

SENATE BILL 138 Work to Date Sectional Review

Section 1-6 (AS 29.45.080 and 29.45.090, Municipal property tax limitations)

Sections 1-6 are amendments to the statutes on municipal taxation.

Status: In Compliance.

Section 7 (AS 31.25.005, Purpose of the Alaska Gasline Development Corporation)

Section 7 of SB 138 amended AS 31.25.005, related to the purpose of the Alaska Gasline Development Corporation (AGDC), to add new subsections (1) - (2) to direct the AGDC to develop and have primary responsibility for developing natural gas pipelines, an Alaska liquefied natural gas project, and other transportation mechanisms to deliver gas in-state for the maximum benefit of the people of the state, and to provide economic benefits and revenue to the state.

Subsection (3) expanded the AGDC's purpose to include assisting the commissioners of natural resources and revenue to maximize the value of natural gas royalty and tax values. Subsection (5) expanded the AGDC's purpose to include advancement of an Alaska liquefied natural gas project, including infrastructure related to liquefaction and commercial support; fees for services provided to the state may not be greater than the cost of the service to the AGDC.

Status: In Compliance. The AGDC's purpose was expanded in SB 138. The corporation now holds the state's 25% equity interest in the liquefaction component of the Alaska Liquefied Natural Gas Project (AKLNG Project) and as a signatory to the Joint Venture Agreement (JVA) participates in integrated project governance and decision making. The AGDC is the technical AKLNG Project lead for the state.

Section 8 (AS 31.25.010, Structure)

Section 8 conformed AS 31.25.010, the structure of the AGDC related to dissolution, to include a reference to the purpose section in AS 31.25.005 and an Alaska liquefied natural gas project.

Status: In Compliance. The AGDC continues to act in the best interests of the state.

Section 9 (AS 31.25.020(a), Governing body)

Section 9 amended AS 31.25.020(a), the composition of the AGDC board of directors, to remove a provision which would have allowed the governor to appoint the commissioner of natural resources and the commissioner of revenue to the AGDC board after a project under AS 43.90 (the Alaska Gasline Inducement Act) has been abandoned or the commissioners are no longer signatories on a valid contract under AS 43.90. With this amendment, the commissioner of natural resources and the commissioner of revenue may not be appointed to the AGDC board.

Status: In Compliance. The AGDC has a full seven member board of directors. Governor Walker designated Commissioner Drygas, Commissioner Hladick, Hugh Short, Joey Merrick and Rick Halford.

Section 10 (AS 31.25.040, Administration of affairs; program directors)

Section 10 amended AS 31.25.040 to add new subsections to direct the AGDC board, to the maximum extent practicable, to maximize efficient use of state resources, and establish separation with respect to the missions and information for an in-state natural gas pipeline and an Alaska liquefied natural gas project. The AGDC board may appoint separate program directors for an Alaska liquefied natural gas project and an in-state natural gas pipeline. A program director reports to the executive director of the corporation.

***Status: In Compliance.** The AGDC continues to prudently and efficiently use the resources it has received to advance the AKLNG Project and to maintain the readiness for the Alaska Stand Alone Pipeline (ASAP) project. The AGDC has established appropriate internal protocols to ensure no project specific confidential information is compromised. The AGDC acquired in-house liquefaction expertise with the hiring of Fritz Krusen as Vice President of Alaska LNG. Mr. Krusen serves as the corporation's technical project lead and is the AGDC's representative on the Project Steering Committee (PSC).*

Sections 11-12 (AS 31.25.050, Legal counsel)

Sections 11 and 12 amended AS 31.25.050 to add conforming language and a new subsection that requires the attorney general to be legal counsel for the AGDC for legal services related to development of contracts and agreements by the AGDC that relate to an Alaska liquefied natural gas project. The attorney general is to consult with the AGDC when procuring outside counsel for legal services for the AGDC related to an Alaska liquefied natural gas project. The AGDC retains the authority to obtain legal counsel to advise the corporation in legal matters and represent it in litigation.

