

## **Item 9 - Negotiated And Other Rates**

**18 C.F.R. §157.34(c)(9): Negotiated rate and other rate options under consideration, including any rate amounts and terms of any precedent agreements with prospective anchor shippers that have been negotiated or agreed to outside of the open season process proscribed herein;**

In this Open Season, APP is offering shippers the option of negotiated rates, which shall be paid without regard to any action or determination of the FERC with respect to recourse rates. APP has not entered into any precedent agreements with prospective shippers outside this Open Season.

The negotiated rates being offered will be computed and paid in accordance with the principles and process specified in Exhibit A to the proposed Precedent Agreement (Appendix A to Open Season Notice). Additional information is provided in Exhibits J and K to this Appendix C.

The negotiated rate principles from Exhibit A of the Precedent Agreement are as follows:

Negotiated rates shall be based upon, and the Parties intend that they will recover, Transporter's costs as identified in items 1-12 below. The Parties agree that negotiated rates shall be recalculated annually in order to assure that Transporter's rates recover all costs of providing service. The Parties further agree to utilize the following process to revise negotiated rates. On each November 1st following at least 15 months after the Commencement Date, Transporter shall circulate schedules and work papers to all Shippers electing negotiated rates which identify (i) Transporter's cost of service and normalized billing determinants for the twelve months ending the preceding August 31st determined in accordance with the negotiated rate principles set forth below, and (ii) Transporter's revenues collected during such twelve month period, net of any credits or applicable adjustments during such period. Transporter shall also identify revised negotiated rates to be effective beginning January 1st of the following year which shall be based upon the cost of service and normalized billing determinants identified above, adjusted for any difference (positive or negative) between costs and revenues, net of any credits or applicable adjustments, during the twelve month period identified in (i) above. Adjustments in normalized billing determinants shall be made separately by zone if necessary to recognize different levels of service or service interruption by zone.

Transporter and all Shippers electing negotiated rates shall meet to discuss the cost of service, billing determinants, schedules, work papers and proposed negotiated rates. Transporter will then file at FERC such negotiated rates, or such other rates which Transporter agrees to file, no later than December 31st and request that the negotiated rates be made effective January 1st. In the event Shipper objects to Transporter's filed negotiated rates, the matter shall be subject to the Dispute Resolution provisions of Transporter's Tariff. If the award of the arbitral Tribunal determines that Shipper's negotiated rates should be lower than the rates in effect for any applicable period, Transporter shall refund the difference between such lower rates and the rates charged, including interest at the applicable FERC rate.

Negotiated firm transportation reservation rates will be stated on an MMBtu (thermal) basis to provide for recovery by the Transporter of all fixed costs of providing firm transportation service. Shipper will also pay a commodity or usage charge for MMBtus actually transported, and provide volumes for Fuel. The negotiated firm reservation rate for gas treatment services will be calculated and stated on an MMBtu basis to provide for recovery by Transporter of all fixed

costs of providing firm gas treatment services at Transporter's GTP. Shippers will also pay commodity charges per MMBtu and provide volumes for Fuel, as applicable, for gas treatment services.

The major elements in determining the cost of service and the methodology for the rate design of negotiated rates, are set forth below.

