

The Alaskan Ownership Stake

Part I: “OWN A PIECE OF THE PIPE”

FREQUENTLY ASKED QUESTIONS

Q.1 What is the Alaskan Ownership Stake?

Alaska’s unique character embodies independence and self-reliance – traits rooted in our history and lodestars for our future. That spirit is integral to “The Alaskan Ownership Stake” - a strategic plan for the future of our state that is designed to harness the power of Alaska resources, Alaskan initiative, and the free market for the benefit of all Alaskans.

“The Alaskan Ownership Stake” is a multi-part plan to give Alaskans direct ownership over our own wealth. Part I of the Alaskan Ownership Stake centers on the Alaska Natural Gas Pipeline. It ensures that all Alaskans have the opportunity to “*Own a Piece of the Pipe*”.

Q.2 How does a Natural Gas Pipeline fit into the Alaskan Ownership Stake?

The idea to give Alaskans a chance to “Own a Piece of the Pipe” builds on a proposal Senator Ted Stevens, Senator Lisa Murkowski, and Representative Don Young included in the 2004 federal Alaska Natural Gas Pipeline Act. That legislation specifically recognized the importance of allowing individual Alaskans, Alaskan owned companies, and Alaska Native Corporations to invest in the pipeline to further economic development. As Governor, I will work with the Legislature to encourage and allow Alaska businesses and Alaska Native Corporations to also participate in investing in the project.

By offering individual Alaskans a chance to participate in building the gas pipeline, we improve the likelihood a pipeline will be built, and we ensure that willing participants reap the benefits of their investment. The Alaska Ownership Stake gives all willing Alaskans the ability to become shareholders in the pipeline itself, using their own funds and based on their own market-based decisions. Importantly, this proposal provides a partial answer to a recent Alaska Natural Gas Development Authority report, which noted that significant equity must be invested in any pipeline that will serve Alaskan homes and business at affordable rates. Importantly, funds invested in GAP send a strong, positive signal to financial markets and to potential partners about Alaskan commitment to developing our gas, which helps attract additional financing.

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Q.3 How does “Own a Piece of the Pipe” work?

My plan would allow each Alaskan to choose – *individually and affirmatively* - to invest all or a portion of their annual Permanent Fund Dividend in a newly created state corporation – the Great Alaska Pipeline Company (GAP, Inc.) – by checking off a box on their PFD application. All funds would be held in escrow at GAP, Inc., until a gas pipeline was fully funded and construction was moving forward.

The beauty of this approach is that only those willing individuals and businesses who want to “*Own a Piece of the Pipe*” would participate. You have total control over your PFD and would need to review the investment opportunity and then make your own decision on whether or not to participate.

Individuals would then elect to check off a box on their PFD application to purchase their shares. The idea of the PFD check off is no different than when Alaskans choose to divert their PFD into a college savings/tuition account.

As for the Permanent Fund in general, this idea would NOT touch the structure or funds in the Permanent Fund. No funds in the Permanent Fund would be used for a pipeline project through this mechanism. The key distinction here is that that choice is made by individual Alaskans who wish to invest their own PFD checks when they fill out their application.

It’s also important to note the ownership concept gives Alaskans, as owners in the pipeline, a seat at the table for all major decisions around the project. This will give all of us a clearer view to the construction, operations, costs and profits of the pipeline. It will make it easier for Alaskans to keep an eye on our partners and have a meaningful say to protect our interests.

Q.4 If this idea is in federal law, why haven’t I been able to “Own a Piece of the Pipe” already?

This idea builds on the 2004 federal Alaska Natural Gas Pipeline Act¹ (ANGPA) that recognized the

¹ In 2004 the Alaska Natural Gas Pipeline Act (ANGPA) was included in the Military Construction Appropriations Act (HR 4837). See <http://thomas.loc.gov/cgi-bin/cpquery/T?&report=hr773&dbname=cp108>

Section 115 of ANGPA encourages Alaska to establish a plan to allow individual Alaskans, Alaska Native Corporations and Alaska-owned business to become investors in building a gas-pipeline.

Specifically, section 115. states:

It is the sense of Congress that— (1) Alaska Native Regional Corporations, companies owned and operated by Alaskans, and individual Alaskans should have the opportunity to own shares of the Alaska natural gas pipeline in a way that promotes economic development for the State; and (2) to facilitate economic development in the State, all project sponsors should negotiate in good faith with any willing Alaskan person that desires to be involved in the project.

importance of allowing individual Alaskans, Alaskan owned companies, and Alaska Native Corporations to invest in the pipeline to further economic development.