***Status: In Compliance.** The Attorney General serves as the corporation's legal counsel for AKLNG Project related matters, including the selection of outside counsel.*

Sections 13-15 (AS 31.25.080, Powers and duties)

Section 13 amended AS 31.25.080(a), the powers and duties of the AGDC, to add references to an Alaska liquefied natural gas project where needed. New paragraph (23) added, for an Alaska liquefied natural gas project only, authority to acquire an ownership interest in the Alaska liquefied natural gas project components (pipeline facilities, treatment and liquefaction) or in an entity or joint venture with an ownership or other interest in an Alaska liquefied natural gas project. This power is limited to the entity of the AGDC pursuing an Alaska liquefied natural gas project. New paragraph (24) allows the AGDC, after consultation with the commissioners of revenue and natural resources, to enter contracts for services related to an Alaska liquefied natural gas project.

Section 14 was a conforming amendment to AS 31.25.080(e) to explicitly reference the in-state natural gas pipeline open season currently in the AGDC statutes.

Section 15 added a new subsection to AS 31.25.080 to direct that an entity or subsidiary of the corporation pursuing the in-state natural gas pipeline may not pursue an Alaska liquefied natural gas project (AS 31.25.080(a)(23)).

***Status: In Compliance.** The AGDC holds the state's 25% equity interest in the liquefaction component of the AKLNG Project and as a signatory to the Joint Venture Agreement (JVA) participates in integrated*

project governance. The AGDC is the technical project lead for the state. If the legislature supports the proposal to buy-out TransCanada's mid-stream interests, the AGDC would assume the state's full 25% ownership in the project in the mid-stream. The AGDC is working collaboratively with the Department of Natural Resources (DNR) and the Department of Revenue (DOR) on other project enabling agreements including those related to marketing, expansion, third-party access, domestic gas supply and in-state off-take.

Section 16 (AS 31.25.090, Confidentiality; interagency cooperation)

Section 16 amended AS 31.25.090 by adding a new subsection, regarding confidential information held by the AGDC, to expressly direct that the commissioners of revenue and natural resources shall have access to contract information related to an Alaska liquefied natural gas project.

Status: In Compliance. The AGDC's Board of Directors has issued a proposed set of regulations dealing with confidentiality. The initial comment period ended on October 21st. Comments and questions are now under internal review.

Sections 17-18 (AS 31.25.100, In-state natural gas pipeline fund & AS 31.25.110, Alaska liquefied natural gas project fund)

Section 17 amended AS 31.25.100 to direct that money appropriated to the in-state natural gas pipeline fund may be used for the in-state natural gas pipeline and for purposes related to transportation mechanisms in the state, including delivery of propane.

Section 18 establishes AS 31.25.110, the Alaska liquefied natural gas project fund in the AGDC. If money is appropriated to advance an Alaska liquefied natural gas project, the corporation shall create an account in the fund for that purpose. The money may be used without further appropriation for purposes related to an Alaska liquefied natural gas project and for the purpose of transferring revenues related to equity interests, contracts and other activities to the appropriate fund of the state as determined by the commissioner of revenue in consultation with the commissioner of natural resources.

Status: In Compliance. The AGDC has established internal accounting procedures for the Alaska liquefied natural gas project fund. The corporation has established a cost allocation methodology (85% In-State Fund/15% Alaska Liquefied Natural Gas Project Fund) to allocate corporate overhead costs.

Section 19 (AS 31.25.120, Creation of subsidiaries)

Section 19 related to subsidiaries created under AS 31.25.120, removes a reference to acquiring the state's royalty share of natural gas yet leaves the broad authority to acquire gas from the North Slope. The AGDC may transfer assets between any subsidiaries it creates under this subsection, except that money for the in-state natural gas pipeline and an Alaska liquefied natural gas project may not be transferred. A reference, which may have been read to limit subsidiary formation to not for profit subsidiaries, was removed.

Status: In Compliance. The AGDC's Board of Directors authorized the corporation to form two subsidiary corporations, an in-state gas aggregator and an asset holding company. It is envisioned that the AGDC would aggregate in-state gas demand, primarily for small communities that are not currently on gas or that don't have an existing public utility. AGDC could pool that demand, perhaps assist in

setting up local distribution entities and serve as an intermediary between gas owners and small in-state buyers. The asset holding company was created as a potential vehicle for holding TransCanada's AKLNG Project interests if they are in fact transferred to the AGDC.

