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June 3, 2008

The Honorable John Harris  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Harris:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that provides for the approval of the license proposed to be issued by the commissioner of the Department of Natural Resources and the commissioner of the Department of Revenue under the Alaska Gasline Inducement Act (AGIA), AS 43.90.

In May 2007, AGIA was passed by the Alaska State Legislature with a nearly unanimous vote. The purpose of AGIA, as stated in AS 43.90.010, is to encourage expedited construction of a natural gas pipeline that:

- facilitates commercialization of North Slope gas resources in the state;
- promotes exploration and development of oil and gas resources on the North Slope in the state;
- maximizes benefits to the people of the state from the development of oil and gas resources in the state; and
- encourages oil and gas lessees and other persons to commit to ship natural gas from the North Slope to a gas pipeline system for transportation to markets in this state or elsewhere.

AGIA meets this purpose through provisions establishing an Alaska Gasline Inducement Act license and the state's terms for maximizing benefits to the people of Alaska during and after pipeline construction.

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In exchange for meeting the state's requirements, the successful AGIA license applicant is entitled to certain inducements that will facilitate project development. An AGIA license entitles the licensee up to \$500 million in state matching funds for qualified expenditures to offset some of the initial risk borne by the project developer. AGIA also provides for an AGIA coordinator and expedited project review and action by state agencies.

AGIA also provides for "resource inducements" to encourage North Slope oil and gas producers to commit gas for shipment on the pipeline. An oil and gas leaseholder that commits to ship gas in the pipeline in the first binding open season will be entitled to favorable changes to the state's royalty valuation method and a freeze on gas tax rates for the gas shipped through firm transportation contracts acquired during the first binding open season; the tax freeze may be applied within ten years following commencement of commercial operations.

In accordance with AS 43.90.120, on July 2, 2007, the commissioner of the Department of Revenue and the commissioner of the Department of Natural Resources (commissioners) commenced a public process to request applications for an AGIA license. Five applications were received in response to the request for applications (RFA). Under AS 43.90.140, the commissioners reviewed each application to determine whether it was consistent with the terms of the RFA and met the requirements listed in AS 43.90.130.

On January 4, 2008, the commissioners determined the application submitted by TransCanada Alaska Company, LLC and Foothills Pipe Lines, Ltd., (TC Alaska) met the requirements for completeness under AGIA. The application submitted by TC Alaska satisfied all the mandatory requirements in the statute and the application was eligible for further evaluation to determine whether the project would sufficiently maximize the benefits to the people of the state to merit issuance of a license under AGIA.

The commissioners provided notice and a 60-day public comment period for the complete application as required by AGIA. In accordance with AS 43.90.160, the commissioners published notice on January 4, 2008, inviting public comment on TC Alaska's application to build a natural gas pipeline under the terms of AGIA. The 60-day public comment period ended March 6, 2008. More than 300 comments were received.

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AGIA requires the commissioners to issue a determination with written findings if they determine that a proposed natural gas pipeline project "will sufficiently maximize the benefits to the people of this state and merits issuance of a license under this chapter..." AS 43.90.180(a).

In accordance with AS 43.90.170, the commissioners fully evaluated TC Alaska's application to determine whether TC Alaska's proposed project would maximize the benefits to Alaskans and merited issuance of the AGIA license. To aid the evaluation, the commissioners compared TC Alaska's proposed project with liquefied natural gas (LNG) project options. The commissioners also compared the TC Alaska project to an alternative overland project recently announced by BP and ConocoPhillips, commonly known as the Producer Project.

Following this extensive evaluation process and consideration of public comments, the commissioners determined that the natural gas pipeline project proposed by TC Alaska sufficiently maximizes benefits to the people of this state and merits issuance of an AGIA license.

In accordance with AS 43.90.180, on May 27, 2008, the commissioners issued a determination, with written findings addressing the basis for the determination. The commissioners also published notice of intent to issue an AGIA license, and today forwarded the notice along with the findings, supporting documentation, and the determination to the presiding officers of each house of the Legislature.

The commissioners findings regarding the TC Alaska proposal included the following:

- Alaskans will benefit from TC Alaska having committed to regularly expand its pipeline to meet demand for additional capacity on reasonable commercial terms, which is essential to opening the North Slope to competitive natural gas exploration and development;
- Alaskans will benefit from short-term construction jobs and from long-term careers as new natural gas fields are developed because the path to market has been built;

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- Alaskans will benefit from TC Alaska having committed to tariff structure requirements of AGIA that are designed to ensure the lowest possible tariffs, that maximize state revenues, that provide true open access to all potential shippers, and that accommodate expansions;
- Alaskans will benefit from the opportunity that the TC Alaska project creates for a "Y line" liquefied natural gas project and the "bullet line" to Southcentral Alaska;
- Alaskans will benefit from the potential for lower energy costs as natural gas is made available to communities throughout Alaska through offtake points along the pipeline route and spur lines;
- Alaskans will benefit from TC Alaska's proposed distance-sensitive rates, which ensure that Alaskans will pay just the costs incurred to ship gas from the North Slope to one of the five off-take points within Alaska;
- Alaskans will benefit from TC Alaska's project plan being reasonably likely to succeed, in that it is technically reasonable, feasible, and specific and includes (1) the use of technology that TC Alaska is now using to operate pipelines in climates similar to Alaska's, and (2) an obtainable schedule for regulatory approval in Canada;
- Alaska will benefit from TC Alaska's proposed commercial terms being reasonable and likely to attract commitments for shipments of natural gas during the first open season; and
- The TC Alaska project will generate more long-term jobs than either a liquefied natural gas (LNG) option or the Producer Project, because of TC Alaska's commitments to expansion and real open access that will open the North Slope basin to competition.

Upon receipt of the commissioners findings and determination, AS 43.90.190(a) calls for the rules committee of each house of the Legislature to introduce a bill "in the committee's respective chamber that provides for the approval of the license proposed to be issued by the commissioners." In accordance with this statute, I am transmitting for the Legislature's consideration, a bill that, if passed by the Legislature within 60 days of the presiding officers' receipt of the commissioners' findings and determination, will approve the issuance of the AGIA license proposed by the commissioners to TC Alaska.

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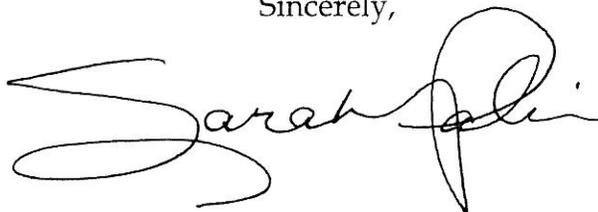
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The proposed license is an integrated document that incorporates all provisions, terms, conditions, contingencies, obligations, rights, and requirements of AGIA, the RFA, and TC Alaska's application.

Issuance of the AGIA license to TC Alaska will greatly enhance Alaska's chances to commercialize the vast natural gas resources on Alaska's North Slope through the construction of a gas pipeline, and to do it in a way that protects the interests of Alaska and the nation, now and well into the future.

I urge your prompt and favorable action on the bill.

Sincerely,

A handwritten signature in black ink that reads "Sarah Palin". The signature is written in a cursive style with a large, sweeping "S" at the beginning and a distinct "P" at the end.

Sarah Palin  
Governor

Enclosure