The idea was included in ANGPA as a “Sense of Congress”. While “Sense of Congress” language is not legally binding, it is an adopted policy of the Congress that encourages the State of Alaska to make the most of this proposal. Since much of the permitting, contract and business transactions around a pipeline involve both federal and state authority, the State of Alaska obviously has a critical role in pipeline development. Once Congress enacted this “Sense of the Congress” language in ANGPA, it became the responsibility of the State to run with the idea of pipeline shares for Alaskan individuals, businesses and Native Corporations.

The problem is that since 2005 no Alaska Governor – not Frank Murkowski, not Sarah Palin and not Sean Parnell – has taken advantage of this opportunity for the benefit of willing Alaskans and made it a cornerstone of any gas pipeline plan. I intend to be the first Governor to incorporate this concept in a gasline development strategy.

Q.5 Where exactly would my money go?

The state of Alaska would create and administer a special purpose corporation to give individual Alaskans, Alaska Native Corporations and Alaskan businesses the opportunity to own a share of the pipeline. The Corporation would be called, “The Great Alaska Pipeline, Inc.” or GAP, Inc., and would be chartered under state law.

Q.6 Who can participate and become a shareholder in the Great Alaskan Pipeline, Inc.?

Every Alaskan who receives a Permanent Fund Dividend will be able to individually choose to become shareholders in a corporation that will help build the natural gas pipeline. By choosing to invest your dividend, you become a shareholder in GAP, Inc.

Q.7 Would this option be available every year or is it a once-in-a-lifetime chance?

Alaskans could individually choose every year during the pre-construction and construction phases of the pipeline to invest their PFDs into GAP, Inc. The elapsed time from the first offering to the construction year will span several years, giving Alaskans many opportunities to invest multiple PFDs into GAP, Inc., if they individually choose to participate.

Q.8 What if I don’t want to “Own a Piece of the Pipe?”

Then you don’t have to. The beauty of this approach is that only those willing individuals and businesses who want to “Own a Piece of the Pipe” would participate. You have total control over your PFD. To participate you would need to review the investment opportunity and then make your own decision on whether or not to invest.

For individuals they would then elect to check off a box on their PFD application to purchase their shares with a portion of the system open for participation by willing businesses. This idea of the PFD check off is no different than when Alaskans choose to divert their PFD into a college savings/tuition account.

As for the Permanent Fund in general, this idea would NOT touch the structure or funds in the Permanent Fund. No funds in the Permanent Fund would be used for a pipeline project through this

mechanism.

Q.9 If I choose to participate how much money could I make? What would be my rate of return?

This depends on how profitable the pipeline is. It does give Alaskans the ability to make money from the transportation of the gas, as distinct from making money from the sale of gas itself. Returns on your investment are subject to market forces. For example, it depends on the final cost of the pipeline project once it is constructed, and whether there were cost overruns. It depends on the tariff rates used to ship gas, where the markets are and the contracts for those deliveries. It depends on whether tariffs are regulated or unregulated, the number of investors in the project and the profit earned by the pipeline. These answers can only be provided as the project draws closer.

Q.10 Is my investment guaranteed? Is there a risk of loss of my investment if I choose to participate?

Investor funds would be guaranteed during the development stage of the project because they would be held in escrow until a final decision on a pipeline moves forward. Once the project moves forward investors would be put in the same position as other investors in the project based on the financing documents and requirements then in effect. These are details we will negotiate as a project moves forward.

Q.11 What would be the tax consequences for Alaskans who choose to “Own a Piece of the Pipe?”

The issues related to taxation and the treatment of this investment will depend on the final structure of the program and the investment entity involved, the treatment of PFD checks as investments into the entity, and the federal and state tax laws then in effect. I will work as Governor to eliminate any negative tax consequence at the state level for people wishing to participate in this opportunity. We may also have to work with our Congressional Delegation to insure the individual Alaskans and Alaska businesses that participate in this program don't face unnecessary tax consequences at the federal level. And as always, individuals and entities wishing to participate in this program would need to seek out tax advice from their own trusted professionals based on their own situation before making a final investment decision.

Q.12 What happens to my money while decisions are made about the pipeline?

The funds would sit in a safe, interest-bearing account administered by the entity created to manage the funds and interact with the rest of the pipeline owners and builders. A small amount of the funds would be made available to administer the entity with the bulk of the funds being placed in the equivalent of an escrow fund to protect it until a final decision is made on a pipeline project.

Q.13 What if a pipeline never gets built? What happens to my money?