Section 20 (AS 31.25.140(c), Exemption from the State Procurement Code; application of the Executive Budget Act; corporation finances)

Section 20 makes a conforming amendment in AS 31.25.140(c) on budgetary reporting to the legislature to reference the Alaska liquefied natural gas project fund, AS 31.25.110.

Status: In Compliance.

Section 21 (AS 31.25.390 AGDC Definitions)

Section 21 amended AS 31.25.390 to add a definition of the Alaska liquefied natural gas project and includes an explanation of gas pipeline, gas treatment plant, liquefied natural gas plant, marine terminal, Point Thomson and Prudhoe Bay unit gas transmission lines.

Status: In Compliance. No action necessary.

Section 22 (AS 36.30.850(b), Exemption from Procurement Code)

Section 22 added two new paragraphs (47) and (48) to AS 36.30.850(b), related to exceptions to the application of the state procurement code. Paragraph (47) exempts contracts for professional and technical services by the DNR to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11). Paragraph (48) exempts contracts of the LAW, with client participation, for legal services related to an Alaska liquefied natural gas project, except that to the extent practicable the LAW shall use the procurement process for small procurements (AS 36.30.320) with participation of the client.

Status: In Compliance.

Section 23 (AS 37.05.610, Alaska Affordable Energy Fund)

Section 23 added AS 37.05.610, an Alaska affordable energy fund as a special non-dedicated account in the general fund to develop infrastructure to deliver energy to areas in the state not expected to have direct access to a North Slope natural gas pipeline. The fund will receive 20 percent of the money received from the state's royalty gas transported in an Alaska liquefied natural gas project (net of royalty payments to the Alaska permanent fund).

Status: In Progress, to be done prior to when gas sales revenue starts flowing. The Alaska Energy Authority (AEA) is working on standards for projects that could be funded from this source.

Section 24 (AS 38.05.020, Authority and duties of the DNR commissioner)

Section 24 amended the authority of the DNR commissioner by adding new paragraphs (10) – (12) to AS 38.05.020(b). The commissioner may enter into commercial agreements of not more than two years duration for project services related to the North Slope natural gas project. In consultation with the commissioner of revenue, the commissioner may participate in negotiations associated with a North

Slope natural gas project, including agreements that include balancing, marketing, disposition of natural gas, and offtake contracts associated with a North Slope natural gas project.

A contract or agreement negotiated in which the state is a party would not be effective against the state without legislative authorization for the governor to execute the contract. Paragraph (12) permits the DNR commissioner to enter into confidentiality agreements related to contract negotiations and implementation. Confidential information obtained under paragraph (12) may be shared with members of the legislature, including their respective agents and contractors on request, under confidentiality agreements either in committees held in executive session or individually. The terms of a proposed final contract, subject to approval by the legislature, would not be confidential and must be made available to the public at least 90 days before the proposed effective date for the terms.

Paragraph (13) directs that the DNR commissioner consult with the AGDC in the development of agreements or contracts for project services related to a gas treatment plant, pipeline, liquefaction facility, marine terminal or transportation services.

***Status: In Compliance.** The DNR commissioner and commissioner of revenue have delegated authority to their deputy commissioners to negotiate agreements for the AKLNG Project, including gas balancing, marketing, disposition and offtake agreements. This section provides the authority for a majority of the work currently being done on the AKLNG Project by DNR and DOR.*

Section 25 (AS 38.05.020, Authority and duties of the DNR commissioner)

Section 25 added a new paragraph (14) to AS 38.05.020(b) to allow the DNR commissioner, in consultation with the commissioner of revenue, to take custody of gas delivered to the state, to manage project services and the disposition of gas delivered to the state under AS 43.55.014(b)(tax as gas).

***Status: In Compliance.** The DNR, in consultation with the DOR, is the entity that will hold title to the state's share of royalty and tax gas, if the state elects to take its royalty in kind.*

Section 26 (AS 38.05.023, Terms related to a North Slope natural gas project)

Section 26 added AS 38.05.023, related to terms in an agreement or contract related to a North Slope natural gas project. Subsection (a) details a requirement, to be included in a contract under AS 38.05.020(b)(11) in which the state is a party, regarding the conditions for state access to data. Subsection (b) provides that a proposed agreement or contract associated with a North Slope natural gas project may not include a provision that changes a property tax on property that was previously taxable under AS 43.56 (the oil and gas and pipeline property tax).

