STATE OF ALASKA

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February 19, 2010

Today the Department of Natural Resources is publishing notice of its proposal to adopt regulations establishing a method an oil and gas lessee may elect to use in determining the value of the state's royalty share of North Slope gas shipped in firm transportation capacity acquired through the first binding open season for a project licensed under the Alaska Gasline Inducement Act (AS 43.90). The proposed regulations include criteria for the Department's designation of "first destination markets," "market centers," and sources of reliable and widely available published prices. The proposed regulations do not designate first destination markets, market centers, and published prices at this time, but leave designation to a later date when the destinations for North Slope gas are known and the Department can evaluate the reliability and relevance of publications then in existence.

The Department nonetheless understands the interest of the public in knowing what the Department might designate today as first destination markets, market centers, and published prices if North Slope gas was being shipped today on the project licensed under the Alaska Gasline Inducement Act, as that project is currently envisioned. For that reason, the Department in this letter identifies the first destination markets, market centers, and published prices it might designate under those circumstances.

The first destination markets designated would likely include:

1. The Alberta System, including AECO Hub, in Alberta Canada, if the licensed project interconnects with the Alberta system;

2. Destinations reached through the Alliance Pipeline, including Chicago, Illinois but not downstream of Chicago, Illinois, if the licensed project interconnects with the Alliance Pipeline; and

3. Destinations reached through the West Coast Pipeline, including Sumas, Washington but not downstream of Sumas, Washington, if the licensed project interconnects with the West Coast Pipeline.

Not enough is known at this time about the likely destination for LNG should North Slope gas be shipped on the project licensed under the Alaska Gasline Inducement Act. For that reason, the Department does not identify today a likely first destination market for LNG.

The sources of published prices for first destination markets would likely include:

1. For residue gas and methane in unprocessed gas at destination after entering the Alberta System: AECO index price for residue gas published by *Platts Inside FERC's Gas Market Report*, Market Center Spot Gas Prices, TCPL Alberta AECO-C, first-of-month index price;

2. For residue gas and methane in unprocessed gas at destination after entering the Alliance Pipeline: Chicago city gate index price for residue gas as measured by *Platts Inside FERC's Gas Market Report*, Market Center Spot Gas Prices, Chicago city-gates, first-of-month index price;

3. For residue gas and methane in unprocessed gas at destination after entering the West Coast Pipeline: Sumas index price for residue gas as measured by *Platts Inside FERC's Gas Market Report*, Prices of Spot Gas Delivered to Pipelines, Northwest Pipeline Corporation, Canadian border, first-of-month index price;

4. For gas at destination after entering the Alberta System, other than residue gas and methane in unprocessed gas: Edmonton, Alberta spot price for that gas plant product or component, as measured by a simple average of the weekly reported prices for the royalty reporting month published in the *OPIS LP Gas Report*, under Canadian Spot LP Gas Weekly, Edmonton Average Price in U.S. cents per gallon, if available, and if not available for a gas plant product or component for a royalty reporting month, then the published price in either a reliable and widely available industry trade publication designated by the Department, or the Alberta government published prices for the royalty reporting month, published in the *Information Letter, Natural Gas Royalty Prices and Allowances*, Attachment 1;

5. For gas at destination after entering the Alliance Pipeline, other than residue gas and methane in unprocessed gas: in the absence of a reliable published price at Chicago for the gas plant product or component, the Conway spot price, with a location differential to be determined and posted under the proposed 11 AAC 25.140. The Conway spot price would likely be measured by a simple average of the weekly prices for the royalty reporting month published in the *OPIS LP Gas Report*, under Conway In-Well Spot Gas Liquid, Conway Any Current Month Average Price, in U.S. cents per gallon.

If the Alberta System, the Alliance Pipeline, and the West Coast Pipeline all interconnect with the licensed project, the market centers designated might likely include:

1. TCPL Alberta, AECO-C;
2. Chicago city-gates;
3. Northwest, Canadian Border (Sumas);
4. Northern Border, Ventura;
5. Niagara, New York;
6. Iroquois, receipts;
7. PG&E, Malin;
8. Consumers Energy city-gate

For each market center designated, the Department might likely designate the spot price for residue gas reported by *Platts Inside FERC's Gas Market Report*, Market Center Spot Gas Price and Prices of Spot Gas Delivered to Pipelines, first-of-month index price. The weighting of volumes for each market center might likely be based on quantities delivered according to publications of GLJ Energy Publications Inc., if available and reliable, and if not then from another reliable source designated by the Department.

Thomas E. Irwin
Commissioner