



CS SB138(FIN)AM: Commercial Production of North Slope Gas SUMMARY OF CHANGES

House Resources Committee – March 19, 2014

This is a summary of changes between SB138\A and CS SB138(FIN)am\28-GS2806\I.A. References to section and page numbers are to version I.A. This summary does not include technical or clean-up, drafting style, or conforming changes. Further explanation of specific provisions can be found in the sectional analysis. *Italicized page references refer to CSSB 138(FIN) am.*

Changes related to the Alaska Gasline Development Corporation (AS 31.25)

The Senate Finance Committee made significant changes to the sections (1-12) related to the Alaska Gasline Development Corporation (AGDC). These changes add the Alaska liquefied natural gas (AK LNG) project to the AGDC's responsibilities and provide direction to the AGDC board to carry out its duties, including advancing two projects with appropriate separation while maximizing the efficient use of state resources. The AGDC board is directed to hire a program director for the AK LNG project. (*page 4, sec.3*). The CS for SB 138(FIN) am removes language which statutorily created a subsidiary corporation to for LNG project (Section 7 of SB 138\A). The AGDC still retains statutory authority to create subsidiaries, but language that could have been read to limit subsidiaries to not-for-profit corporations was removed (*page 9, sec. 10*)

The CS for SB 138 (FIN) am retains restrictions on use of funds for the in-state line (ASAP) and the AK LNG project - each project may use only the funds appropriated for that project. (*page 8 -9, secs. 8 -10*).

In addition, the committee added references to an "Alaska liquefied natural gas project" (AK LNG) and replaced references to "a large-diameter natural gas pipeline project" where needed. (*page 10 -11, sec. 12*).

Alaska affordable energy fund (AS 37.05)

Section 13 (*page 11, line 20*) is a new section that creates a new Alaska affordable energy fund that will be used to develop infrastructure to deliver energy to areas not expected to have direct access to a North Slope gas pipeline.

Changes related to the Alaska Land Act (AS 38.05)

Changes were made in **Sections 14 and 15** to the Department of Natural Resources (DNR) commissioner's authority to negotiate contracts to include references to balancing, marketing, disposition of natural gas, and offtake agreements (*page 13, line 16*).

Changes were made in **Sections 17 and 18** (*page 16, line 16*) related to the DNR commissioner's new authorities in AS 38.05.180(hh) to allow the DNR commissioner the ability to modify leases in conjunction with a North Slope natural gas project. The provisions amended in the Senate Finance committee are generally the same in content as the original language proposed. These sections also provide that any changes the DNR commissioner make 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. The modification shall be in effect during the initial project term for a project that has acquired major permits required for the work plan and budget considered by the DNR commissioner.

Section 23 (*page 19, line 31*) adds and defines a new term, "initial project term" meaning the duration sufficient to support an investment decision by the sponsors of a North Slope natural gas project to permit realization of a competitive economic return, to enable necessary financing, and to support agreements for the sale of hydrocarbons transported on a North Slope natural gas project.

Bill sections relating to the in-state gasline project coordinator (AS 38.34)

The Senate Finance committee added new **Sections 24 through 26**, (*page 20*) which conform the AGDC's new ability to develop an AK LNG project related to review by state agencies or entities to expedite review or action of a project under AS 31.25 (AGDC) and to direct that state agencies may not include project provisions that the in-state gasline project coordinator determines would prevent or significantly impair a project under AS 31.25 (AGDC).

Bill sections relating to tax records and general revenue administration (AS 40.25 and 43.05)

No changes were made to sections related to confidentiality of confidentiality of tax information to clearly establish as confidential information related to contract negotiations for a North Slope natural gas project.

Bill sections relating to the oil and gas production tax (AS 43.55)

In **Section 34** (*page 26*) the gross tax on gas produced after January 1, 2022, was increased from 10.5% to 13%. A similar increase was made to the levy of tax paid in gas in **Section 36**. The intent is to set the state's equity share in a North Slope natural gas pipeline project at 25%, when combining the gas tax with the royalty percentages due the state. In addition, the qualifier " irrevocable" was removed from the election a producer can make to pay production tax with gas. Producers must still make an election to pay the tax as gas under regulations to be adopted by the Department of Revenue (DOR).

Changes were made to **Section 37** (*page 30*), to expand the existing oil and gas producer education tax credit to include contributions to nonprofit regional training centers recognized by the Department of Labor and Workforce Development, and for vocational education, equipment and facilities

Bill sections on uncodified law

Section 58 (*page 53*) requests that the governor establish an advisory board to advise the governor on municipal involvement in a North slope gas project. The board would include representatives of municipalities, the DNR and DOR commissioners and oil and gas industry representatives or others expected to be involved in the development of a North Slope natural gas project on municipal involvement in a North Slope natural gas project.

Section 59 (*page 53*) directs Alaska Energy Authority to develop a plan extending energy infrastructure to parts of the state without direct access to a North Slope natural gas pipeline. Through Amendment 1 on the Senate floor, direction was added that for citizens with no economically viable infrastructure available, the plan must recommend means for underwriting energy costs to make energy more affordable. The plan is due to the legislature in January 2017.

Section 60 (*page 54*) added to the section on development of a plan for participation in the ownership of a North Slope natural gas pipeline to include that DOR's plan for Alaska ownership must include ownership opportunities for municipalities and for regional corporations (organized under 43 U.S.C. 1606(a)).