Subsection (c) provides that an agreement or contract under AS 38.05.020(b)(11) to which the state is a party must require allocation of infrastructure costs between the state and other parties based on the difference between life-cycle costs if the infrastructure was only for public use; the proposed agreement or contract must limit the costs the state pays for infrastructure based on the proportion of public to private use and the state's share of participation in the project.

Subsection (d) provides that an agreement or contract under AS 38.05.020(b)(11) to which the state is a party must include principles based on commercially reasonable terms for delivering natural gas to

public utilities in the state where demand for natural gas by the utilities exceeds the amount of the state's royalty and natural gas delivered to the state as payment for tax and available in a North Slope natural gas project.

Status: In Progress, but complying. The state is still in negotiations on these agreements.

Section 27 (AS 38.05.180(i), Oil and gas and gas only leasing)

Section 27 clarified AS 38.05.180(i) with a conforming amendment that the exploration incentive credit may be applied against the oil and gas production tax levied under AS 43.55.011.

Status: In Compliance. No action necessary.

Section 28 (AS 38.05.180, Oil and gas and gas only leasing)

Section 28 added new subsections (hh) and (ii) to the Alaska Land Act, AS 38.05.180, which deals with oil and gas leasing, to permit the DNR commissioner to propose modifications to existing leases that: (1) relate to switching between taking royalty gas in kind or in value to ensure that the lessee, state or other person bear proportionate costs for transportation, and to assure the state's actions do not unreasonably interfere with the long-term marketing; (2) provide a method to establish a fair market value for each component of the state's royalty gas; and (3) modify royalty provisions, including net profit provisions, modifications may not result in less than the value the state would have received before a modification.

The DNR commissioner must make written determinations relating to the best interests of the state, including whether the modifications will improve the likelihood of a successful North Slope natural gas project for which sufficient commitment has been shown. The commissioner must consider whether the lessee has offered to dispose of, sell or market the royalty gas and gas taken as tax on the same or substantially similar terms as the lessee or an affiliate sells, disposes of or markets the lessee's gas. An explicit reference to gas delivered to the state as payment for production tax is added to the DNR commissioner lease modification provision.

Status: In Progress, but complying. The DNR is in the process of negotiating lease modifications.

Sections 29 – 32 (AS 38.05.183, Sale of royalty)

Sections 29 - 32 amended AS 38.05.183, related to sales of royalty oil or gas, by adding references to gas delivered to the state under AS 43.55.014(b), the levy of production tax on gas to be paid in gas for certain North Slope leases.

Status: In Compliance. No action necessary.

Section 33 (AS 38.05.965, Definitions)

Section 33 added definitions to AS 38.05.965 for "initial project term," "North Slope natural gas project;" and "project services." North Slope natural gas project means a project to produce or transport natural gas from state oil and gas leases on the North Slope in a gaseous state from the North Slope.

Status: In Compliance. No action necessary.

Sections 34 -36 (AS 38.34.020, Expedited construction and operation or expansion of an Alaska Gasline Development Corporation project)

Sections 34 through 36 amended AS 38.34 related to review by state agencies or entities to expedite review or action of a project under AS 31.25 (AGDC statutes) 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 statutes). The revisor of statutes renumbered AS 38.34.020(a) of Section 34 of Senate Bill 138 to AS 31.25.007.

Status: In Compliance. The DNR facilitates project timing and construction.

Sections 37 - 38 (AS 40.25.100, Disposition of tax information)

Sections 37 and 38 amended AS 40.25.100(a) related to the confidentiality of tax information to clearly establish as confidential information related to contract negotiations for a North Slope natural gas project. Section 35 references new subsection (k) in AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the gas production tax from modified North Slope leases in gas and the amount of gas subject to that election.

Status: In Compliance. Taxpayers have yet to make an election to pay the production tax in gas.

Section 39 (AS 40.25.120, Public records; exceptions; certified copies)

Section 39 amended AS 40.25.120(a) to establish an exception in public records for information confidential under the new provisions of AS 38.05.020(b) (related to contract negotiations for a North Slope natural gas project).

