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Memo

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Proposed Changes in Senate Finance CS for CCSB 138 (RES)

Title

Page 1, lines 2-5

The CS adds title language related to the new direction to the Alaska Gasline Development Corporation (AGDC) to advance an Alaska liquefied natural gas project, and sets up a new fund within AGDC for that purpose. Also, conforming changes were added related to expedited review by state agencies of AGDC proposals. Creation of a new subsidiary was removed.

Page 2, line 21, to page 3, line 5

The CS adds direction to the governor to establish an advisory board on municipal involvement in an Alaska liquefied natural gas project; and direction to Alaska Energy Authority (AEA) to develop an energy infrastructure plan.

Page 3, line 6

Finally, the title reflects the addition of local governments and Native corporations to those who may be able, along with Alaskans, to own part of a pipeline project through a plan to be developed by Department of Revenue.

Intent Language

Page 4, line 24

The CS modifies the intent language added in Senate Resources. On page 4, line 21 and line 24, the word "maximum" is removed before "benefit", for clarity. Also, the term "project labor agreements" is amended to read "labor agreements." (SENATE AMENDMENT)

AGDC Sections

The CS makes extensive changes relating to AGDC, including removal of language creating a new subsidiary corporation to do a liquefied natural gas project, giving that duty instead to AGDC.

Page 4, line 30, to page 5, line 9

Adds new overall direction to AGDC, giving AGDC the primary state role in advancing an Alaska liquefied natural gas project. Clarifies that AGDC's overriding mission is to develop projects that benefit the state and Alaskans, including delivering gas instate, providing economic benefits, and providing revenue to the state. Also, adds that AGDC's work developing projects should assist the Department of Revenue and Department of Natural Resources in their duties to maximize the value of the state's royalty gas and gas delivered as production tax.

Page 5, lines 18-25

Modifies original direction to participate in an Alaska liquefied natural gas project; adds that AGDC can't charge a state entity more for gas services than it costs to provide those services.

Page 6, lines 7-8

Adds to AGDC's structure that it is created to act in the best interests of the state, based on its purpose.

Page 6, lines 24-28

In clarifying the relationship between AGDC and state departments also directly involved in a gas project, prohibits the commissioners of Revenue and Natural Resources from serving on AGDC's board. Originally, HB 4 prohibited the commissioners from board service while AGIA (Alaska Gasline Inducement Act) was in effect.

Page 6, line 29 to page 7, line 6

Adds a new subsection directing AGDC's board, to the maximum extent possible, to maximize the efficient use of state resources and to establish appropriate firewalls and separations within the corporation to protect commercially sensitive information.

Page 7, Section 6

Makes conforming changes. The prior version created a subsidiary to work on an Alaska liquefied natural gas project. This version removes creation of a statutory subsidiary, and instead directs the corporation to work on an Alaska liquefied natural gas project and adds distinctions in AGDC's duties and responsibilities between an instate natural gas pipeline and an "Alaska liquefied natural gas project."

Page 9, lines 6-7

Conforming; adds the new "Alaska liquefied natural gas project fund."

Page 9, lines 18-24

Adds a new ability to AGDC to acquire an ownership role in an Alaska liquefied natural gas project, including liquefaction facilities. Later, on page 10, lines 7-10, adds a new subsection that restricts a part

of AGDC working on an instate gas pipeline from exercising the new powers related to a liquefaction project.

Page 9, lines 26-27

Conforming; only an instate natural gas pipeline regulated by the Regulatory Commission of Alaska is required to hold an open season. An Alaska liquefied natural gas project would not have to, and so would not have to disclose results.

Page 10, lines 11-15

Adds a new subsection directing AGDC to provide information relevant to royalty and tax paid with gas contracts to DNR and DOR, subject to confidentiality agreements.

Page 11, lines 27-30

Clarifies that AGDC can create subsidiaries incorporated as nonprofits, or otherwise.

Page 12, section 13

Conforming; adds the new Alaska liquefied natural gas project fund explicitly to AGDC's annual fund reporting requirements under the Executive Budget Act.

Page 12, line 29, to page 13, line 31

Removes changes to the definition of "instate natural gas pipeline." Adds new term, "Alaska liquefied natural gas project," and defines it in the same terms as in the Heads of Agreement for the AK LNG project.

