

# STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

*DIVISION OF OIL & GAS*

SEAN PARNELL, GOVERNOR

550 WEST 7<sup>TH</sup> AVENUE, SUITE 1100  
ANCHORAGE, ALASKA 99501

PHONE: (907) 269-8800

FAX: (907) 269-8938

February 19, 2010

Dear Alaskan:

The Alaska Department of Natural Resources (DNR) is proposing to adopt regulations to establish a method to determine 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 or "the Act"). DNR is also proposing to adopt regulations to establish terms under which the state will exercise its right to switch between taking its royalty in value (as money) or in kind (in gas) for North Slope gas shipped in firm transportation capacity acquired through the first binding open season for a project licensed under the Act. Your comments on the proposed regulations are invited and encouraged.

In 2007, the Alaska State Legislature passed the Alaska Gasline Inducement Act. The Act invited interested parties to apply for a license relating to the construction of an Alaska natural gas pipeline. The Act also recognized that if a party was awarded a license under the Act, that party would establish a process to accept bids for pipeline capacity, and consequently required DNR to adopt regulations on royalty valuation and royalty switching before potential shippers started bidding for pipeline capacity. TransCanada Alaska Company LLC, who was awarded a license under the Act, has announced its plan to start accepting bids for pipeline capacity on or about April 30, 2010. The regulations the Department now proposed are intended to meet the Act's requirement for adoption before bidding starts.

The proposed regulations allow an oil and gas lessee to:

1. use a published price to value North Slope gas for royalty purposes, where a published price is available and a reliable measure of fair market value;
2. in most instances, pay royalties on a single measure of value, rather than the higher of multiple measures of value, such as the sales price it receives for its North Slope gas, the sales price other producers receive for their North Slope gas, and market value of the North Slope gas;
3. deduct its own transportation and processing costs when calculating royalty value;
4. deduct an allowance for unused pipeline capacity or transfer a portion of that capacity to the state in the event there is more pipeline capacity than production or the state switches from taking its royalties as money to taking its royalties as gas; and
5. minimize retroactive changes to the royalty value of its gas.

*"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."*

The regulations also assure:

1. the state shares proportionately in the value of gas shipped to market, including the value of the tremendous quantities of ethane, propane, and butane contained in North Slope gas;
2. only reasonable costs are deducted in calculating royalty value; and
3. the state retains the right to take its royalty gas in kind to meet in state needs for gas.

Attached to this letter are three enclosures. The first is a copy of the public notice for the proposed regulations and includes information on the comment process. The second document is a form providing required fiscal and statutory information. The third enclosure is a draft of the proposed regulations. This information also is available on the Division of Oil and Gas (DOG) Web site at to <http://www.dog.dnr.state.ak.us/oil/>.

The public is invited to submit written comments on these proposed regulations. **All comments must be received by DNR, Division of Oil and Gas, no later than 4:30 p.m. on March 22, 2010.** If you have questions regarding the regulations or comment process, please contact:

Division of Oil and Gas  
Attn: Antony Scott  
550 W. 7<sup>th</sup> Ave., Suite 800  
Anchorage, AK 99501  
FAX: 907-269-8938  
E-mail: [antony.scott@alaska.gov](mailto:antony.scott@alaska.gov)  
Telephone: (907) 269-8530

Thank you for your interest in this matter. I look forward to your comments and suggestions.

Sincerely,



Kevin R. Banks  
Director