Status: In Compliance.

Sections 40 - 41 (AS 43.05.010, Duties of commissioner of revenue)

Sections 40 and 41 expanded the authority of the commissioner of revenue by adding new paragraphs (16) and (17) in AS 43.05.010. Effective immediately, paragraph (16) provides that the commissioner may consult with the DNR commissioner on negotiations associated with a North Slope natural gas project. Section 41 amends AS 43.05.010 by adding paragraph (17) to provide that the commissioner direct the disposition of revenues received from gas delivered to the state under AS 43.55.014(b) by entering into agreements with the DNR commissioner.

Status: In Compliance. The DOR works collaboratively with the DNR on the AKLNG Project.

Section 42 (AS 43.05.230, Disclosure of tax returns and reports)

Section 42 added new subsection (k) to AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the gas production tax in gas and the amount of gas subject to that election.

Status: In Compliance. No action necessary at this time because taxpayers have yet to make an election to pay the production tax in gas.

Section 43 (AS 43.20.144(d), Corporate income tax sales factor for oil & gas producers & pipelines)

Section 43 amended AS 43.20.144(d) to clarify that gas delivered to the state as payment of tax under an election made by AS 43.55.014 (or similar provision of other taxing jurisdiction) is excluded from the sales factor of a taxpayer subject to the Alaska Net Income Tax Act. Also, fees paid between entities within the taxpayer's consolidated business for transporting the taxpayer's gas are excluded from the sales factor.

Status: In Compliance. No action necessary yet; taxpayers have yet to pay production tax in gas.

Section 44 (AS 43.20.144(f), Corporate income tax extraction factor for oil & gas producers & pipelines)

Section 44 amended AS 43.20.144(f) to clarify that gas subject to an election to pay the oil and gas production tax on gas as gas under AS 43.55.014 is included in the extraction factor of a taxpayer subject to AS 43.20.144(f) in the Alaska Net Income Tax Act.

Status: In Compliance. No action necessary yet; taxpayers have yet to pay production tax in gas.

Section 45 (AS 43.55.011(e), Oil & gas production tax levy)

Section 45 amended AS 43.55.011(e), the levy of the oil and gas production tax, to add reference to the separate levy under AS 43.55.014 for certain North Slope gas. For oil and gas produced after January 1, 2014 and before January 1, 2022, AS 43.55.011(e)(2) would levy on producers of oil and gas produced each calendar year a flat rate tax of 35 percent of the production tax value of taxable oil and gas produced from each lease or property in the state. No change is made to current tax ceilings that apply to Cook Inlet oil and gas, gas produced outside the Cook Inlet basin, gas used in the state, and oil and gas produced from fields outside the Cook Inlet basin and south of the North Slope.

For oil and gas produced on or after January 1, 2022, AS 43.55.011(e)(3) would levy on producers of oil produced each calendar year a flat tax rate of 35 percent of the production tax value of taxable oil produced from each lease or property in the state and on producers of gas, and a flat tax rate of 13 percent of the gross value at the point of production of gas produced from each lease or property in the state. The tax on gas under an election to pay in gas is levied under AS 43.55.014.

Status: In Compliance. No action necessary at this time because the change in taxation of gas does not occur until January 1, 2022.

Section 46 (AS 43.55.011(f), Oil & gas production tax minimum)

Section 46 amended AS 43.55.011(f), the minimum tax amount for North Slope oil and gas, to retain the current minimum tax until January 1, 2022. On and after January 1, 2022, the minimum tax would apply to oil produced on the North Slope. A minor amendment adds the reference to the tax applying to leases or properties "that include land" to ensure that property that straddles 68 degrees North latitude will be considered north of 68 degrees North latitude for purpose of the alternate minimum tax.

Status: In Compliance. No action necessary at this time because the limitation on the minimum tax to North Slope oil does not occur until January 1, 2022.