1. Upon the approval of the final costs by FERC, the target capital structure will be 75% debt and 25% equity. The final capital structure used for setting the negotiated rates shall be equal to Transporter's actual capital structure, provided that the capital structure utilized in determining negotiated rates shall include no less than 25% equity and be subject to A.S. 43.90.130(10), as amended from time to time. For expansions and maintenance capital, the capital structure for rate making purposes shall be 70% debt and 30% equity.
2. The actual weighted average cost of Transporter's debt will be calculated using an interest rate equal to the weighted average of the interest rate(s) on such debt. Any payments made to secure or reduce the cost of debt financing will be added to rate base. Changes in the actual weighted average cost of Transporter's debt will be reflected in negotiated rates for the Initial Service Term and any extension of the initial term of the FTSA.
3. Rate of return on equity will be 12% on an after-tax basis.
4. Income taxes will be calculated on a normalized basis, utilizing the federal and state corporate income tax rates for the Initial Service Term and any extension of the initial term of the FTSA. Changes in the federal and state corporate income tax rates will be reflected in the negotiated rate for the Initial Service Term and any extension of the initial term of the FTSA.
5. For the Initial Service Term and any extension of that term, depreciation on the GTP and transmission plant used for purposes of deriving rates will be calculated annually. An FTSA with an Initial Service Term of 20 to 25 years will recover 80% of the Shipper's Proportional Share of capital costs approved by FERC for Recourse Rates, and allowance for funds used during construction ("AFUDC") and property tax paid during construction ("Approved Capital Costs"), during the Initial Service Term, with Shipper's Proportional Share defined as an amount equal to Shipper's MDQ divided by aggregate MDQs, as adjusted to reflect firm shipper defaults and incremental transportation service from initial capacity. Such Shipper's Proportional Share of the remaining 20% of Approved Capital Costs shall be recovered in an additional period of five years following the Initial Service Term, utilizing the assumption that all non-defaulting firm shippers with Initial Service Terms of 20 years or more elect to renew. An FTSA with an Initial Service Term exceeding 25 years shall recover 80% of Shipper's Proportional Share of Approved Capital Costs in the first 25 years of that Term, and such Shipper's Proportional Share of the remaining 20% of Approved Capital Costs shall be recovered over the balance of the Initial Service Term.
6. Rates will include a reasonable estimate of negative salvage costs to fund the net costs of abandoning the APP U.S. Facilities and restoring the affected properties at the end of the system's service life. Changes in the negative salvage costs will be reflected in the

revenue requirement of the negotiated rate for the Initial Service Term and any extension of the initial term of the FTSA.

7. The rate base will include, among other things, (i) debt service reserve, (ii) cost of line pack, inventory, and spare parts, (iii) payments made to secure or reduce the cost of debt financing, (iv) working capital up to one-twelfth of annual operating expenses, (v) prepayments, and (vi) Approved Capital Costs utilizing the weighted average cost of debt in principle No. 2 and the 12% return on equity, and be reduced by the cumulative depreciation and cost reimbursement received pursuant to the Alaska Gasline Inducement Act ("AGIA").
8. The negotiated reservation rates will be calculated based upon billing determinants equal to the sum of all firm contracted capacities under non-defaulting service agreements, normalized for any billing determinants attributable to in-state rates designed on a distance basis and adjusted for any reductions associated with service disruptions or changes in Shippers' MDQ or MTQ, for both the Initial Service Term and any extension of that term.
9. During the Initial Service Term and any extension of that term,
  - (a) Shipper shall continue to pay full reservation charges during any period of reduction of firm transportation service or firm gas treatment service, including an Interruption; provided that, reservation charges during a GTP Turnaround or Phase-In Period will be charged with respect to a reduced capacity for firm gas treatment and firm gas transportation services;
  - (b) There will be a commodity or usage charge which will recover costs which vary with volumes actually shipped (the commodity charge is estimated to be minimal);
  - (c) Fuel will be recovered on the basis of actual quantities of fuel consumed or utilized in operations and fuel lost and unaccounted for;
  - (d) Rates will reflect changes in Transporter's taxes (other than income taxes), fees assessed by any governmental entity, and all other operating costs;
  - (e) In addition to changes reflected elsewhere in these rate principles, negotiated rates will reflect changes in (i) billing determinants reflecting contracted capacities and (ii) rate base;
  - (f) Transporter will credit to Shipper and other shippers that have secured firm transportation service, on a pro rata basis according to firm transportation shippers' MDQ, 75 percent of the revenue received by Transporter for the provision of AOS service, IT service, and PAL service.
10. Negotiated rates shall be adjusted to ensure that they are not inconsistent with A.S. 43.90.130(7)(A)-(D), as amended from time to time.
11. A Foundation Shipper shall be entitled to elect the same negotiated rate principles, in their entirety, as offered prior to the Commencement Date and accepted by any other shipper.

12. Negotiated rate shippers shall pay the recourse rate for AOS and any other non FT-1 service.