You get your money back. Funds invested by individual Alaskans and Alaskan companies would be held in escrow until the decision is made on a final pipeline project and final details of the investment in that pipeline are agreed to. A very small amount of funds would be used to administer the investment fund, but that would be capped based on a budget to be approved.

Q. 14 How does “Owning a Piece of the Pipe” help a pipeline get built?

This proposal provides a partial answer to a recent Alaska Natural Gas Development Corporation report (see http://www.alaskajournal.com/stories/081310/oil_lrc.shtml), which noted that significant equity or state subsidies must be invested in any pipeline that will serve Alaskan homes and business at affordable rates. This idea for individual ownership could replace the need for state subsidies. Importantly, funds invested in GAP send a strong, positive signal to financial markets and to potential partners about Alaskan commitment to developing our gas, which helps attract additional financing.

This plan is unique in that it allows individual Alaskans to participate in the private market for this project. As it stands now, only the oil companies and large pipeline companies stand a shot at owning a piece of the pipeline. Unless we do something dramatic to reset the debate, individual Alaskans will be shut out from “*Owning a Piece of the Pipe.*”

In addition, the concept harnesses the power of the market because each individual Alaskan would be deciding whether to invest their own PFD checks. This represents free market choices and the power of the free market. It is an idea that relies on the wisdom and decision making of each individual Alaskan rather than relying solely on decision makers in Juneau.

Q.15 What if individual Alaskans or businesses want to sell their shares later or give them away?

The idea is to give individual Alaskans and Alaska businesses first crack at getting involved in the earliest stages of the project. My proposal would restrict early participation in this way to Alaskans and Alaska entities. As the project is developed we could create an opportunity for a secondary market for the sale of shares at the individual level or secondary level. For example, today if you look at Facebook it is not a publicly traded company, yet the privately held shares of Facebook are being bought and sold in a private secondary market among willing buyers and sellers. We could create such a secondary market for participating Alaskans who want to cash in their shares and for new Alaskan participants and others who want to buy in at a later date. In addition, we would welcome open discussions about how to create further markets for participants to create liquidity and stability in this investment entity. As the legislation I propose moves its way through the Legislature we will take input from Alaskans, finance experts, market experts and state leaders to craft a package and program that is nimble, cost effective, liquid and based on individual free market choices.

Q.16 How much money would this idea raise? What percentage of the pipeline would GAP own?

That depends on a number of factors. It depends on how long the opportunity stays open for people to participate -- one year, three years, five years. That in turn depends on how long development of a pipeline project takes, and how long the financing window remains open through the remaining parts of the finance plan for a project. In addition, it is dependent on the value of each yearly PFD check and how many individual Alaskans choose to participate. If 20% of Alaskans choose to participate that would raise more money than if just 10% of Alaskans choose to participate, and if a PFD check is worth \$1,500 that would raise more money than if a PFD check worth \$1,000.

Up until the final finance window is closed and all financing obligations for the pipeline are completed (this is likely up to the point the project is completed and ready for service, several years from now) the number of Alaskans participating from year to year will fluctuate just as the amount of each annual PFD check changes from year to year based on a variety of market conditions. On this [website](#) is a sample set of assumptions of how much could be raised through this mechanism assuming 20% of Alaskans participate and using the Permanent Fund Corporation's predictions for the value of each annual PFD for the next several years. [see http://www.apfc.org/_amiReportsArchive/Pages%20from%20APFC201005.pdf]. If funds are raised through this mechanism, using these assumptions, over a six-year period we could raise nearly \$1 billion. This would be a sizable equity stake of any project, and best of all it would be based on the choices made by individual Alaskans.

Q.17 Does this idea favor one project over another, i.e., does it support an All Alaska Pipeline vs. the highway route, or vice versa?

This investment idea is project neutral, meaning funds could be used to invest in any project that moves forward. Given the current contractual obligations put onto the backs of Alaskans by the Palin-Parnell Administration and the constraints of the recently closed open season, it will require a Governor with a strong backbone and a desire to fight for individual Alaskans to make this a reality. Give me that opportunity, and I will be that Governor. As for in-state gas or the All Alaska lines, this funding idea could drive those projects forward by showing the markets we are serious enough about the project to put our own equity into them.

Also, it is important to note the recent report filed by the Alaska Gasline Development Corporation which noted the need to raise additional equity for any pipeline project to make it more commercially viable or to bring costs down for end users. See link here http://www.alaskajournal.com/stories/081310/oil_lrc.shtml for full story.