Section 47 (AS 43.55.014, Production tax payment in gas of tax for gas)

Section 47 added AS 43.55.014, related to payment in gas of tax for gas. Subsection (a) allows producers to make an election, under regulations adopted by the DOR, to pay the oil and gas production tax on gas in gas for gas produced from oil and gas leases whose terms have been modified under AS 38.05.180(hh) from which the DNR commissioner has determined to take royalty gas in kind. Under subsection (b), the levy would be 13 percent of the taxable gas when and as the gas is produced. The producer would pay the tax by delivering the gas to the state at the point of production. Under subsection (c), the DNR would manage the custody and disposition of gas delivered to the state. Under subsection (d), tax deficiencies and interest and penalties on any tax deficiency would be accounted for in an amount of gas or an amount of money. If in money, the assessment is the product of the number of units by which the producer's delivery of gas to the state was deficient, multiplied by the gross value at the point of production for each unit of the producer's gas, other than gas not subject to tax, or delivered to the state under this section. Also, this subsection accounts for an overpayment of gas under AS 43.55.014. Subsection (e) clarifies that gas subject to this provision would not include gas flared, released, or allowed to escape and, under AS 43.55.020(e), as that gas is considered as gas produced from a lease or property for the purpose of AS 43.55.011 - 180. This section took effect on January 1, 2015 to be applied to gas produced from certain North Slope leases on and after January 1, 2022.

Status: In Compliance. No action necessary at this time because leases have not been modified yet and taxpayers have yet to make an election to pay the production tax in gas.

Sections 48 - 50 (AS 43.55.019, Oil or gas producer education credit)

Sections 48 through 50 include conforming amendments to the oil and gas producer education credit, AS 43.55.019, to clarify that the credit can be applied to tax liability only under AS 43.55.011(e). The credit is expanded to include expenditures related to nonprofit regional training centers, apprenticeship programs and programs approved by the United State Department of Veteran's Affairs and the Alaska Commission on Postsecondary Education. These sections are effective immediately.

Status: In Compliance. A taxpayer may apply the credit.

Section 51 (AS 43.55.020(a), Payment of tax in monthly installments)

Section 51 amended AS 43.55.020(a), monthly installment payments of estimated tax, to add provisions for payment of tax after January 1, 2022 and to clarify the tax rates that apply to oil and gas produced after a certain date. Monthly installment payments for oil and gas produced on and after January 1, 2022 are in new subsection (a)(7).

Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022.

Sections 52 - 53 (AS 43.55.020, Interest on payment of tax in monthly installments)

Sections 52 and 53 are conforming changes to AS 43.55.020, monthly installment payments. Subsection (g) is amended to account for new tax provisions for oil and gas produced on and after January 1, 2022.

A similar conforming change is made in AS 43.55.020(h) to account for interest on overpayments of installment payments.

Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.

Sections 54 - 55 (AS 43.55.020, Payment of tax)

Sections 54 and 55 amended AS 43.55.020(l) and add subsection (m), related to making settlements by a producer with private landowner royalty owner, to account for making a settlement with the royalty owner for gas taxable before January 1, 2022 and under new AS 43.55.014.

Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.

Section 56 (AS 43.55.030(a), Filing of statements)

Section 56 amended AS 43.55.030(a), annual statements by producers and explorers, to require reporting of the amount of gas produced from a lease or property for which tax is levied under AS 43.55.014 and the amount of gas delivered to the state under AS 43.55.014.

Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022 and taxpayers have yet to pay production tax as gas.

Section 57 (AS 43.55.160(a) Determination of production tax value of oil and gas)

Section 57 amended AS 43.55.160(a), calculation of annual production tax values, to clarify and conform to the levy of tax under AS 43.55.011(e)(2) for oil and gas produced before January 1, 2022.

Status: In Compliance. No action necessary because there was no change in the substance of the current determination.

Section 58 (AS 43.55.160(e), Determination of production tax value of oil & gas)

Section 58 amended AS 43.55.160(e), related to determination of excess lease expenditures for the purpose of calculating a carried-forward loss credit, to account for annual production tax values for oil produced on and after January 1, 2022.

Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.

Section 59 (AS 43.55.160(f), Determination of production tax value of oil & gas)

Section 59 amended AS 43.55.160(f), a 20 percent gross value reduction for certain oil and gas produced north of 68 degrees North latitude, so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.

Section 60 (AS 43.55.160(g), Determination of production tax value of oil & gas)

Section 60 amended AS 43.55.160(g), a 10 percent gross value reduction for certain oil and gas produced from a unit north of 68 degrees North latitude made up solely of leases that have a royalty share of more

than 12.5 percent in amount or value of the production removed or sold from the lease so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022.

