
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION ISSUES FINAL RULES GOVERNING OPEN SEASONS FOR POTENTIAL ALASKA NATURAL GAS PIPELINE PROJECTS

The Federal Energy Regulatory Commission today approved landmark rules to establish requirements governing the conduct of open seasons for capacity on proposals for Alaska natural gas pipeline projects. Because of the importance of the rulemaking, the Commission has designated it as Order No. 2005.

The rules fulfill the Commission's obligations required by a Congressional mandate to establish rules within 120 days of the October 13, 2004 enactment of the Alaska Natural Gas Pipeline Act. The final rules respond to comments received on the Commission's November 15, 2004 Notice of Proposed Rulemaking and comments presented at a December 3, 2004 technical conference held in Anchorage, Alaska.

"The construction and operation of a natural gas pipeline from Alaska's North Slope to markets in the lower 48 states is vital to assuring abundant energy supplies at reasonable prices," said Chairman Pat Wood, III.

"Our actions today are consistent with our mandate from Congress to promote competition in the development of Alaska natural gas," said Commissioner Joseph Kelliher.

"In particular, our policy on pricing for pipeline expansion will promote additional exploration and development of Alaska natural gas," said Commissioner Suede Kelly.

"These rules will help meet the demand for natural gas in the lower 48 states while meeting in-state needs. This will promote development of Alaska resources while furthering the state's economic development," said Commissioner Nora Mead Brownell.

The final rules establish standards for creating open seasons for initial and voluntary expansion capacity and for allocating capacity to ensure non-discriminatory access to any Alaska transportation project. Open seasons are commercial opportunities for potential customers to compete for and acquire capacity on a proposed or existing pipeline. Open seasons inform project sponsors of shippers' needs so that they may adjust a project design accordingly.

The rules also promote competition in the exploration, development and production of Alaskan natural gas, and provide opportunities for the transportation of natural gas from sources other than Prudhoe Bay or Point Thomson if the open seasons exceed the initial capacity of a pipeline project.

The rules will require prospective applicants to use the results of an Alaska State gas study to design capacity needs for use within the state, and design in-state delivery points and in-state transportation rates as part of the open season. Bidding on in-state capacity must be conducted independent of out-of-state deliveries during a prospective applicant's open season.

Maintaining its pledge to protect shippers from undue discrimination and preferential treatment in allocating capacity, the Commission will impose on all applicants, particularly applicants for affiliate-owned projects, strict reporting requirements on the open seasons so that the Commission and the public may monitor and ensure that competition for the capacity is conducted fairly.

Prospective applicants will be required to provide to FERC detailed information on project design, how capacity will be allocated, proposed rates, terms and conditions for service, and identities of any affiliates involved in the production of natural gas in Alaska. In addition, the Commission will require that information provided to one potential shipper be made available to all others.

To encourage development of Alaska gas and provide flexibility to prospective applicants, the Commission will permit pre-subscriptions for "anchor" shippers for capacity. Anchor shippers refer to the few shippers that hold significant volumes of natural gas that will financially support, to a great extent, the initial design and cost of a project. All such pre-subscription agreements must be made public within 10 days of execution and all other bidders in the open season must have an opportunity to negotiate the same terms.

The Commission will require applicants to disclose publicly the results of the open season within 10 days with names of the shippers, amount of capacity awarded and the terms of the agreement. Copies of the accepted precedent agreements and copies of any rejection letters must be provided to the Commission within 20 days.

Under the Alaska Natural Gas Pipeline Act, Congress empowered the Commission with the unique opportunity to order the expansion of any Alaska gas pipeline, if necessary. With respect to future expansions proposed by the sponsors of any Alaska gas pipeline, the Commission said it would apply a rebuttable presumption in favor of rolled-in rate treatment. This means that the costs of expansions could be averaged with the costs of existing facilities in determining rates, rather than setting expansion rates on a stand-alone basis.

The final rules will take effect 90 days after publication in the Federal Register.