Page 56, line 14

Repeals 31.25.080(f), which previously directed AGDC to accommodate a larger project on certain infrastructure. As this direction is now more fully articulated in AGDC's purpose and the new Section 5, 31.25.080(f) is no longer required.

DNR authority sections

Page 15, lines 7-8

Clarifies that agreements to be entered into by the Department of Natural Resources Commissioner include, but are not limited to, balancing, marketing, disposition of gas, and offtake agreements.
(FAIRCLOUGH AMENDMENT)

Page 15, lines 21-23

Conforming to legislative drafting style; re-words the requirement that the commissioner may share confidential information with the legislature only in executive sessions or under confidentiality agreements.

Page 18, line 8, to page 20, line 9

Re-works sections 18 and 19 (related to the commissioner's ability to modify leases) for greater clarity. (ADMINISTRATION AMENDMENT)

Page 18, lines 29-31

Modifications to net profit shares and sliding scale royalty rates have to yield a value to the state that is no less than the value the state would have received before a modification. Previously, the lower threshold for modifications was set at 12.5%. (ADMINISTRATION AMENDMENT)

Page 20, lines 14-15; 23-24; and 30-31, and page 21, lines 9-11

Conforming changes for clarity.

Page 21, lines 23-28

Adds and defines new term, "initial project term." (ADMINISTRATION AMENDMENT)

Page 22, line 4-24

Adds three new sections with conforming changes. House Bill 369 of 2010 gave special treatment to permits, authorizations and rights-of-way issued to an instate natural gas pipeline project. The changes make those provisions apply to any project under AGDC. (ADMINISTRATION AMENDMENT)

Public information sections

No changes

DOR authority sections

Page 28 – MISSING SECTION, MISSING (15)

Tax sections

Page 28, line 9, to page 29, line 5

The original bill amended the extraction factor used in calculating corporate income tax to accommodate the new concept of taking gas as production tax. This section is new, and amends the sales factor, which is also used in calculating corporate income tax, to incorporate the new tax as gas concept. (ADMINISTRATION AMENDMENT)

(Currently duplicated as drafting error as new section 34, page 29, line 6 to page 30, line 1 – this needs to be deleted.)

Page 30, line 10 and lines 19-20

Clarifies that reinjected gas is not included in calculations for determining corporate income tax due.

Page 31, line 11

Increases the tax on gas from 10.5% to 13% (KELLY AMENDMENT)

Page 33, line 6

Removes the qualifier “irrevocable” from the election a producer can make to pay tax with gas. (KELLY AMENDMENT)

Page 33, line 12 and line 15

Conforms to the prior change increasing the gas tax to 13%.

Page 34, line 21, to page 35, line 3

Conforming change related to the conforming changes already in the prior version related to the educational tax credit.

Page 42, line 11

Conforming to the new 13% gas tax.

Page 56, lines 6-7

The bill changes the definition of “point of production.” As the term is used in the Alaska Gasline Inducement Act, this new section 57 clarifies that point of production for purposes of AGIA is defined as it was when AGIA was enacted. (ADMINISTRATION AMENDMENT)

Technical sections

Page 56, lines 15-25

Adds new direction to the governor to establish an advisory board on municipal involvement in a North Slope gas project. (OLSON AMENDMENT)

Page 56, line 26, to page 57, line 16

Adds new direction to the Alaska Energy Authority to develop a plan to extend energy infrastructure to parts of the state without direct access to a North Slope natural gas pipeline. AEA is to consult with AGDC, AIDEA and the Department of Revenue in developing the plan, which is due to the legislature in January 2017. (HOFFMAN AMENDMENT)

Page 57, lines 19-20, line 24, line 27, and page 58 lines 4, 7-8, 11, 12, and 18

In the section requiring the Department of Revenue to develop a plan for Alaskans to participate in owning part of a North Slope natural gas pipeline, adds that the plan should include ways for local governments and Native corporations to also participate. (FAIRCLOUGH/OLSON AMENDMENTS)

Page 59, lines 4-5 and lines 7-8

Makes conforming changes to the effective dates.

Page 59, line 6

Sets an effective date of Jan. 1, 2021, for section 40, which is the conforming section related to the education tax credit.

BWC/RD