Section 61 (AS 43.55.160, Determination of production tax value of oil & gas)

Section 61 amended AS 43.55.160, calculation of annual production tax values, to add a new subsection (h) for calculation of annual production tax values for oil produced on and after January 1, 2022. On and after January 1, 2022, gas would be taxed at a percentage of gross value. Accordingly, there would be no need to calculate a production tax value (gross value at point of production less lease expenditures) for gas. Producers would still calculate a production tax value of oil taxable under AS 43.55.011(e) for the segments set out in AS 43.55.160(h). This section was effective January 1, 2015.

Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022.

Section 62 (AS 43.55.165, Lease expenditures)

Section 62 makes a conforming amendment to AS 43.55.165, lease expenditures, to exclude as a deduction from lease expenditures the tax levied under AS 43.55.014 (tax paid as gas).

Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022 and taxpayers have yet to pay production tax as gas.

Sections 63 - 65 (AS 43.55.165(e), Lease expenditures – Definitions)

Sections 63 through 65 amend, for purposes of the oil and gas production tax, the definitions of "gas processing plants" and "point of production" for gas to be upstream of either the first point where it is accurately measured, the inlet of a pipeline transporting the gas to a gas treatment plant, or the inlet of any gas pipeline system transporting gas to market. The gas point of production is after mechanical separation. Section 63 adds a definition of "gas processing plant".

Status: In Compliance. No action necessary.

Section 66 (AS 43.56.010(c) Oil and gas property and pipelines levy of tax, limitation for municipalities)

- Section 66 amended the oil and gas property and pipelines tax levy statute, AS 43.56.010(c), to conform to the changes in the percentage factor made in section 3, AS 29.45.080(f).

Status: In Compliance.

Section 67 (AS 43.90.900 Definitions)

Section 67 made a conforming amendment to AS 43.90.900(18), the definition of the "point of production" for purposes of the Alaska Gasline Inducement Act.

Status: In Compliance. No action necessary.

Section 68 (AS 43.98.030(c), Film production tax credit)

Section 68 made conforming amendments to AS 43.98.030, the film production tax credit, to limit the applicability of the credit to the tax levied by AS 43.55.011.

Status: In Compliance. The film production tax credit in AS 43.98.030 was repealed in sec. 7 of CSSB 39 (L&C) am H (2015).

Section 69 (AS 43.98.050, Duties of the Alaska Competitiveness Review Board)

Section 69 amended AS 43.98.050, related to the duties of the Alaska Competitiveness Review Board, to include written findings and recommendations to the legislature before January 15, 2017 regarding the state's tax structure, rates, and incentives for oil and gas production south of 68 degrees North latitude.

Status: In Progress, but complying. This active board submitted a report on North Slope competitiveness to the legislature last year. All Board activity is posted on a public website. The Board is currently working on an update of the report with more details to present to the legislature this year, but work has been temporarily slowed by board member ending terms, resignations, and unfilled appointments. The Board currently has 6 of 11 seats filled. The Board's report on Cook Inlet is due in 2017.

Section 70 (Legislative intent regarding AGDC)

Section 70 amended the uncodified intent section from ch. 1(b), SLA 2013, the establishment of the AGDC, regarding intent, to the maximum extent permitted by law, to hire qualified residents, establish hiring facilities, and use, as far as practicable, job centers operated by the Department of Labor and Workforce development in the AGDC's participation in an Alaska liquefied natural gas project.

Status: In Compliance. AGDC is maximizing benefits to Alaskans

Section 71 (AS 31.25.080 Power and duties)

Section 71 repeals AS 31.25.080(f) as unnecessary due to new provisions in AS 31.25.080. Subsection (f) related to the ability of the AGDC to, without delaying progress on an in-state natural gas pipeline, coordinate with developers of a large-diameter natural gas pipeline related to a certain geographic area.

Status: In Compliance.

