions will not result in the best project
  - A better project will result from allowing the market to respond to the State's objectives
  
- Subsidization is contrary to FERC regulation

*"...adopt rolled-in rate treatment up to the point that would cause there to be a subsidy of expansion shippers by initial shippers, if any subsidy were to be found." [FERC Order 2005, para. 125]*
  
- Agree that evaluation should be done in an open and transparent way

*AGIA can help deliver a gas pipeline if we....*

## **Avoid Exclusivity to Ensure a Pipeline Gets Built**

---



- AGIA may preclude a successful project from moving forward
  - expedited regulatory handling offered only to licensed project
  - State can be penalized for assisting other project
  - AGIA may conflict with Federal law and regulation
  
- Should the State pick an exclusive winner based only on a proposal?
  
- The market will determine the best solution through actual performance
  
- Alaska Natural Gas Pipeline Act is a good model
  - Provides expedited regulatory handling to any project

*AGIA can help deliver a gas pipeline if we....*



## **Address Resource Terms to Allow a Project to Proceed**

---

- The resource terms in AGIA will not encourage the firm transportation commitments needed for a successful project
- Solving resource issues with clarity will enable a successful open season which is the key to advancing the project
- BP wants to develop mutually agreeable resource terms



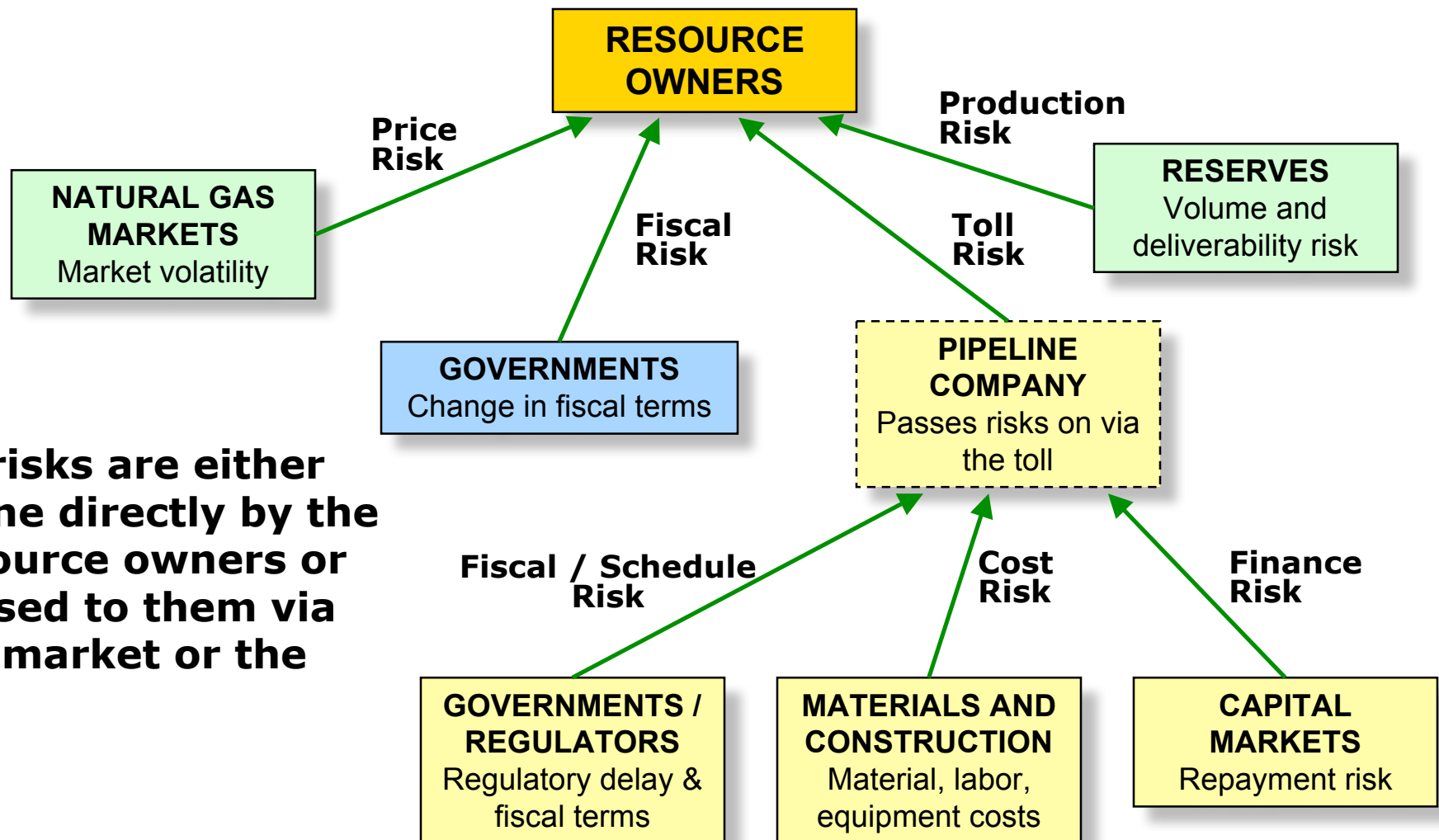
# What is so important about FT?

---

- Firm Transportation commitments (FT) by the resource owners are needed for a gas pipeline company to get financing
  - “No customers, no credit, no pipeline” (TransCanada)
  - “No producers, no pipeline” (Enbridge)
- FT is a binding financial obligation
  - not simply “committing gas to a pipeline”
- Requires multi-billion dollar commitments by resource owners
  - Assuming 4.5 bcf/d, \$3.50/mcf, 25 year term.....**\$144 billion**
- Long term commitments represent real risk
  - Risk is borne by resource owners



# Project Risk Resides with the Resource Owners



**All risks are either borne directly by the resource owners or passed to them via the market or the toll.**



**Those bearing a risk are commercially motivated to manage that risk**



# Summary

---

- BP wants and needs a gas pipeline
- BP supports an open and transparent process
- Key midstream issues must be addressed to ensure there are no unintended consequences
  - Encourage best solution by offering objectives, rather than requirements
  - Don't require initial shippers to subsidize others
  - Allow actual performance to determine the "winner"
- Upstream framework is critical for successful open season
  - Resource terms must be clearly defined