Q.18 Aren't there enough incentives and other proposals to get the pipeline built? Why are you proposing this mechanism?

While the federal government enacted some tax credits and loan guarantees for a qualified pipeline project, it is unclear how those will be used, if they are used at all. And the way the federal loan guarantee package was put together requires further appropriations from Congress to cover significant risk factors associated with the loan guarantees. Given the debates raging in Washington, D.C., right now about federal spending, I believe it is critical that we work on alternatives for this financing so that we are not overly reliant on the federal government at critical stages of a pipeline project.

There are also political realities to acknowledge. Given the very real possibility that Sen. Lisa Murkowski may not return to the United States Senate, Alaska will have lost the voice of the top ranking Republican on the Senate Energy Committee. Consequently, Alaska must aggressively pursue a plan for the pipeline as if we are pushing this project forward on our own.

Alaska is more independent when we move count on our own abilities and actions instead of being too reliant on the federal government to move the gasline forward. Remember, if we rely too much on the federal government, its money comes with strings. I'd rather we control our own destiny as much as possible.

Q.19 What would the requirements be for investors? What about SEC rules and other filing

obligations for investors?

We will seek to establish a mechanism whereby individual investors would be able to take advantage of this opportunity. If that requires amending the current corporate investing and securities laws and regulations in Alaska for this particular and specialized opportunity then my Administration will push for those changes. Likewise, if we need clarification of securities laws and regulations at the federal level I will work with our Delegation in D.C. to set the stage to allow this to move forward.

I believe that because all Alaska residents have ownership rights in the natural resources in the state anyway, allowing individuals to invest in a pipeline that gets our gas to market is a natural extension of that resource ownership. It is likely there will be powerful interests out there who do not want to see this idea move forward because they want to monopolize the pipeline project. We must be prepared to push back aggressively on behalf of those Alaskans who want to participate at this level and that is what I will do as Governor.

Q.20 Are there matching contributions? Can I match my PFD with additional private funds?

I do not envision having the state make matching contributions because I don't want the state mixing in with a private sector decision. However, I would be interested in discussing with Alaskans and legislators the idea of allowing willing individuals to match their own PFD funds if they want to buy extra shares in this opportunity. That is an item for debate as we move this idea forward. Remember, the goal here is to first open up the opportunity for all Alaskans to have an equal opportunity to buy in. Based on the success of the program we can explore further options for willing investors who want to increase their participation level.

Q.21 Can my children participate?

Depending on securities restrictions, I believe parents should be allowed to make this decision for their own children. Personally, I want my children to look back and remember this as a time when their parents took a chance on Alaska and purchased shares in a pipeline in their name. I know many Alaskans would love to have a stock certificate hanging on the wall from 1974, 1975 and 1976 representing their individual ownership in the Trans Alaska Pipeline. The gas line can be the same kind of opportunity and I want to find way to make it work for kids as well.

Q.22 What happens in someone passes away with ownership shares?

Shares would be handled as part of the estate, based on the wishes of the deceased and in conjunction with estate law and final judicial decrees surrounding the estate.

Q.23 What if I participate, I own shares and then I move out of state?

That issue will have to be addressed in the rules of the program. We shouldn't force willing investors to divest themselves of property simply because they move. Part of ownership rights in our society is the right to continue owning property without government intrusion. An Alaskan who takes a risk to invest in the pipeline early on should be able to reap the rewards of that investment in the future, regardless of where they live. We must also remember that we have to write the rules of the program to withstand constitutional and other legal challenges.

Q.24 How would this idea work for individual Alaska businesses and Native Corporations?

Just like the system we would establish for individuals, we will design a system for businesses and Native Corps to participate that is streamlined, cost effective, does not dilute the representational power of the individual and the state, and that is constitutionally defensible.

Summary

These are just some questions that I have thought about as it relates to this phase of the **Alaskan Ownership Stake**. You may have other questions. If you do, I want to know what they are so that as we move forward we can put all the ideas, concerns and issues on the table to craft a workable, responsible and viable plan. Please submit your question here [create link]. And if you like this idea, please consider contributing to my campaign so that I can gather the resources necessary to spread my message and turn out the vote in November.

The time has come to truly open up the opportunity for willing Alaskans to *Own a Piece of the Pipe*. With your help, if I am elected Governor, we can build our economy while empowering each Alaskan with the chance to become a true owner of our resources . . . but I need your help. Please go to my website (www.EthanBerkowitz.com) to learn more about **The Alaskan Ownership Stake**, tell your friends about this exciting and innovative idea and consider contributing to my campaign so that we can put these plans into action.