Section 72 (Department of Transportation and Public Facilities, bridge evaluation)

Section 72 provides in uncodified law that the Department of Transportation and Public Facilities shall, in consultation with the AGDC evaluate the design and construction of a new bridge across the Yukon River that would accommodate both vehicular traffic and a gas pipeline from the Alaska liquefied natural gas project. Also the bill added a direction for the same parties to evaluate existing bridges and infrastructure to accommodate a natural gas pipeline resulting from an Alaska liquefied natural gas project to determine whether the bridge or infrastructure could be used for transportation uses, including vehicular traffic.

Status: In Compliance.

Section 73 (The DNR & the AGDC Report on In-State Gas and 48” Pipe)

Section 73 provides in uncodified law that the DNR commissioner, in consultation with the AGDC, is to make a report, with recommendations, to the legislature on a plan and alternatives to make North Slope gas available for delivery and use in the state. The report must also address the costs, benefits, and risks associated with building a pipeline with a diameter larger than 42 inches. Also, the DNR commissioner shall recommend means of addressing risks identified in the report. The report and recommendations are required to be available to the legislature on or before the date that a firm transportation services agreement (FTSA) in a North Slope natural gas project to which the state is a party is submitted to the legislature for approval.

Status: In Progress, but complying. The DNR is working closely with the AGDC to prepare the report, which will be provided on or before date that a FTSA is submitted to the legislature for approval.

Section 74 (Municipal Advisory Gas Project Review Board)

Section 74 requests that the governor establish an advisory planning group to advise the governor on municipal involvement in a North Slope natural gas project. The requested board is to provide reports, including recommendations, to the governor.

Status: In Compliance. The Board submitted an annual report in December 2014. The Board routinely meets. It is drafting an annual report due in December 2015.

Section 75 (AEA Plan & Recommendation)

Section 75 added to uncodified law a direction to the AEA, in consultation with the AGDC, the Alaska Industrial Development and Export Authority (AIDEA), and the DOR, and after considering the state energy policy in AS 44.99.115, to develop plans relating to the delivery of energy - whether fossil fuel, hydro, tidal or other - to areas of the state not expected to have direct access to commercialization of North Slope gas through a North Slope natural gas pipeline. The AEA will also consider storage options, and recommendations related to means to make energy more affordable. The AEA and the DOR will consider and recommend funding possibilities. The AEA shall provide the plan and suggested legislation by January 1, 2017.

Status: In Progress, but complying. The AEA is in consultation with the AGDC, the DOR & AIDEA developing recommendations for rural energy benefits. The plan and any suggested legislation will be provided by AEA by January 1, 2017.

Section 76 (Financing Report)

Section 76 added to uncodified law a direction that the DOR commissioner identify and report to the legislature regarding financing options for state ownership and participation in a North Slope natural gas project. An interim draft report is to be available to the legislature on the first day of the first regular legislative session of the 29th Legislature. Also, the DOR commissioner is to consider and report, including submission of proposed legislation, to the legislature on options to allow municipalities, residents, or regional corporations to invest in a North Slope natural gas pipeline. The DOR commissioner is directed to consider relevant factors in preparing the plan and report, which is to be

presented to the legislature when the DNR commissioner submits contracts to the legislature for approval under AS 38.05.020(b)(11).

***Status: In Compliance and progressing.** Investment opportunities are part of the final financing options report due to the legislature when the first contract is submitted. Active outreach information gathering work was performed during summer and fall 2015 with regional corporations and municipalities for inclusion in final financing options report currently being prepared by Lazard. The Initial Lazard report was submitted to the legislature in February 2015. The work is in progress on analysis and in collaboration with other financial advisors to prepare the final financing options report to be submitted to legislature with first contract.*

Section 77 (Legislative Briefings)

Section 77 provided that the parties to a North Slope natural gas project provide briefings to interested legislators, their staff, and consultants on the progress of the project at least once every four months before the first flow of gas. A briefing must include a written report of the amount of money the state may be liable to pay for a North Slope natural gas project if the project is terminated before the first flow of gas.

***Status: In Compliance.** All AKLNG Project parties have participated in quarterly Legislative Briefings.*

Section 78 (Tax Year Applicability)

***Status: In Compliance.** No action necessary.*

Section 79 (Regulations)

Section 79 allows the DNR and the DOR to adopt regulations to implement this Act.

***Status: In Compliance.** No action necessary at this time.*

Sections 80 - 83 (Effective dates)

***Status: In Compliance.** No action necessary.*